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This document has been approved by the FCA as the competent authority under Regulation (EU) 2017/1129 (the “**Prospectus Regulation**”). The FCA only approves this prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation and such approval shall not be considered as an endorsement of the issuer that is the subject of this prospectus or of the quality of the securities that are the subject of this prospectus. Investors should make their own assessment as to the suitability of investing in the Existing Ordinary Shares. This document has been drawn up as part of a simplified prospectus in accordance with Article 14 of the Prospectus Regulation.

The distribution of this document, the online Application and/or any related documents into jurisdictions other than the UK may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws or regulations of such jurisdictions. In particular, this document, the enclosures and any other such documents should not be distributed, forwarded to or transmitted in or into the United States or any other Restricted Jurisdiction.



(incorporated and registered in England and Wales with registered number 2366640)

The WaterShare+ Scheme Offer for up to 1,900,000 Existing Ordinary Shares to Qualifying Household Customers

(assuming all Qualifying Household Customers of the WaterShare+ Scheme elect the Pennon Shares rebate option and Existing Ordinary Shares are acquired through open market purchase at a price of 1,025 pence, the closing price of Existing Ordinary Shares as at the Latest Practicable Date)

You should read the whole of this document and the documents incorporated herein by reference. Customers and any other persons contemplating the offer of Existing Ordinary Shares through the WaterShare+ Scheme Offer should refer to the section of this document entitled “Risk Factors” for a description of certain important factors, risks and uncertainties that may affect the Pennon Group’s business and the Existing Ordinary Shares and which should be taken into account when considering whether or not to elect the WaterShare+ Scheme Offer.

The WaterShare+ Scheme Offer is described in Part 6 (Details of the WaterShare+ Scheme Offer) beginning on page 37. It should be read with Part 5 (Overview of the WaterShare+ Scheme and some Questions and Answers about the WaterShare+ Scheme Offer) beginning on page 31.

The latest time and date for receipt of completed Applications and close of the registration period for the WaterShare+ Scheme Offer is 11.59 pm on 9 October 2020. The procedures for acceptance by Qualifying Household Customers of the WaterShare+ Scheme Offer are set out in Part 6 (Details of

the WaterShare+ Scheme Offer) paragraph 4 (Application procedure for Qualifying Household Customers) of this document and, where relevant, in the Choice Letter. Qualifying Household Customers will be able to apply for Existing Ordinary Shares pursuant to the WaterShare+ Scheme Offer online using the Receiving Agent's Share Registration Portal, which can be accessed at <https://watershare.signalshares.com>, details of which can also be found on the WaterShare+ Choice Letter Portal at www.southwestwater.co.uk/watershareplus or www.bournemouthwater.co.uk/watershareplus.

Applications under the WaterShare+ Scheme Offer may only be made by a Qualifying Household Customer (as described in Part 6 (Details of the WaterShare+ Scheme Offer) paragraph 4 (Application procedure for Qualifying Household Customers)). The online Application is personal to each Qualifying Household Customer and cannot be transferred, sold or assigned. No statement in this document or incorporated by reference into this document is intended as a profit forecast or profit estimate for any period and no statement in this document or incorporated by reference into this document should be interpreted to mean that the earnings or earnings per share will necessarily be greater or lesser than those for the relevant preceding financial periods for Pennon.

Customers should only rely on the information contained in this document and contained in any documents incorporated into this document by reference. No person has been authorised to give any information or make any representations other than those contained in this document and any document incorporated by reference and, if given or made, such information or representation must not be relied upon as having been so authorised by Pennon, the Pennon Board or Link Group. Pennon will comply with its obligation to publish supplementary prospectuses containing further updated information required by law or by any regulatory authority but assumes no further obligation to publish additional information.

The release, publication or distribution of this document in jurisdictions other than the United Kingdom may be restricted by law and, therefore, any persons who are subject to the laws of any jurisdiction other than the United Kingdom should inform themselves about, and observe, any applicable requirements. Failure to comply with any such restrictions may constitute a violation of the securities laws of any jurisdiction. This document has been prepared to comply with the requirements of English law, the Listing Rules, the Prospectus Regulation Rules, the Prospectus Regulation and the Rules of the London Stock Exchange, and information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside England.

THE INVITATION TO PARTICIPATE IN THE WATERSHARE+ SCHEME OFFER DESCRIBED IN THIS DOCUMENT IS NOT BEING AND WILL NOT BE MADE TO CUSTOMERS IN THE UNITED STATES OR ANY OF THE OTHER RESTRICTED JURISDICTIONS. All Qualifying Household Customers and any person (including, without limitation, a nominee or trustee) who has a contractual or legal obligation to forward this document, if received, or other document to a jurisdiction outside the United Kingdom should read Part 11 (Overseas Customers) of this document.

NOTICE TO US INVESTORS

This document, including the online Application, does not constitute an offer to participate in the WaterShare+ Scheme Offer to any person with a registered address in, or who is resident in, the United States or any other Restricted Jurisdiction. The WaterShare+ Scheme Offer and the Existing Ordinary Shares have not been and will not be registered under the Securities Act, or with any regulatory authority or under the applicable securities laws of any state or other jurisdiction of the United States, or the relevant laws of any state, province or territory of any other Restricted Jurisdiction and may not be offered, sold, taken up, resold, renounced, transferred or delivered, directly or indirectly, within the United States or any other Restricted Jurisdiction. This document does not constitute an offer to sell or a solicitation of an offer to buy Existing Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful. Neither this document nor the online Application will be distributed in or into the United States or any of the other Restricted Jurisdictions.

The WaterShare+ Scheme Offer and the Existing Ordinary Shares have not been approved or disapproved by the SEC, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Existing Ordinary Shares or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States. There will be no public offer of the Existing Ordinary Shares in the United States.

NOTICE TO OVERSEAS CUSTOMERS

THE OFFER TO PARTICIPATE IN THE WATERSHARE+ SCHEME OFFER DESCRIBED IN THIS DOCUMENT IS NOT BEING MADE TO CUSTOMERS IN ANY RESTRICTED JURISDICTIONS. NONE OF THE SECURITIES REFERRED TO IN THIS DOCUMENT SHALL BE OFFERED OR TRANSFERRED IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.

For a description of the restrictions on offers, sales and transfers of the WaterShare+ Scheme Offer or Existing Ordinary Shares and the distribution of this document, see Part 11 (Overseas Customers).

Any Overseas Customers and any person (including, without limitation, a nominee, custodian or trustee who has a contractual or other legal obligation to forward this document or any online Application, if and when received, or other document to a jurisdiction outside the UK), should read Part 11 (Overseas Customers).

Certain information in relation to the Company is incorporated by reference into this document. Capitalised terms have the meanings ascribed to them in the section entitled "Definitions" of this document.

Any reproduction or distribution of this document, in whole or in part, and any disclosure of its contents or use of any information for any purposes other than in considering an acquisition of Existing Ordinary Shares is prohibited, except to the extent such information is otherwise publicly available. By accepting delivery of this document, each offeree of the WaterShare+ Scheme Offer agrees to the foregoing.

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by Pennon or Link Group. Neither of Pennon nor Link Group takes any responsibility for, or can provide assurance as to the reliability of, other information that you might be given. Pennon will comply with its obligation to publish a supplementary prospectus containing further updated information required by law or by any regulatory authority but assumes no further obligation to publish further information. Subject to FSMA, the Listing Rules, the Disclosure Guidance and Transparency Rules, the Prospectus Regulation Rules and the Prospectus Regulation, neither the delivery of this document nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Pennon since the date of this document or that the information in this document is correct as at any time after this date. Without limitation, the contents of the Group's website (other than the information incorporated by reference into this document (as set out in Part 14 (Documentation incorporated by Reference))) do not form part of this document.

THE CONTENTS OF THIS DOCUMENT OR ANY SUBSEQUENT COMMUNICATION FROM PENNON OR LINK GROUP OR ANY OF THEIR RESPECTIVE AFFILIATES, OFFICERS, DIRECTORS, EMPLOYEES OR AGENTS ARE NOT TO BE CONSTRUED AS LEGAL, FINANCIAL OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT HIS, HER OR ITS OWN SOLICITOR, INDEPENDENT FINANCIAL ADVISER OR TAX ADVISER FOR LEGAL, FINANCIAL OR TAX ADVICE. LINK GROUP CANNOT PROVIDE ADVICE ON THE MERITS OF THE PROPOSALS NOR GIVE ANY FINANCIAL, LEGAL OR TAX ADVICE.

The date of this document is 18 September 2020.

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PART 1
Summary Information

Section 1—Introduction and warnings

Name and international securities identification number (ISIN) of the Existing Ordinary Shares

Pennon Group plc, ISIN: GB00B18V8630.

Identity and contact details of the issuer, including its legal entity identifier (LEI)

The legal and commercial name of the issuer is Pennon Group plc. It is a public limited company incorporated under the laws of England and Wales with registered number 02366640. Its registered office is Peninsula House, Rydon Lane, Exeter, United Kingdom, EX2 7HR and the Company's main telephone number is +44 (0)01392 446677. The legal entity identifier of the Company is 213800V1CCTS41GWH423.

Identity and contact details of the competent authority approving the prospectus

This prospectus has been approved by the FCA as the competent authority under the Prospectus Regulation. The head office of the FCA is at 12 Endeavour Square, London, E20 1JN. The telephone number of the FCA is +44 (0)20 7066 1000.

Date of approval of the prospectus: 18 September 2020.

Warnings

This summary should be read as an introduction to the prospectus. Any decision to invest in the Existing Ordinary Shares should be based on a consideration of the prospectus as a whole by the investor. The investor could lose all or part of the invested capital. Where a claim relating to the information contained in a prospectus is brought before a court, the plaintiff investor might, under national law, have to bear the costs of translating the prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only where the summary is misleading, inaccurate or inconsistent, when read together with the other parts of the prospectus, or where it does not provide, when read together with the other parts of the prospectus, key information in order to aid investors when considering whether to invest in such securities.

Section 2—Key information on the issuer

Who is the issuer of the securities?

The domicile and legal form of the issuer, the law under which the issuer operates and its country of incorporation

The Company is a public limited company domiciled and incorporated in England and Wales and its registered number is 02366640. The Company's registered office is at Peninsula House, Rydon Lane, Exeter, United Kingdom, EX2 7HR. The principal legislation under which the Company operates is the Companies Act 2006.

The issuer's principal activities

Pennon is one of the largest environmental infrastructure groups in the UK, operating and investing in the areas of water and wastewater services via its two principal operating subsidiaries, South West Water and Pennon Water Services.

South West Water is the licensed water and sewerage provider for around 1.8 million throughout Devon, Cornwall and the Isles of Scilly and small areas of Dorset and Somerset, managing the drinking water and wastewater in these regions via an integrated approach from source to sea that seeks to deliver high quality, efficient and sustainable services. Pennon Water Services, an 80:20 joint venture with South Staffordshire Plc, provides retail water and wastewater retail services to over 160,000 commercial retail customers across 18 different wholesale regions in the UK.

The issuer's major shareholders, including whether it is directly or indirectly owned or controlled and by whom

As at the Latest Practicable Date, the Company had been notified in accordance with Rule 5 of the Disclosure Guidance and Transparency Rules of the following interests in its issued share capital:

	Voting rights as at the Latest Practicable Date	
	Number of voting rights	% of voting rights
Lazard Asset Management LLC	41,575,771	9.858
Norges Bank	12,857,235	3.048

The Company and the Directors are not aware of any persons, who, as at the Latest Practicable Date, directly or indirectly, jointly or severally, exercise or could exercise control over the Company nor are they aware of any

arrangements the operation of which may at a subsequent date result in a change in control over the Company.

The identity of the issuer's key managing directors

Susan Davy (Chief Executive Officer)

Paul Boote (Group Finance Director)

The identity of the issuer's auditors

The Company's auditors are Ernst & Young LLP, whose registered address is 1 More London Place, London SE1 2AF.

What is the key financial information regarding the issuer?

Key financial information

Selected key historical financial information relating to the Group for the financial year ended 31 March 2020 is set out below. The information has been presented in accordance with Annex I of European Commission Delegated Regulation (EU) 2019/979:

Consolidated income statement

	Statutory 2020	Discontinued operations ⁽¹⁾ 2020	Total ⁽²⁾ 2020
	£m	£m	£m
Revenue	636.7	753.2	1,389.9
Underlying earnings before interest, tax, depreciation and amortisation	365.3	198.1	563.4
Operating profit	237.6	119.8	357.4
Net finance costs	(44.5)	(26.2)	(70.7)
Profit before tax	193.1	108.4	301.5
Taxation	(70.6)	(24.6)	(95.2)
Profit from continuing operations	122.5	83.8	206.3
Profit from discontinued operations	83.8		
Profit for the year	206.3		
Earnings per ordinary share (pence per share)			
From continuing operations			
- Basic	27.7		
- Diluted	27.6		
From continuing and discontinued operations			
- Basic	47.7		
- Diluted	47.5		

Notes:

(1) The Group agreed to sell Viridor Limited for cash proceeds of £3.7 billion on 18 March 2020 and the sale was completed on 8 July 2020. The Group's waste management activities provided by Viridor Limited were classified as discontinued operations for the financial year ended 31 March 2020.

(2) Total represent a non-IFRS measure presented to provide sufficient detail to enable certain users of the financial statements to assess the combined results of the continuing and discontinuing operations of the Group during the presented financial year.

Balance sheet

	2020
	£m
Assets	
Non-current assets	3,226.0
Current assets	861.2
Assets held for sale ⁽¹⁾	2,675.3
	3,536.5
Liabilities	
Current liabilities	(184.4)
Liabilities directly associated with assets classified as held for sale	(756.3)
Net current assets/(liabilities)	2,595.8
Non-current liabilities	(4,109.7)
Net assets	1,712.1
Total shareholders' equity	1,415.3
Total equity	1,712.1

Notes:

(1) Assets held for sale comprise the assets of Viridor Limited following the Group's agreement to sell Viridor Limited for cash proceeds of £3.7 billion on 18 March 2020.

Cash flow statements

Total Group	2020
	£m
Cash generated/(outflow) from operations	516.3

Net cash generated/(outflow) from operating activities	366.0
Net cash (used in)/received from investing activities	(323.3)
Net cash received from/(used in) financing activities	63.6
Net increase/(decrease) in cash and cash equivalents	106.3
Cash and cash equivalents at end of the year	472.0

The cash flow information above includes the cash flows from discontinued operations, relating to Viridor Limited.

The cash flows from discontinued operations were:

Discontinued operations

	£m
Cash flows from operating activities	149.1
Cash flows from investing activities	(133.0)
Cash flows from financing activities	(23.1)
Net decrease in cash and cash equivalents from discontinued operations, net of intercompany	(7.0)

Key pro forma financial information

The key unaudited *pro forma* financial information of the Pennon Group has been prepared to illustrate the effect of the Disposal of the Viridor Business on: the consolidated net assets of the Pennon Group as at 31 March 2020 as if the Disposal had taken place on that date. The unaudited *pro forma* financial information has been prepared on the basis set out in the notes below, for illustrative purposes only, and has been prepared in a manner consistent with the accounting policies applied by the Pennon Group in preparing its consolidated financial statements for the year ended 31 March 2020 and in accordance with the requirements of sections 1 and 2 of Annex 20 of Commission Delegated Regulation (EU) 2019/980. The unaudited *pro forma* financial information does not constitute financial statements within the meaning of section 434 of the Companies Act.

UNAUDITED PRO FORMA STATEMENT OF NET ASSETS

£ million	<u>Adjustment</u>		
	Pennon Group as at 31 March 2020 (Note 1)	Viridor Disposal (Note 2)	Pro forma as at 31 March 2020 (Note 3)
Assets			
Non-current assets			
Goodwill	42.3	-	42.3
Other intangible assets	1.2	-	1.2
Property, plant and equipment	3,171.8	-	3,171.8
Derivative financial instruments	4.1	-	4.1
Retirement benefit obligations	6.6	(6.6)	-
	3,226.0	(6.6)	3,219.4
Current assets			
Inventories	4.9	-	4.9
Trade and other receivables	185.8	54.0	239.8
Current tax assets	1.9	-	1.9
Derivative financial instruments	2.7	-	2.7
Cash and cash deposits	665.9	3,688.5	4,354.4
	861.2	3,742.5	4,603.7
Assets held for sale	2,675.3	(2,675.3)	-
Total assets	6,762.5	1,060.6	7,823.1
Liabilities			
Current liabilities			
Borrowings	(59.9)	-	(59.9)
Financial liabilities at fair value through profit	(1.5)	-	(1.5)
Derivative financial instruments	(7.1)	-	(7.1)
Trade and other payables	(115.3)	-	(115.3)
Provisions	(0.6)	-	(0.6)
	(184.4)	-	(184.4)
Liabilities directly associated with assets classified as held for sale	(756.3)	756.3	-
Non-current liabilities			
Borrowings	(3,654.9)	-	(3,654.9)
Other non-current liabilities	(122.9)	-	(122.9)
Financial liabilities at fair value through profit	(43.1)	-	(43.1)

Derivative financial instruments	(27.2)	-	(27.2)
Retirement benefit obligations.....	-	(5.7)	(5.7)
Deferred tax liabilities	(261.6)	2.3	(259.3)
	(4,109.7)	(3.4)	(4,113.1)
Total liabilities.....	(5,050.4)	752.9	(4,297.5)
Net assets.....	1,712.1	1,813.5	3,525.6

Notes:

- (1) The net assets of the Pennon Group have been extracted without material adjustment from the audited consolidated financial statements of the Pennon Group as at 31 March 2020, incorporated by reference in Part 14 (Documentation incorporated by Reference) of this document, as published in the Group's Annual Report and Accounts which were approved by the Board on 3 June 2020 and were prepared in accordance with IFRS.
- (2) The Viridor disposal adjustment comprises:
 - (a) The adjustments to Assets held for sale and Liabilities directly associated with assets classified as held for sale remove the assets and liabilities of the Viridor Group which were treated as held for sale in the consolidated balance sheet of the Pennon Group as at 31 March 2020.
 - (b) The adjustment to Cash and cash deposits of £3,688.5 million represents the consideration receivable for the Viridor disposal, disposal transaction costs incurred to effect the disposal, and pension contributions as set out below:

	£ million
Disposal proceeds.....	2,511.5
Amounts to settle intercompany balances as at 31 March 2020.....	1,199.5
Amounts to settle additional intercompany balances arising from 1 April 2020 to date of completion	43.5
Gross cash proceeds.....	3,754.5
Deferred consideration ⁽ⁱ⁾	54.0
Total consideration	3,808.5
Gross cash proceeds	3,754.5
Transaction costs	(63.2)
Net cash proceeds	3,691.3
Pension scheme contribution ⁽ⁱⁱ⁾	(2.8)
Pro forma cash adjustment.....	3,688.5

- (i) The adjustment to Trade and other receivables of £54.0 million represents the deferred consideration which may be receivable in future under the terms of the Sale Agreement. The Company considers that the amount of deferred consideration could be up to £0.2 billion, dependent upon future actions and the outcome of underlying events. As required under IFRS and the Company's accounting policies, the Company has estimated the fair value of this amount to be £54.0 million, reflecting the Company's current expectations about future actions and the outcomes of the underlying events.
- (ii) An additional payment of £2.8 million was made in to the Citrus pension scheme as a pre-completion condition of the sale and purchase agreement for the Viridor disposal.
- (c) The adjustments to Retirement benefit obligations, totalling £12.3 million, includes (i) a decrease in the obligation of £2.8 million related to the payment made to the Citrus pension scheme referred to in note 2(b)(ii) above, and (ii) an increase in the obligation of £15.1 million representing the recognition of an additional defined pension scheme liability as, under the terms of the share purchase agreement, Pennon Group plc will retain all responsibilities for the accrued defined benefit scheme liabilities within the Viridor business. The adjustment to Deferred tax liabilities represents the corresponding deferred tax impact of these adjustments at the relevant corporate tax rate.
- (3) No account has been taken of any trading or results of the Pennon Group since 1 April 2020 up to the date of this document or of the Viridor Group since 1 April 2020 up to the date of disposal on 8 July 2020.

Brief description of any qualifications in the audit report relating to the historical financial information: Not applicable. The audit report on the financial statements incorporated by reference into this document are unqualified.

What are the key risks that are specific to the issuer?

Prior to investing in the Existing Ordinary Shares, prospective investors should consider the associated risks. The key risks specific to the Company are:

- The Group is exposed to the impact of global and macroeconomic conditions that are affecting the UK, including the negative and economic disruptive impact of the Covid-19 pandemic outbreak and Brexit. These could expose the Group to changes in employment rates, inflation rates, interest rates, exchange rates and energy prices, increasing the Group's cost base or reducing revenue and returns to shareholders. If the UK's economy were to deteriorate, the Group's business may be adversely affected.
- The amount of customer debt that South West Water may collect is limited via statute. Household and retailer debt that is not recovered due to statute limitations may have an adverse effect on the profitability and cash flow of South West Water. Additionally, the non-recovery of material debt from business customers and Pennon Water Services

could also adversely impact the profitability and cash flow of the Group.

- As part of the requirements of operation, South West Water has to acquire various licenses. South West Water's inability to secure or maintain such licenses in the UK's heavily regulated water and wastewater industry may have an adverse material effect on the Group's revenue, profitability, business, future prospects and operational results.
- The Group is subject to a wide variety of environmental, health and safety laws and other non-regulated laws, regulations and administrative requirements. Changes in any of these provisions may give rise to substantial compliance, remediation and other costs and may restrict the operations and future profitability of the Group. Any investigations or proceedings brought against the Group or for which the Group is a party as a result of non-compliance with such requirements may result in significant costs, which may not be recoverable, penalties and damage to the Group's business, reputation and financial condition.
- The price that South West Water may charge its customers is set every fifth year via regulation. In determining the price, the regulators take into consideration a variety of factors such as inflationary indices, efficiency targets and delivery outcomes and other financial indices. Additionally, these price determination targets include performance targets that measure a variety of business activities determined by each water company. Failure to meet these performance targets can result in financial penalties being applied. Overall, the current and future price limitations and failure to achieve the agreed performance targets may restrict the Group's ability to generate the needed revenue to profitably carry out its business which could result in an adverse effect on the Group's business, financial condition and results of operation.
- As a water and wastewater services business, South West Water is exposed to risk in relation to water quality and environmental pollution. If either of these events were to occur, South West Water would face significant costs, liabilities and/or penalties that could interrupt business, resulting in an adverse effect on the Group's business, profitability and cause reputational harm.
- Operational failure of South West Water's assets could result in the inability to supply clean water to customers or provide safe waste water services. This could result in a breach of South West Water's statutory obligations, financial penalties and increased costs all of which could adversely affect the financial condition and results of operation for the Group.
- The Group is exposed to funding risks in relation to its defined benefit pension scheme. If the Group is required to increase its contributions to cover any future funding shortfalls, this could have an adverse impact on the Group's operational results and cash flows.
- The Group is exposed to immediate and long-term risks related to climate change, such as rising sea-levels and weather patterns that could harm the Group's infrastructure assets, resources, interrupt operations, hinder the Group's ability to meet customer demands, all of which may have an adverse effect on the Group's business, financial condition and reputation.
- Any material failure of the Group's IT systems and data security could disrupt its business, result in regulatory fines and/or cause damage to its reputation and business.
- The Group considers a variety of growth opportunities such as acquisitions and disposals. Currently, the Group is exposed to certain risks in relation to acquisitions ongoing risks in relation to the disposal of Viridor. As part of the completion of the disposal, the Group entered into a transitional services agreement with Viridor whereby the Group is responsible for providing transitional services to Viridor until Viridor's separation from the Group is complete. As a result, the Group may incur additional costs and may experience adverse effects in its operations as a business due to its obligations under the agreement. In turn, this could adversely affect the financial condition and results of operation for the Group. Furthermore, as the Group pursues acquisitions, it will be exposed to certain risks that may have an adverse effect on its business and financial conditions if it were not able to meet the demands associated with the growth opportunity.
- If the Group were to breach, or to be in danger of breaching its financial covenants in its medium to long-term debt with lenders, the Group may incur penalties in relation to early repayment of its medium to long-term debt or could be placed in default. Failure of the Group to fulfil its covenants in the medium to long-term could have an adverse effect on the other indebtedness of the Group.
- The Group is exposed to risks associated with interest rate movements on its floating-rate debt, which it manages using interest rate derivatives. Unfavourable movements in the market may have an adverse effect on the Group's earnings and cash flows as well as financing expenses related to the unhedged portion of the Group's indebtedness.
- The Group's ability to repay or refinance its medium to long-term indebtedness on time depends upon its future cash flows from operations, as well as prevailing market conditions and the effects of an actual or potential credit rating downgrade.

Section 3—Key information on the securities

What are the main features of the securities?

The WaterShare+ Scheme Offer is for up to 1,900,000 Existing Ordinary Shares (assuming all Qualifying Household Customers of the WaterShare+ Scheme elect the Pennon Shares rebate option and Existing Ordinary Shares are

acquired through open market purchase at a price of 1,025 pence, being the closing price of Existing Ordinary Shares as at the Latest Practicable Date) to be offered to Qualifying Household Customers. The ultimate amount of Existing Ordinary Shares comprising the WaterShare+ Scheme Offer will be determined by the number of Participating Customers and the market price of the Existing Ordinary Shares purchased following the Registration Period Closing Date.

The Existing Ordinary Shares are denominated and quoted in pounds sterling on the London Stock Exchange with the ISIN GB00B18V8630.

Each Existing Ordinary Share has a par value of 40.7 pence.

As at the Latest Practicable Date, there were 421,764,619 Existing Ordinary Shares in issue, excluding 8,443 Existing Ordinary Shares held in Treasury (all of which were fully paid or credited as fully paid).

Each Existing Ordinary Share entitles members to a right to attend and to vote at a general meeting of the Company and such members will have one vote per Existing Ordinary Share held. Participating Customers receiving Existing Ordinary Shares through the WaterShare+ Scheme Offer will, if appointed as a proxy by the Nominee in respect of the Shares held in the Nominee Account on their behalf, be entitled to participate in general meetings of the Company subject to the terms and conditions of the Nominee Service. The Existing Ordinary Shares do not contain any restrictions on their transferability except where the Company has exercised its right to prohibit their transfer following the omission of their holder or any person interested in them to provide the Company with information requested by it in accordance with the Companies Act. Each Existing Ordinary Share entitles the holder to dividends paid by the Company to its members, or to any other distribution of the Company's assets made to its members (including on the winding-up of the Company). Subject to applicable law, the Company may from time to time, declare dividends and make other distributions on the Existing Ordinary Shares. Pennon offers Shareholders the opportunity to invest their dividend in a dividend reinvestment plan from time to time ("DRIP Scheme"). However, Participating Customers will not be eligible to participate in the Company's DRIP Scheme in accordance with the terms and conditions of the Nominee Service at this time.

Where will the securities be traded?

The Existing Ordinary Shares are admitted to the premium listing segment of the Official List and trade on the London Stock Exchange's main market for listed securities. There will be no new issuance of Ordinary Shares.

What are the key risks that are specific to the securities?

Participating Customers should be aware that the value of an investment in the Company through the WaterShare+ Scheme Offer may go down as well as up and any fluctuations may be material. The market value of the Existing Ordinary Shares can fluctuate substantially and may not always reflect the underlying value or prospects of the Group.

Section 4—Key information on the offer of securities to the public and/or the admission to trading on a regulated market

Under which conditions and timetable can I invest in this security?

The WaterShare+ Scheme Offer is being made to Qualifying Household Customers only. The WaterShare+ Scheme Offer is personal to each Qualifying Household Customer and Qualifying Household Customers should not transfer, sell or assign the benefit of the WaterShare+ Scheme Offer to any other person or designate any other person as an alternative participant under the WaterShare+ Scheme Offer.

Under the WaterShare+ Scheme, Qualifying Household Customers will have the option of receiving the rebate in one of three forms:

- a minimum of £20 in Existing Ordinary Shares, rounded up to the nearest whole Existing Ordinary Share (the "WaterShare+ Scheme Offer");
- a £20 bill reduction; or
- a £20 credit to bank account (for direct debit payers only) (collectively, any of the rebate options the "the rebate").

Assuming by way of illustration that there are one million Eligible Customers, one third of Eligible Customers elect the WaterShare+ Scheme Offer option to receive their rebate and the average open market share price of the Existing Ordinary Shares purchased following the Registration Period Closing Date is 1,000 pence, the total value of the WaterShare+ Scheme Offer will ultimately be £6.7 million.

Eligible Customers for the WaterShare+ Scheme are limited to the named account holder billed with an active and occupied property as of 8 September 2020, unless such account falls within any of the Company's specific excluded categories. A Qualifying Household Customer is an Eligible Customer that is also: (1) a household customer; (2) an individual; (3) resident within the United Kingdom; (4) at least 18 years old; (5) a tax resident of the United Kingdom only (and not a tax resident in any other jurisdiction); (6) not a citizen of the United States; and (7) able to supply upon Application to the Receiving Agent the personal information required under MiFID II (including: (i) name; (ii) address; (iii) national insurance number; (iv) date of birth; and (v) nationality) and also their bank account details and email address.

Please note that Qualifying Household Customers wishing to apply under the WaterShare+ Scheme Offer will be required

to confirm their eligibility in accordance with the criteria listed immediately above and acknowledge that Link Group has an obligation to share Qualifying Household Customers' data with the local tax authority. Qualifying Household Customers unable or unwilling to provide this declaration are not permitted to open a Nominee Share Account and, therefore, cannot participate in the WaterShare+ Scheme Offer. Additionally, Participating Customers are obliged to inform Link Group promptly of any change of circumstances, e.g. change of address or tax residency.

From 21 September 2020, each Qualifying Household Customer will receive a Choice Letter notifying them that the WaterShare+ Scheme Offer is open for registration and providing them with their customer number and their unique access code. The unique access code is a five digit code that is personal to each Qualifying Household Customer and cannot be transferred, sold or assigned to any other person. Qualifying Household Customers who elect to participate in the WaterShare+ Scheme Offer should log their election to participate in the WaterShare+ Scheme Offer by selecting the Pennon Shares rebate option on the WaterShare+ Choice Letter Portal at www.southwestwater.co.uk/watershareplus or www.bournemouthwater.co.uk/watershareplus, from where Qualifying Household Customers will be directed to the Receiving Agent's Share Registration Portal and will be required to complete and submit an online Application. Applications may not be made by post. The latest time and date for receipt of completed Applications and close of the registration period for the WaterShare+ Scheme Offer will be 11.59 pm on 9 October 2020.

The acquisition of Existing Ordinary Shares for Participating Customers will be funded via a dividend paid on the Special Share. Link Market Services Limited ("LMSL") will subscribe for the Special Share for 0.01 pence and will hold the Special Share as bare trustee for Link Market Services Trustees Limited ("LMSTL").

LMSTL will, conditional on the dividend of the Special Share being paid, (i) cause a broker (or brokers) to procure for each Participating Customer a minimum of £20 of Existing Ordinary Shares (rounded up to the nearest whole Existing Ordinary Share) in the market, and (ii) pay the necessary stamp duty reserve tax on that purchase. LMSTL will hold the Existing Ordinary Shares as custodian and Link Market Services Nominees Trustees Limited ("LMSTNL") as Nominee for the Participating Customers (who will be the beneficial owners of their Existing Ordinary Shares). Participating Customers will, within 10 days of the allocation of the Existing Ordinary Shares by LMSTL, be able to access online their opening Nominee Share Account Statement showing the number of Existing Ordinary Shares held for them.

Dilution: Not applicable.

Costs and Expenses: The total estimated costs and expenses of the WaterShare+ Scheme Offer payable by the Company are approximately £0.5 million (exclusive of VAT). Participating Customers will be able to redeem their WaterShare+ Scheme Entitlement at no cost to themselves as the costs associated with the initial allocation of WaterShare+ Shares to a Participating Customer (including SDRT) and maintaining a Participating Customer's Nominee Share Account for the duration of the WaterShare+ Scheme (expected to last until on or around the fifth anniversary of the date on which the WaterShare+ Shares are purchased) will be covered by the Company.

Why is this prospectus being produced?

Reasons for the WaterShare+ Scheme Offer: Since 2015, South West Water's voluntary outperformance sharing and reporting mechanism (the "WaterShare") has been central to its engagement with its customers and has been the framework against which South West Water has previously shared financial benefits arising from its regulatory outperformance with its customers. The idea of the WaterShare+ Scheme Offer arose in February 2018 during a South West Water customer focus group discussion in which the customers agreed that share offerings would be an effective way of sharing with them the cost efficiencies and financial rewards received as a result of performance incentive outperformance achieved over K6. South West Water performed well over the period of 2015-2020, delivering its business plan targets, which were agreed in advance with Ofwat. As a result of both the cost efficiencies achieved and financial rewards achieved as a result of performance incentive outperformance, a £20 million fund was created to share these financial benefits with customers (referred to herein as the "WaterShare+ Fund"). The WaterShare+ Fund will provide one of three rebate options to Eligible Customers, with Qualifying Household Customers having the opportunity to participate in the WaterShare+ Scheme Offer.

Material interests: Not applicable. No interest is material to the WaterShare+ Scheme Offer to Qualifying Household Customers.

PART 2

Risk Factors

Any investment in Pennon or its Existing Ordinary Shares through the WaterShare+ Scheme Offer carries a number of risks. Prospective investors should review this prospectus carefully and in its entirety (together with any documents incorporated by reference into it) and consult with their professional advisers before electing to participate in the WaterShare+ Scheme Offer. You should carefully consider the risks and uncertainties described below, in addition to the other information in this document and the information incorporated into this document by reference, before making any investment decision. Prospective investors should note that the risks relating to the Group, its industry and the Existing Ordinary Shares summarised in the section of this document headed "Summary Information" are the risks that the Directors believe to be most essential to an assessment by a prospective investor in considering an investment in such securities. However, as the risks and uncertainties which the Group faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the "Summary" but also, among other things, the risks and uncertainties below.

The risks and uncertainties described below represent all those known to the Directors as at the date of this document which the Directors consider to be material. However, these risks and uncertainties are not the only ones facing the Group; additional risks and uncertainties not presently known to the Directors, or which the Directors currently consider to be immaterial, could also impair the business of the Group. If any or a combination of these risks actually occurs, the business, financial condition and operating results of the Group could be adversely affected. In such case, the market price of the Existing Ordinary Shares could decline and you may lose all or part of your investment.

The information given is as of the date of this document and, except as required by the FCA, the London Stock Exchange, the Listing Rules, the Prospectus Regulation Rules or any other applicable law, will not be updated.

Risks relating to Covid-19 and macroeconomic conditions

- A deterioration of global macroeconomic conditions, including as a result of the Covid-19 pandemic, could adversely impact on the Group's operations and financial performance.**

In addition to the operational impact (see Part 2: - "*Disruptions related to widespread public health concerns, including the novel coronavirus ("Covid-19") pandemic, could materially adversely impact the Groups' business, financial condition or results of operations.*") the Covid-19 pandemic has impacted on global macroeconomic conditions which could expose the Group to changes in employment rates, inflation rates, interest rates, exchange rates and energy prices, increasing the Group's cost base or reducing revenue and returns to shareholders in the case of inflation, and adversely impacting on the Group's financial performance.

Although the majority of the Group's revenues are economically regulated, lower inflation or deflation could adversely impact the Group's revenue and financial performance, as South West Water's revenue is in part linked to inflationary returns in its regulatory capital value. Significant deterioration in global macroeconomic conditions, as a result of Covid-19 or otherwise, could result in increased unemployment within the UK and the specific regions within which the Group operates. Increased unemployment within the UK and the specific regions within which the Group operates could result in affordability issues for the Group's residential and business customers leading to a reduction in debt collection rates (see Part 2: - "*Non-recovery of a material amount of customer debt through the Group's subsidiaries could adversely affect the Group's profitability.*") which could adversely impact the financial position of the Group.

Additionally, as a large consumer of energy the Group continues to secure energy in advance in line with its energy policy, however volatile energy pricing in the market could significantly increase the Group's costs.

A deterioration of global macroeconomic conditions could also affect interest rates impacting on the costs associated with the Group's borrowings (see Part 2: - "*The Group is potentially exposed to interest rate variations which could affect its profitability and cash flow.*")

As a result, any future deterioration of general macroeconomic conditions in the markets in which the Group operates, including significant deflation or inflation, changes in interest rates, exchange rates and returns from equity, property and other investments and fluctuations in energy prices may also materially adversely affect the financial performance of the Group. Any of the foregoing could materially and adversely affect the Group's business, financial condition or results of operations.

2. Non-recovery of a material amount of customer debt through the Group's subsidiaries could adversely affect the Group's profitability.

The Group's principle subsidiary, South West Water, is restricted by statute in the measures it can take to recover debts owed by domestic customers. South West Water is responsible for the billing, cash collection and debt management activities for approximately 984,000 residential domestic water and/or wastewater customers. The Water Industry Act 1991 prohibits the disconnection of a domestic water supply for non-payment.

Non-recovery of household debt is therefore a risk to South West Water and may cause its profitability and cash flow to suffer, despite affordability assistance tools and other measures the Group has implemented for customers that may struggle to pay their bills. This risk is further increased as a result of the Covid-19 pandemic potentially creating further affordability challenges for the Group's residential customers which could lead to lower rates of debt collection. Allowance is made by Ofwat in each price determination for its estimate of household debt deemed to be irrecoverable, but there can be no assurance that the amount allowed by Ofwat is or will be adequate.

Pennon Water Services is contractually obliged to pay monthly wholesale charges, irrespective of whether customer revenue has been recovered. As a result, the non-recovery of a material amount of customer debt could adversely affect Pennon Water Services' cash flow and profitability. The Covid-19 pandemic has placed additional uncertainty upon the recovery of customer debt, and a wholesaler regulatory support package allowing deferral of any payments has been extended to October 2020. While Pennon Water Services has not required support via this package to date, there can be no assurance that any form of support package will be available if Pennon Water Services required it in the future.

Collection rates between April 2020 and July 2020 for the recovery of debt from the Group's residential and business customers has remained broadly comparable with the pre-Covid-19 collection rates, however the continued impact of Covid-19 could materially and adversely affect the Group's business, financial condition or results of operations.

3. Disruptions related to widespread public health concerns, including the novel coronavirus ("Covid-19") pandemic, could materially adversely impact the Group's business, financial condition or results of operations.

The current pandemic outbreak of Covid-19 has negatively impacted economic conditions globally, the UK economy and has presented a number of operational challenges. As an essential service provider a number of the Group's operational staff were designated keyworker status. The impact of Covid-19 has resulted in changes to health and safety legislation and safety requirements in the workplace. To the extent such mitigating actions and policies in response to these requirements are ineffective, this could have a material adverse effect on the Group's operations, employees or reputation (see Part 2: - "A deterioration of global macroeconomic conditions, including as a result of the Covid-19 pandemic, could adversely impact on the Group's operations and financial performance.").

During the initial lockdown period South West Water saw a decline in wholesale demand from businesses (approximately 20 per cent.), particularly those within the hospitality and retail sectors, while residential demand increased (approximately 5 per cent.) as people remained at home. Within the financial year ended 31 March 2020 financial results published on the 4 June 2020, the Group noted an expected net reduction in revenue of approximately £10 million during the financial year ended 31 March 2021 as a result of overall net reduced demand arising from Covid-19; although the regulatory mechanism enables any shortfall against regulatory determined revenues to be recovered in future years.

As at 31 March 2020, the financial impact for the Group has been in respect of recoverability of amounts owed by customers with the Group recognising a non-underlying charge of £8 million (excluding discontinued operations) (residential customers: £3 million, business customers: £5 million) in respect of expected credit losses arising from Covid-19. Subsequent cash collection through to July

2020 has remained relatively comparable to pre Covid-19 collection rates, however, no assurance can be provided that current collection levels will continue.

To date the Group has not taken advantage of the Government's Coronavirus Job Retention Scheme or any other Covid-19 support schemes, while Pennon Water Services has not at this stage taken advantage of wholesaler regulatory support through the deferral of any payments at this stage. Should the macroeconomic situation deteriorate further charges may need to be recognised reflecting the increased potential of credit losses which could have a material adverse effect on the Group's business, financial condition or results of operations.

The medium and long term impact of Covid-19 remains uncertain and localised restrictions have been enforced across the UK where subsequent increases in infection rates have been identified. Continued enforcement of mitigating measures in response to Covid-19, including enforced restrictions and social distancing, could have a continued adverse impact on the Group's revenue and the recoverability of debt, as detailed above, and also on the efficiency with which activities associated with South West Water's performance commitments are completed. This could result in material underperformance against these performance targets leading to financial penalties being applied, (see Part 2: - *"Operational underperformance may result in the Group's principal subsidiary, South West Water, being unable to meet committed performance levels, which could result in substantial financial penalties being incurred."*). If Covid-19 becomes more pronounced, or if similar widespread public health concerns occur in the future, the Group's business, financial condition or results of operations could be materially adversely affected.

Risks relating to law and regulation

- 4. The Group's principal subsidiary, South West Water, operates in a heavily regulated industry and is, accordingly, exposed to a wide range of regulatory risks, including the risk of the loss of or a material adverse modification to its licence or geographical area of appointment, material changes in applicable regulation which adversely affect the Group and the risk of failure to comply with applicable regulation.**

The Group's principal subsidiary, South West Water, operates within a monopolised and regulated water and waste water model within the UK. While no immediate changes to this model have been announced, changes to government policy by the current or future government could lead to a changed regulatory water model which could result in (but is not limited to) the renationalisation of South West Water, its securities no longer being publicly traded or a substantially changed regulatory environment.

South West Water is subject to various laws and regulations in the UK, including environmental laws and regulations (as to which, see *"Part 2: - The Group is subject to stringent environmental regulations and quality standards and changes in these standards could materially increase the Group's costs and adversely affect profitability. In addition, any failure to comply with applicable environmental regulations could result in severe financial penalties and/or criminal prosecution."*). Regulatory decisions in relation to South West Water's businesses, for example on the structure of the water industry, on whether licences, appointments, approvals or permits to operate are renewed or modified, whether market developments have been implemented satisfactorily, on the level of permitted charges or revenues for South West Water's businesses or whether there has been any breach of the terms of a licence, appointment, approval, permit or other obligation, could have an adverse impact on the results on the Group's operations, cash flows and financial performance.

South West Water's licence was originally granted in 1989 and now covers the original South West Water and Bournemouth Water regulated businesses under a single licence. The licence is subject to modification in certain circumstances and was last modified on 1 April 2020. If, at any time, the Water Services Regulatory Authority ("Ofwat") were to announce a modification to the licence which South West Water did not accept, a reference could be made by Ofwat to the Competition and Markets Authority who would, following the consideration of representations from interested parties including South West Water, ultimately decide whether a licence modification should be made. In such circumstances, South West Water's licence could be modified without its consent.

South West Water's revenues and financial performance are regulated through Ofwat's price review methodology, which sets the price controls for the five year regulatory period (see Part 2: - *"Interruptions to business or significant operational failures or incidents could have a significant impact on the profitability of Group businesses and also represent a reputational risk."*). South West Water

are able to request a reset of price limits during a regulatory period if specific changes lead to a significant reduction in revenue or costs; this is known as an interim determination. Additionally, a change in price limits can also be requested in the event of unforeseen circumstances which substantially increases costs or revenue; this is a substantial effect determination. There is no guarantee that any request for an interim or substantial effect determination by South West Water would be successful. Additionally, Ofwat are also able to use a substantial effect determination to trigger a change in prices in the event of an unforeseen circumstance which substantially decreased South West Water's costs or revenue.

Regulatory authorities including (but not limited to) Ofwat or the Secretary of State for the Environment, Food and Rural Affairs (the **"Secretary of State"**) may, from time to time, make enquiries of companies within their jurisdiction regarding compliance with laws or regulations governing their operations. In addition to regulatory compliance proceedings, South West Water's businesses could become involved in a range of third-party proceedings relating to, for example, land use, environmental protection and water quality. Among others, these may include civil actions by third parties for infringement of rights, nuisance claims or other matters. Furthermore, the impact of future changes in laws or regulations or the introduction of new laws or regulations that affect the business cannot always be predicted and, from time to time, interpretation of existing laws or regulations may also change or the approach to their enforcement may become more rigorous.

If South West Water fails to comply with applicable laws or regulations, the conditions of its licence, certain statutory duties, fails to meet required standards of performance or does not successfully undertake corrective action, regulatory action could be taken by Ofwat that could include the imposition of a financial penalty (of up to 10 per cent. of relevant turnover for each infringement), prosecution or the imposition of an enforcement order requiring South West Water to incur additional expenditure to remedy its non-compliance. In the most extreme cases, non-compliance may lead to revocation of South West Water's licence or the appointment of a special administrator in relation to South West Water. Furthermore, the regulatory ring fencing framework with Ofwat has inserted cash lock-up triggers in the conditions of the licence. For example, if South West Water were unable to provide the relevant certifications in their licence, this could prevent the Company from making certain cash payments, such as dividends. The Secretary of State also has powers to impose a penalty under certain circumstances. Therefore, changes to the regulatory and legislative environment could have a material adverse effect on the Group's business, financial condition and results of operations.

5. The Group is subject to stringent environmental regulations and quality standards and changes in these standards could materially increase the Group's costs and adversely affect profitability. In addition, any failure to comply with applicable environmental regulations could result in severe financial penalties and/or criminal prosecution.

Various environmental, consumer protection and health and safety laws and regulations govern the Group's waste water and water distribution operations delivered through the Group's subsidiary, South West Water. These laws and regulations establish, amongst other things, quality standards for drinking water, effluent treatment (including sewage bioresources disposal) and discharges into the environment. In addition, South West Water is required to obtain various environmental permissions from regulatory agencies for its operations. Any inability to obtain or renew any such permission could restrict certain aspects of South West Water's business and result in increased costs and/or reduced profitability for the Group.

Environmental laws are complex and change frequently. These laws and their enforcement have tended to become more stringent over time. The Group budgets for future expenditure to achieve compliance with current and known future changes in environmental laws and regulations. However, it is possible that new or stricter standards could be imposed that would raise the Group's expenditure by requiring modifications to South West Water's assets or operations. It is also possible that future legislation will impose constraints on existing water abstractions requiring South West Water to source alternative water supplies. These costs may be recoverable in part or in whole through the regulatory process of setting appropriate future revenue limits. In the event of these costs being significant, South West Water could apply (in certain circumstances) to Ofwat for a revision of its revenue limits through an interim determination ("Interim Determination") (see also Part 8: - *"Information on the Pennon Group—Regulation – South West Water—Price Regulation"* and Part 2: - *"The Group's principal subsidiary, South West Water, operates in a heavily regulated industry and is, accordingly, exposed to a wide range of regulatory risks, including the risk of the loss of or a material adverse modification to its licence or geographical area of appointment, material changes in applicable regulation which*

adversely affect the Group and the risk of failure to comply with applicable regulation.”), although there is no assurance that in any such case South West Water would be able to recover its costs in full or at all or on a timely basis. Non-compliance could result in the potential for fines or other sanctions imposed by either Ofwat or the courts, including being placed into special administration and ultimately the loss of South West Water’s licence, which could have a material adverse effect on the Group’s business, financial condition and results of operations.

6. The Group's principal subsidiary, South West Water, is subject to a determination every fifth year on the prices which it is permitted to charge its customers. Changes to the price control methodology in determining these charges could adversely affect the Group's profitability in a variety of ways.

Every five years, Ofwat sets limits on the revenue water companies in England and Wales can recover through customers' charges by issuing price determinations. The most recent price control review was set out by Ofwat in a final determination dated December 2019 and applies to the period 1 April 2020 to 31 March 2025 (“K7”). This final determination has increased the previous three price controls applicable to South West Water (wholesale water, wholesale wastewater and household retail) and now includes the following five price controls (water network plus (water treatment and distribution); wastewater network plus (wastewater collection and treatment); water resources; bioresources; and household retail).

The price control framework for K7 is based on a revenue cap formula which permits revenue to be recovered based on the percentage change of the inflationary indices plus an adjustment factor (“K factor”) which incorporates efficiency targets and the delivery of outcomes that drive improvements to service levels.

The Return on Regulated Equity (“RoRE”) which can be earned by South West Water’s regulated business is defined through a package of rewards and penalties. It is calculated using actual results before non-underlying items and compared against the final determination allowances based on notional gearing (at 60 per cent.), annual average regulatory capital value (“RCV”) and taking into account tax impacts of outperformance.

See also Part 8: - *“Information on the Pennon Group—Regulation – South West Water—Price Regulation”.*

The price control methodology used in setting the limits on revenue which can be charged by South West Water to customers can be subject to review and amendment by the regulator. The conditions of South West Water’s licence, including any condition relating to the prices South West Water can charge its customers, can be modified by Ofwat either with South West Water’s agreement or following reference to the Competition and Markets Authority on public interest ground. Current or future price limits, including those related to the licence conditions, could restrict the Group’s ability to generate sufficient revenue to carry on its business in a manner that is sufficiently profitable for its shareholders and investors and have a material adverse effect on the Group’s business, financial condition and results of operations.

7. Breach of health and safety laws and regulations could lead to financial penalties, significant legal costs and damage to reputation.

The operational activities undertaken by the Group can present inherent health and safety challenges and it is the Group’s policy to provide and maintain a safe working environment while preventing injury and ill health wherever possible. The Group continues to target improvement through training programmes focusing on behaviours and attitudes as well as risk awareness and risk control and the ability to learn from accidents or near misses.

A breach of health and safety laws and regulations, including those introduced or revised in response to Covid-19, could lead to financial penalties, significant legal costs and/or damage to the Group’s reputation, which could have a material adverse effect on the Group’s business, financial condition or results of operations.

8. Breach or non-compliance with non-regulated laws could result in financial penalties, significant legal costs and damage to the Group’s reputation.

In addition to laws and regulations specific to the regulated activities of the Group, the Group is also subject to a wide range of non-related corporate laws. These include laws relating to (but are not

limited to): health and safety (See Part 2: – “*Breach of health and safety laws and regulations could lead to financial penalties, significant legal costs and damage to reputation.*”), the General Data Protection Regulation (GDPR) (See Part 2: – “*Failure of the Group’s Information Technology systems, including as a result of a cyberattack could lead to significant business interruption. Corruption or loss of data could result in detriment to the Group’s customers, financial penalties and reputational damage.*”), anti-bribery and corruption and modern slavery.

Breach of these laws could result in potential prosecutions against the Directors of Pennon and its subsidiaries, imposition of material fines, civil liability and significant legal costs as well as damage to the Group’s reputation, all of which could have a material adverse effect on the Group’s business, financial condition or results of operations.

Risks relating to operating performance

- 9. Any contamination of water supplies or pollution caused by the Group’s principal subsidiary South West Water could result in significant clean-up costs and/or financial penalties which would be likely to adversely affect the Group’s future profitability.**

Given the nature of South West Water’s operations, there is a risk that drinking water quality and environmental pollution incidents may occur. These may emanate from naturally occurring compounds or man-made sources and, if South West Water is unable to substitute a water supply or to treat the contaminated water source adequately, or is otherwise unable to effectively mitigate the effects of the pollution, the possible consequences may be criminal prosecution leading to the imposition of fines on South West Water and/or civil liability in damages to third parties and/or a requirement to clean up any contamination and/or an operational requirement to upgrade plant and equipment. Such incidents could also give rise to prosecutions against the Directors of South West Water and Pennon. The imposition of fines, civil liability, clean-up costs or upgrade costs may materially and adversely affect the financial position of the Group.

Where South West Water incurs material remedial costs, some or all of the costs may be recoverable through future price reviews or through insurance policies maintained by South West Water, although there is no guarantee that all or any of the costs associated with these risks would be covered or that coverage will continue to be available in the future. South West Water could also be held liable for human exposure to hazardous substances in its water supplies or other environmental damage.

There is also a risk that South West Water may incur liability to clean up contamination caused by historical activities at its sites, whether or not South West Water caused the contamination in question. The costs of cleaning up contamination of land and/or water may be significant. Such contamination may also result in claims by third parties such as neighbouring landowners.

Any of the foregoing could have a material adverse effect on the Group’s business, financial condition or results of operations.

- 10. Interruptions to business or significant operational failures or incidents could have a significant impact on the profitability of Group businesses and also represent a reputational risk.**

Operational failure in South West Water’s business could result in not being able to supply clean water to customers or provide safe wastewater services. This could have a direct impact on the delivery of the K7 business plan and affect profitability by affecting expenditure efficiency and the delivery of ODIs. (See Part 2: - “*Operational underperformance may result in the Group’s principal subsidiary, South West Water, being unable to meet committed performance levels, which could result in substantial financial penalties being incurred.*”)

South West Water controls and operates water and wastewater networks and maintains the associated assets with the objective of providing a continuous service. South West Water is also dependent on the ability to access, utilise and communicate remotely using electronic software applications mounted on corporate information technology hardware and communicating through internal and external networks which are not wholly under its control. South West Water’s ability to maintain the required standards of operational performance may be adversely affected by any interruption in these networks. In addition, in exceptional circumstances, such as extreme weather, system failure or catastrophic damage, a significant interruption of service provision could occur.

Such consequences may arise due to a number of circumstances, for example water shortages, the failure of an asset or an element of a network or supporting plant and equipment, human error, an individual's malicious intervention or unavoidable resource shortfalls.

In the event of a failure to meet the required standards of operational performance, South West Water could be fined for breaches of statutory obligations or be held liable to third parties, or be required to provide an alternative water supply of equivalent quality, which could increase costs. In addition, a significant interruption in service provision could result in significant harm to human health, environmental damage and/or economic and social disruption. Any of the foregoing could negatively impact the Group's ability to carry out its business activities safely and effectively and could have an adverse material effect on the business, financial condition or results of operations.

11. Operational underperformance may result in the Group's principal subsidiary, South West Water, being unable to meet committed performance levels, which could result in substantial financial penalties being incurred.

Every five years Ofwat sets limits on the revenue water companies in England and Wales can recover through customers' charges by issuing price determinations. Within the price determination, committed performance targets, covering a range of business activities, are established for each water company through outcome delivery incentives ("ODIs"). Actual performance against these commitments will increase or decrease revenues where commitments have financial penalties associated with underperformance or rewards for outperformance.

During K6 South West Water delivered cumulative net ODI rewards of £13.3 million. The ODI regime for South West Water within the 2020-2025 K7 period is, however, more stretching with the overall reward and penalty range more penal compared with the previous K6 period. No assurance can therefore be provided that previous outperformance resulting in net ODI rewards will continue within K7.

Operational underperformance could result in South West Water being unable to successfully deliver the activities necessary to achieve or outperform their K7 ODI targets. This could be further influenced by the potential continued implications of Covid-19, such as the reintroduction of additional restrictions, closure of businesses or continued social distancing, which may further impact on the delivery of these activities.

In the event of underperformance against the ODI targets within K7, South West Water could face a material risk of financial penalties being applied which could have an adverse material effect on the Group, financial condition or results of operations. Some ODI performance measures are subject to a cap on any financial penalties applied.

12. The Group may be adversely affected by both the short-term and long-term effects of climate change, which could impact its ability to deliver its services efficiently, may lead to an inability to meet its customers' needs, environmental damage and could give rise to significant future costs which may not be fully recoverable and could therefore adversely affect its future profitability.

The Group's operations and assets may be impacted by the immediate and long-term impact of climate change, which includes extreme weather conditions such as flooding and drought. Together with increased demand from household and business customers resulting from, for example, hotter, drier summers, this risk could impact the Group's resources, the quality of water the Group is able to provide and the biodiversity within the regions the Group serves. The Group's assets and infrastructure, predominately within South West Water, could also increasingly be vulnerable to rising sea-levels, more intense storms and flooding. While the Group seeks to mitigate the risk through investment via a planned capital programme, established contingency and emergency plans and long-term planning via a water resources strategy there can be no assurance that such measures will be successful in mitigating these risks in the future. Failure of the Group's assets to cope with extreme weather conditions may lead to an inability to meet its customers' needs, environmental damage, additional costs and loss of reputation, any of which could have a material adverse effect on the Group's business, financial condition and results of operations.

13. Poor service and engagement with customers and other stakeholders could impact on the profitability and reputation of the Group.

Customer service and engagement has a direct impact on South West Water's delivery of the K7 business plan, with the C-MEX and D-MEX mechanisms enabling a direct comparison of its performance with other water companies. Water companies receive a score based on satisfaction ratings given by customers in monthly surveys (and additionally for D-MEX, company performance against key performance metrics). Ofwat will publish annual league tables for both C-MEX and D-MEX showing South West Water's performance relative to other water companies. In the event that the level of customer service is below commitments this could negatively impact on South West Water's C-MEX or D-MEX scores resulting in underperformance against its agreed performance commitment target for K7 leading to financial penalties being incurred. (See Part 2: - *"Operational underperformance may result in the Group's principal subsidiary, South West Water, being unable to meet committed performance levels, which could result in substantial financial penalties being incurred."*) C-MEX and D-MEX are subject to a cap on any financial penalties applied in the event of underperformance.

Growth for Pennon Water Services in the competitive non-household retail market is also dependent on understanding and meeting the needs of its business customers. Poor customer service for Pennon Water Services could result in a material loss of its customer base impacting the Group's business and results of operations.

As an essential service provider, the Group also engages with a range of other regulatory, environmental, supply chain and community based stakeholders, as well as the Group's employees to understand their needs and priorities in shaping the Group's strategy. Failure to maintain effective relationships with these stakeholders could adversely impact on the Group's operations and reputation.

14. The inability to source and retain the necessary skills and experience to meet the current and future needs of the Group could adversely impact on the Group's operations and profitability.

The activities of the Group are technical and complex and requires a skilled and motivated workforce across a range of operational and support roles. The Group seeks to develop these skills through the Group's HR strategy to ensure we attract, retain and develop our employees supported by the Group's apprenticeship programme, ongoing development and external recruitment.

The skills and experience required by the Group in the delivery of its activities is also sought by other businesses from across a range of industries and sectors creating increased competition and a reduced talent pool. A shortage of individuals within the Group with the necessary skills in the near or long-term could detrimentally impact the ability to successfully achieve the Group's strategic priorities and increase the Group's expenditure, as the costs associated with sourcing these skills increases.

Risks relating to financing

15. The Group's pension schemes may require additional contributions in future years which would reduce its profit in those years.

The Group operates defined benefit pension schemes for certain employees of the Group. The main schemes were closed to new entrants on or before 1 April 2008. The Group has completed a consultation on changes to its pension scheme arrangements and has launched a new, defined contribution Pennon pension savings plan. This is being introduced in a phased approach and the main defined benefit scheme will close to future accrual on 1 July 2021.

The 2019 triennial actuarial valuation of the Group's principal pension scheme has been completed with a recovery plan to return to full funding on a technical provision basis by March 2022. The valuation assumed the accelerated contributions of £17 million during the financial year ended 31 March 2020. In addition, contributions of £36 million have been announced partially utilising the net proceeds from the sale of Viridor.

The assets of the pension schemes are held in trust funds independent of Group finances. Estimates of the amount and timing of future funding for the defined benefit schemes are based on various actuarial assumptions and other factors including, among others, the actual and projected market performance of the scheme assets, future long-term bond yields, average life expectancies and

relevant legal requirements. The impact of these assumptions and other factors may require the Group to make additional contributions to these pension schemes which could materially adversely affect the Group's business, financial condition and results of operations.

16. The Group may not be able to refinance existing financial facilities due for renewal or may only be able to refinance them at a significantly higher cost.

The Group's indebtedness primarily consists of bonds, credit facilities and other borrowings which are due in the medium to long-term (such medium and long-term debt being debt which is due more than one year from the date of this document). The Group's ability to make payments on and refinance its medium or long-term indebtedness and to fund working capital, capital expenditures and other expenses will depend on the Group's future operating performance and ability to generate cash from operations. Similarly, the Group's ability to refinance its medium to long-term debt will depend in part on its financial condition at such time. Any refinancing of the Group's medium to long-term debt could be at higher interest rates than its current interest rates and may require the Group to comply with more onerous covenants, which could restrict the Group's operations. In particular, should the Group experience a credit rating downgrade, its cost of borrowing might increase and it may experience obstacles in refinancing its existing medium or long-term indebtedness.

If financial and economic conditions were to deteriorate, including as a result of political and economic uncertainty or instability, or if interest rates were to increase, it may be costlier and more difficult for the Group to access new credit or to refinance the Group's medium or long-term debt on terms that are acceptable to the Group, if at all, and could negatively impact the market price of the Existing Ordinary Shares. This could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

17. The Group may breach its financial covenants which could result in increased costs of borrowing or a default.

The Group has entered into covenants with lenders for its medium to long-term debt (such debt being debt which is due more than one year from the date of this document). While terms vary, the Group's terms typically provide for limits on gearing (primarily based on South West Water's regulatory capital value and non-regulated consolidated earnings before interest, tax and depreciation) and interest cover. If the Group or South West Water were to be in danger of breaching these covenants in its medium or long-term debt, it would need to negotiate a waiver or to renegotiate the relevant covenants with its lenders. There is no certainty that any such negotiation would be successful and, even if the covenants could be renegotiated or waived, there could be associated costs which would adversely impact the Group's profitability. If the relevant covenants could not be renegotiated or waived, the Group would either have to repay the relevant debt early (in which case redemption penalties could be invoked which could have an adverse effect of the Group's cash flow and profitability) or could be placed in default. In addition, any failure by the Group or South West Water to comply with its covenants in its medium or long-term debt could impact other indebtedness of the Group, through cross default provisions.

The financial covenants offered by the Group in its medium and long-term debt typically include a term to re-test the covenants applying the accounting standards applicable on origination of the borrowing. This is to protect the Group from changes in accounting standards (such as the introduction of IFRS16) which may have a detrimental impact on the financial covenant testing methodology. To the extent that any covenants offered by the Group do not have such provisions in its medium or long-term debt, a change in accounting standards could result in a breach of financial covenants and an obligation on the Group to repay its medium or long-term debt. Any of the foregoing could have a material adverse effect on the Group's business, financial condition and results of operation.

18. The Group is potentially exposed to interest rate variations which could affect its profitability and cash flow.

The Group's debt obligations are subject to both fixed and floating interest rate provisions. The Group's exposure to interest rate movements on its floating-rate debt is managed by the use of interest rate derivatives. At 31 July 2020, the Group's total indebtedness was £3,216.5 million of which £1,593 million was at fixed rate and £622 million was indexed linked. The remaining £1,002 million was held at floating rates and is currently more than offset against the Group's cash holdings.

Unfavourable market movements in interest rates could have a negative effect on the Group's earnings and cash flows, as increasing interest rates would have a negative impact on the finance expenses related to the unhedged portion of the Group's indebtedness. Despite the Group having measures in place to counteract the effects of interest rate movements, substantial changes in market interest rates and/or incorrect hedging strategies could still result in greater liabilities for the Group in respect of its interest payment obligations which could, consequently, have a material and adverse effect on the Group's business, financial condition and results of operations.

Risks relating to Brexit

19. The Group faces risks related to the United Kingdom's exit from the European Union as well as poor global macroeconomic conditions.

In a referendum on the United Kingdom's membership of the European Union held on 23 June 2016, a majority voted in favour of the United Kingdom's withdrawal from the European Union. On 29 March 2017, the UK Government triggered the official process for withdrawing from the European Union under Article 50 of the Treaty on European Union ("Brexit"), leading to a process of negotiation that will determine the future terms of the United Kingdom's relationship with the European Union. In October 2019, a withdrawal agreement (the **Withdrawal Agreement**) setting out the terms of the United Kingdom's exit from the European Union, and a political declaration on the framework for the future relationship between the United Kingdom and European Union was agreed between the United Kingdom and the European Union governments. The Withdrawal Agreement, which became effective on 31 January 2020, includes the terms of a transition or "standstill" period until 31 December 2020, during which time the United Kingdom and the European Union will continue to negotiate the terms of a trading arrangement that will apply following the standstill period. Brexit and uncertainty with regard to the UK's future trading arrangements with the EU continue to create significant political, social and macroeconomic uncertainty.

Whilst the Group's activities are limited to the UK, if the standstill period ends with no trading arrangement in place, the Group could experience increased costs in respect of goods and services procured from outside of the UK as a result of increased tariffs or increased foreign exchange volatility (in particular a further weakening of the pound sterling and the euro against other leading currencies) which could impact on the Group's profitability.

Risks relating to business systems and capital investment

20. Failure of the Group's Information Technology systems, including as a result of a cyberattack could lead to significant business interruption. Corruption or loss of data could result in detriment to the Group's customers, financial penalties and reputational damage.

The Group is reliant on information technology systems to provide front line operational and back office support activities. While the Group maintains an information security framework aligned with guidance issued by the National Cyber Security Centre, no assurance can be provided that this will be successful in preventing breaches of these systems.

The Group is required to comply with relevant laws including (but not limited to) the General Data Protection Regulation and the Network and Information Systems Regulations 2018 which provides legal measures to protect essential services, including drinking water supply and distribution, by improving the security of the network and information systems that support the continuation of these services.

In the event that these technologies and systems failed or were breached (including the loss of data) this could result in significant business interruption, including the inability to provide drinking water or waste water activities, the inability to meet the needs of customers and a failure to comply with relevant legislation. This could result in regulatory investigation, the Group potentially being subject to material financial penalties and reputational damage being incurred, which may materially and adversely affect the Group's business, financial condition or results of operations.

21. Acquisitions and disposals made by the Group could prove to be costly in terms of time and resources and may impose post-acquisition integration or other risks.

Following the disposal of Viridor, the Group will now focus on its water and wastewater businesses, whilst considering further growth opportunities that create value for customers, employees and

shareholders. The Group will therefore review the most efficient and effective method of returning value to shareholders, alongside considering earnings accretive market opportunities. Any potential transaction resulting from this review could expose the Group to numerous risks including:

- diversion of management attention and financial resources that would otherwise be available for the ongoing development or expansion of existing operations;
- unexpected losses of key employees, customers and suppliers of the acquired operations;
- difficulties in integrating the financial, technological and management standards (including health and safety and environmental risks), processes, procedures and controls of the acquired business with those of the Group's existing operations; and
- exposure to unanticipated costs, liabilities and/or difficulties in mitigating contingent and/or assumed liabilities associated with acquisition activities.

In addition, general market conditions may change from those expected at the time of an acquisition which may have a significant adverse effect on results of operations in periods after an acquisition and may increase funding requirements.

The Group faces certain continuing risks from its disposal of Viridor in July 2020. The Board used certain of the net proceeds of the Disposal in part to reduce Pennon's net company borrowings and current pension fund deficit. The success of any uses of the net proceeds will depend on a number of factors, including external market factors. It is therefore possible that any such uses of the Disposal proceeds by Pennon will not result in the creation of value for Pennon Shareholders. Furthermore, the separation of the Viridor Business could cause the Group to incur unexpected costs and disruption to the business of the Group. At the completion of the Disposal, the Company entered into a transitional services agreement pursuant to which it provides certain services to the Viridor Business for a period of up to 18 months following Completion of the Disposal while the separation is taking place (the "TSA"). The Group could incur unexpected additional costs and/or adverse impacts on the functioning of its business as a result of its obligations under the TSA, which could adversely affect its financial condition and results of operations. The Company's management will also be required to allocate time and resources to ensuring that the Group's obligations under the TSA are fulfilled.

If the Group is unable to successfully meet the challenges associated with any acquisitions or disposals it has made or may make, this could have a material adverse effect on its business, financial condition and results of operations.

22. Delays in the delivery of significant capital, operational and other transformation projects could result in the Group incurring additional costs impacting on the Group's financial performance and profitability.

The Group undertakes a range of projects in the delivery of its activities; including significant capital expenditure within South West Water. Delivery of these projects utilises both internal experience and external third parties as appropriate. During K6, capital expenditure in respect of the Group (excluding discontinued operations) was £824 million. A similar level of expenditure is expected during K7 including the delivery of two new water treatment works in the Bournemouth supply area. The Group will also deliver a number of technology projects in respect of the Group's operational and corporate systems as well as other change projects during K7.

The inability to successfully deliver one or a number of these projects could result in delays and increased costs being incurred, impacting on the quality of services the Group provides. The impact of Covid-19 has also placed greater pressure on the financial health of key contractors and supply chain partners of the Group. In the event that these contractors were to fail the Group could also be exposed to additional costs adversely impacting on the Group's financial performance.

Risks relating to the WaterShare+ Scheme Offer

23. Prospective investors should be aware that Participating in the WaterShare+ Scheme Offer carries certain risks.

In addition to the risks described below in Part 2: - "Risks relating to the Existing Ordinary Shares", the WaterShare+ Scheme Offer carries certain risks for Participating Customers including that:

- the Company has absolute discretion in determining whether or not customers meet the criteria of a Qualifying Household Customer and the Company's determination as to whether a customer participates in the WaterShare+ Scheme Offer shall be final and conclusive in all respects;
- a Qualifying Household Customer may not receive Existing Ordinary Shares through the WaterShare+ Scheme Offer if they make errors in completing their application or make a submission after the Registration Period Closing Date; in these circumstances, the Company's decision as to whether to reject or treat a Qualifying Household Customer's Application as valid will be final and binding and neither the Company, Link Group nor any of their respective officers, agents or employees will accept any liability for any such decision, and no claim will be made against any such persons in respect of the non-receipt or non-allocation of Existing Ordinary Shares, or for any loss resulting from such non-receipt or non-allocation;
- Participating Customers will not have complete control over the timing of when they can expect to receive Existing Ordinary Shares or the price at which the Existing Ordinary Shares are acquired since the WaterShare+ Scheme Offer will require Link Group to acquire Existing Ordinary Shares following the Registration Period Closing Date until sufficient Existing Ordinary Shares are acquired through the open market to meet the demand for the WaterShare+ Scheme Offer;
- all Participating Customers agree to hold their WaterShare+ Shares in the Nominee Share Account and such account will carry certain transaction costs if Participating Customers purchase additional Existing Ordinary Shares that were not received through the WaterShare+ Scheme Offer and add them to their Nominee Share Account or sell their WaterShare+ Shares and any additional Existing Ordinary Shares they may hold in their Nominee Share Account, and such transaction costs could be significant in proportion to the market value of Existing Ordinary Shares held;
- a disposal or deemed disposal of Existing Ordinary Shares by an individual Qualifying Household Customer who is resident in the UK for tax purposes may, depending on the Qualifying Household Customer's circumstances and subject to any available exemptions and reliefs, give rise to a capital gain or loss for the purposes of UK taxation of capital gains.

Any failure to manage any of these risks could prevent the Qualifying Household Customer from obtaining Existing Ordinary Shares or impact the value of any such Existing Ordinary Shares obtained by a Participating Customer.

Risks relating to the Existing Ordinary Shares

24. Prospective investors should be aware that the value of an investment in Existing Ordinary Shares may go down as well as up and any fluctuations may be material and may not reflect the underlying asset value.

The market price of the Existing Ordinary Shares could be subject to significant fluctuations due to a change in sentiment in the market regarding the Existing Ordinary Shares. The fluctuations could result from national and global economic and financial conditions (including the Covid-19 pandemic), market perceptions of Pennon and various other factors and events, including but not limited to regulatory changes affecting the Pennon Group's operations, variations in the Pennon Group's operating results, business developments of the Pennon Group and/or its competitors and the liquidity of the financial markets. Furthermore, the Pennon Group's operating results and prospects from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of the Existing Ordinary Shares.

25. The market price for Existing Ordinary Shares may decline below the initial value of the rebate in Existing Ordinary Shares available under the WaterShare+ Scheme Offer.

There is no assurance that the public trading market price of the Existing Ordinary Shares will not decline below the initial value of the rebate in Existing Ordinary Shares available under the WaterShare+ Scheme. Should that occur, Participating Customers will suffer an immediate loss as a result. Moreover, there can be no assurance that, following Participating Customers' receipt of their Nominee Share Account Statement, Participating Customers will be able to sell their Existing Ordinary Shares at a price equal to or greater than the initial value of the rebate in Existing Ordinary Shares available under the WaterShare+ Scheme.

26. The Company's ability to pay dividends on the Existing Ordinary Shares will depend on the availability of distributable reserves.

The level of any dividend paid in respect of the Existing Ordinary Shares is, subject to the Pennon Articles, within the discretion of the Board and is subject to a number of factors, including the business and financial condition of, earnings and cash flow of, and other factors affecting, the Group, as well as the availability of funds from which dividends can be legally paid. The level of any dividend in respect of the Existing Ordinary Shares is also subject to the extent to which the Company receives funds, directly or indirectly, from its operating subsidiaries. The Company will therefore be entirely dependent on the cash flows from its subsidiaries to pay dividends to its shareholders (to the extent that the boards of those companies consider it appropriate to do so). The future prospects, financial condition and results of operations of the Company are primarily dependent on the respective trading performance of the members of its Group and upon the level of distributions, interest payments and loan repayments, if any, received from them and upon amounts received on asset disposals and the level of their respective cash balance. The failure of the Group's subsidiaries to generate profits and cash may result in the Company having insufficient funds to make dividend payments to its Shareholders.

IMPORTANT INFORMATION

Without prejudice to the Company's obligations under FSMA, the Prospectus Regulation Rules, the Prospectus Regulation, the Disclosure Guidance and Transparency Rules, the Listing Rules, the Market Abuse Regulation and other applicable regulations, the delivery of this document shall not, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this document or that the information contained herein is correct as at any time after its date.

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by the Company or by Link Group.

Investors must not treat the contents of this document or any subsequent communications from the Company or the Directors or any of their respective affiliates, officers, directors, employees or agents as advice relating to legal, taxation, accounting, regulatory, investment or any other matters. Each prospective investor should consult his, her or its own solicitor, independent financial adviser or tax adviser for legal, financial or tax advice.

The section headed "Summary Information" should be read as an introduction to this document. Any decision to invest in Existing Ordinary Shares by electing to participate in the WaterShare+ Scheme Offer should be based on consideration of this document as a whole by the investor. In particular, investors must read the sections headed "What are the key risks that are specific to the issuer?" and "What are the key risks that are specific to the securities?" of the Summary together with the risks set out in the section headed "Risk Factors" in Part 2 of this document.

NO INCORPORATION OF WEBSITE INFORMATION

Other than the information incorporated by reference into this document (as set out in Part 14 (Documentation incorporated by Reference) of this document), the contents of the Company's website or any website directly or indirectly linked to the Company's website (including the WaterShare+ Choice Letter Portal) have not been verified and do not form part of this document and investors should not rely on it or any of them.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this document, including those in the Parts headed "Summary Information", "Risk Factors" and "Information on the Pennon Group", constitute "forward-looking statements".

All statements other than statements of historical fact are forward-looking statements. They are based on current expectations and projections about future events, and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of forward-looking words such as "plans", "expects", "is expected", "is subject to", "budget", "scheduled", "estimates", "forecasts", "goals", "intends", "anticipates", "believes", "targets", "aims" or "projects". Words or terms of similar substance or the negative thereof, are forward-looking statements, as well as variations of such words and phrases or statements that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations.

Forward-looking statements include statements relating to: (a) future capital expenditures, expenses, revenues, earnings, economic performance, indebtedness, financial condition, dividend policy, losses and future prospects; (b) business and management strategies and the expansion and growth of the Company's operations; and (c) the effects of global economic conditions on the Company's business.

Such forward-looking statements involve known and unknown risks and uncertainties that could significantly affect expected results and are based on certain key assumptions. Many factors may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Important factors that could cause actual results, performance or achievements of the Company to differ materially from the expectations of the Company, include, among other things, general business

and economic conditions globally, industry trends, competition, changes in government and changes in regulation and policy, including in relation to the environment, health and safety and taxation, labour relations and work stoppages, interest rates and currency fluctuations, changes in its business strategy, political and economic uncertainty and other factors discussed in section headed "Risk Factors" in Part 2 of this document. Such forward-looking statements should therefore be construed in light of such factors.

Neither the Company nor any of its Directors, officers or advisers provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this document will actually occur. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as at the date of this document.

Other than in accordance with its legal or regulatory obligations (including under the Prospectus Regulation Rules, the Prospectus Regulation, the Listing Rules, the Market Abuse Regulation and the Disclosure Guidance and Transparency Rules), the Company is not under any obligation and the Company expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The above explanatory wording regarding forward-looking statements does not in any way seek to qualify the statement regarding working capital that can be found at paragraph 13 of Additional Information of this document.

NO PROFIT FORECAST

Other than as expressly stated, no statement in this document is intended as a profit forecast or a profit estimate and no statement in this document should be interpreted to mean that earnings per Ordinary Share for the current or future financial years will necessarily match or exceed the historical published earnings per Ordinary Share.

MARKET DATA

Where information contained in this document has been sourced from a third party, the Company and the Directors confirm that such information has been accurately reproduced and, so far as they are aware and have been able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

PRESENTATION OF FINANCIAL INFORMATION

Historical financial information

The historical financial information presented in this document consists of:

- the audited consolidated financial statements of the Group as of and for the financial year ended 31 March 2020.

The basis of preparation and significant IFRS accounting policies are explained in the notes to the consolidated financial statements which are incorporated by reference into this document, as explained in Part 14 (Documentation incorporated by Reference) of this document.

The Group presents its annual accounts as of 31 March in each financial year.

Non-IFRS financial measures

This document contains certain unaudited supplementary financial measures for the Group that are not defined by or recognised under IFRS, including Underlying Revenue, EBITDA and Underlying EBITDA (together, "**non-IFRS measures**").

The definition of each of these non-IFRS measures is given below:

- Underlying Revenue** excludes non-underlying items from statutory revenue. 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 Group's financial performance in the year and business trends over time;
- EBITDA** represents earnings before interest, tax, depreciation and amortisation; and
- Underlying EBITDA** represents earnings before interest, tax, depreciation and amortisation and excludes non-underlying items.

The financial reconciliations between these non-IFRS measures and the statutory measures calculated in accordance with IFRS are set out in the alternative performance measures of the 2020 Financial Statements which are incorporated by reference to this document (as set out in Part 14 (Documentation incorporated by Reference) of this document).

The Board believes that these non-IFRS measures provide valuable information to readers because it enables them to, *inter alia*, understand how the Board manages the Group's business, develops budgets and evaluates the performance of the Group against those budgets.

The non-IFRS measures used in this document should not be considered superior to, nor a substitute for, measures calculated in accordance with IFRS. You should not consider these non-IFRS measures in isolation, but in conjunction with measures calculated in accordance with IFRS. Non-IFRS measures reported by the Group may not be comparable to similarly titled measures reported by other companies as those companies may define and calculate such measures differently from the Group.

CURRENCY PRESENTATION

Unless otherwise indicated, all references in this document to "£", "pounds", "pounds sterling" or "sterling" are to the lawful currency of the United Kingdom and references to "pence" or "p" represent pence in the lawful currency of the United Kingdom. Unless otherwise indicated, all references in this document to "EUR", "€" or "euro" are to the lawful currency in the Member States of the European Union that have adopted the single currency introduced in application of the European Economic Community Treaty.

The Group prepares its consolidated financial statements incorporated by reference into this document in pounds. Unless otherwise indicated, the financial information contained in this document has been expressed in pounds.

ROUNDING

Certain data in this document or incorporated by reference, including financial, statistical and operating information as well as the financial information presented in a number of tables, have been rounded to the nearest whole number or the nearest decimal place. Therefore, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data and the sum of the numbers in a table may not conform exactly to the total figure given for that table. In addition, certain percentages presented in the tables in this document reflect calculations based upon the underlying information prior to rounding and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

PART 3

Expected Timetable of Principal Events and WaterShare+ Scheme Offer Statistics

Each of the times and dates in the table below is indicative only and may be subject to change. The times and dates set out in the expected timetable of principal events below and mentioned throughout this document may be adjusted by the Company in which event details of the new times and dates will be notified to the London Stock Exchange and, where appropriate, Qualifying Household Customers. References to times in this document are to London time unless otherwise stated. If you have any queries on the procedure for applications, you should contact the WaterShare helpline on +44 (0)371 277 1021 between 9.00am and 5.30pm Monday to Friday (excluding English and Welsh public holidays). Any calls to the shareholder helpline from outside the United Kingdom will be charged at applicable international rates.

	Date
Qualifying Date for the WaterShare+ Scheme	8 September 2020
Publication of the Prospectus	18 September 2020
Posting of the Choice Letter	from 21 September 2020
Start of the Registration Period	21 September 2020
Latest time and date for receipt of completed Applications and close of the Registration Period	11.59pm on 9 October 2020
Company to announce the results of the WaterShare+ Scheme Offer	12 October 2020
LMSTL to receive an order from Pennon to procure Existing Ordinary Shares in the open market corresponding to the number required for the Participating Customers	on or around 12 October 2020
Nominee Share Accounts enabled and Opening Statements available to Participating Customers	within 10 days after all Existing Ordinary Shares procured pursuant to the WaterShare+ Scheme Offer are received by LMSTL

Notes:

- (A) Each of the times and dates set out in the above timetable and mentioned in this document, the online Application and in any other document issued in connection with the WaterShare+ Scheme Offer is subject to change by the Company, in which event details of the new times and dates will be announced via a Regulatory Information Service and, if appropriate, Qualifying Household Customers will be notified.
- (B) Any reference to a time in this document is to London time, unless otherwise specified.
- (C) The ability to participate in the WaterShare+ Scheme Offer is subject to certain restrictions relating to Qualifying Household Customers with addresses or who are located or resident in countries outside the UK, details of which are set out in Part 11 (Overseas Customers) of this document.
- (D) LMSTL will be carrying out the Arranging activity in the purchase of Existing Ordinary Shares pursuant to Pennon's order. In respect of this Arranging activity, LMSTL will treat Pennon as its only customer for regulatory compliance purposes. The broker(s) instructed by LMSTL will buy the Existing Ordinary Shares in the open market. The Existing Ordinary Shares will then be settled by LMSTL and will be held by the Nominee for the Participating Customers in their respective Nominee Accounts in accordance with the terms and conditions of the Nominee Service set out in Part 7B (*Terms and Conditions of the Nominee Service*). LMSTL does not act as Pennon's agent but merely transmits Pennon's instruction to the executing broker(s).
- (E) LMSTL is not under contractual obligation to Participating Customers to enter into any transactions for them so it will not be procuring Ordinary Shares on such Participating Customers' instructions. Consequently, Participating

Customers do not become customers of LMSTL for the part of the transaction comprising the procurement of the acquisition of Existing Ordinary Shares.

Offer Statistics

The WaterShare+ Scheme Offer is for up to 1,900,000 Existing Ordinary Shares (assuming all Qualifying Household Customers of the WaterShare+ Scheme elect the Pennon Shares rebate option and Existing Ordinary Shares are acquired through open market purchase at a price of 1,025 pence, the closing price of Existing Ordinary Shares as at the Latest Practicable Date) to be offered to Qualifying Household Customers. The ultimate amount of Existing Ordinary Shares comprising the WaterShare+ Scheme Offer will be determined by the number of Participating Customers and the market price of the Existing Ordinary Shares purchased following the Registration Period Closing Date.

Following the Registration Period Closing Date, the number of Participating Customers in the WaterShare+ Scheme Offer will be known and the Company will announce the result of the WaterShare+ Scheme Offer.

Assuming by way of illustration that there are one million Eligible Customers, one third of Eligible Customers elect the WaterShare+ Scheme Offer option to receive the rebate and the average open market share price of the Existing Ordinary Shares purchased following the Registration Period Closing Date is 1,000 pence, the total value of the WaterShare+ Scheme Offer will ultimately be £6.7 million.

PART 4

Directors, Secretary and Advisers

DIRECTORS	Gill Rider (Chairman) Susan Davy (Chief Executive Officer) Paul Boote (Group Finance Director) Neil Cooper (Senior Independent Non-Executive Director) Jon Butterworth (Independent Non-Executive Director) Iain Evans (Independent Non-Executive Director) Claire Ighodaro (Independent Non-Executive Director)
REGISTERED OFFICE	Peninsula House Rydon Lane Exeter United Kingdom EX2 7HR
COMPANY SECRETARY	Simon Pugsley
LEGAL ADVISER TO THE COMPANY AS TO ENGLISH LAW	Allen & Overy LLP One Bishops Square London E1 6AD United Kingdom
AUDITORS AND REPORTING ACCOUNTANT	Ernst & Young LLP 1 More London Place London SE1 2AF United Kingdom
REGISTRARS, NOMINEE AND RECEIVING AGENT	Link Group The Registry 34 Beckenham Road Beckenham, Kent United Kingdom BR3 4TU

PART 5

Overview of the WaterShare+ Scheme and some Questions and Answers about the WaterShare+ Scheme Offer

1. What is the WaterShare+ Scheme?

The WaterShare+ Scheme is a scheme run by South West Water. If South West Water delivers its business plan targets at a lower cost than predicted and/or outperforms its financial performance incentives, these cost efficiencies achieved and/or financial rewards received are allocated to the WaterShare+ Scheme. Customer focus groups are held to consult customers about what happens to the monies – such as supporting community projects or giving rebates on customers' bills. The WaterShare+ Scheme aims to give customers a greater say in the South West Water business and how it is run, including by obtaining a financial stake in the Company.

In the future, the WaterShare+ Scheme will also include a customer Annual General Meeting – where customers will be able to question the South West Water Board about South West Water's performance.

2. Why is there a rebate?

Over the period 2015-2020, South West Water performed well, delivering their business plan targets more efficiently than predicted and outperforming their performance incentive targets. The business plan targets were agreed in advance with Ofwat, the Water Services Regulation Authority of England and Wales, in its asset management plan for the planning period for 1 April 2015 – 31 March 2020. As a result of both the cost efficiencies achieved and financial rewards received as a result of performance incentive outperformance, a £20 million fund was created to share these financial benefits with customers (the “**WaterShare+ Fund**”).

Following consultation with customers, the Board approved and indicated in its regulatory plan that the WaterShare+ Fund should be shared by providing a rebate for Eligible Customers in 2020.

3. What is the rebate?

The WaterShare+ Fund will be distributed to Eligible Customers (as defined below in “*—5. Who are Eligible Customers and Qualifying Household Customers in the WaterShare+ Scheme?*”) as a rebate.

Qualifying Household Customers will have the option of receiving the rebate in one of three forms:

- a minimum of £20 in Existing Ordinary Shares, rounded up to the nearest whole Existing Ordinary Share (the “**WaterShare+ Scheme Offer**”);
- a £20 bill reduction; or
- a £20 credit to bank account (for direct debit payers only).

If a customer does not meet the criteria to be a Qualifying Household Customer (as defined below in “*—5. Who are Eligible Customers and Qualifying Household Customers in the WaterShare+ Scheme?*”), they are not eligible to participate in the WaterShare+ Scheme Offer. However, customers meeting the other eligibility requirements of the WaterShare+ Scheme are Eligible Customers and will have the option of receiving the rebate in one of two forms:

- a £20 bill reduction; or
- a £20 credit to bank account (for direct debit payers only).

4. How do I make my selection?

Eligible Customers, including Qualifying Household Customers, will be sent a Choice Letter following the publication of this document from South West Water explaining the WaterShare+ Scheme, the three rebate options and how to register their choice of rebate. Qualifying Household Customers who wish to participate in the WaterShare+ Scheme Offer should select the Pennon Shares rebate option on the WaterShare+ Choice Letter Portal, after which, they will be directed to the Receiving Agent's Share Registration Portal, where they must complete and submit an Application online.

Eligible Customers who do not make a selection or who select the Pennon Shares rebate option but do not also submit an Application online will receive a £20 bill reduction, the default rebate option of the WaterShare+ Scheme.

5. Who are Eligible Customers and Qualifying Household Customers in the WaterShare+ Scheme?

Eligible Customer

Eligibility for the WaterShare+ Scheme is limited to the named account holder billed with an active and occupied property as of 8 September 2020, unless such account falls within any of the excluded categories below (the “**Exclusions**”) (each an “**Eligible Customer**” and all customers meeting such criteria the “**Eligible Customers**”).

Qualifying Household Customer

A Qualifying Household Customer is an Eligible Customer that is also all of the below:

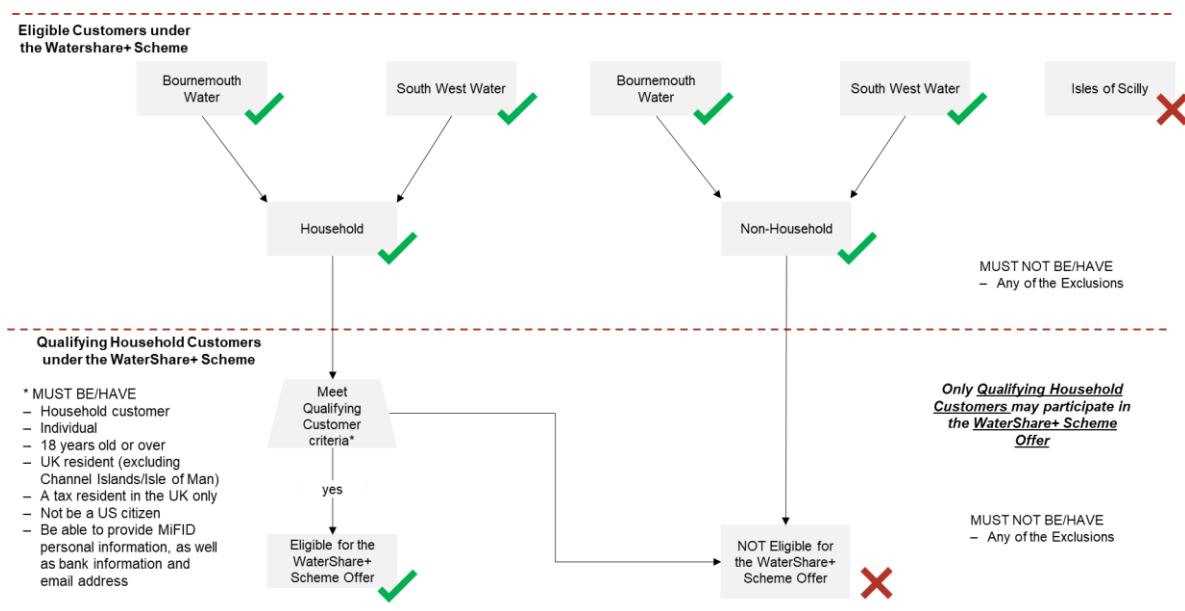
- a household customer (as defined below);
- an individual;
- resident within the United Kingdom (excluding the Channel Islands and Isle of Man);
- at least 18 years old;
- a tax resident of the United Kingdom only (and not a tax resident in any other jurisdiction);
- not a citizen of the United States; and
- able to supply upon Application to the Receiving Agent the personal information required under MiFID II (including: (i) name; (ii) address; (iii) national insurance number; (iv) date of birth; and (v) nationality) and also their bank account details and email address, in accordance with the terms and conditions of the Nominee Service set out in Part 7B (*Terms and Conditions of the Nominee Service*).

The Exclusions from the WaterShare+ Scheme are accounts that meet any of the following criteria:

Household	Non-Household
Previous Occupiers ⁽¹⁾	Previous Occupiers ⁽¹⁾
Isles of Scilly region ⁽²⁾	Isles of Scilly region ⁽²⁾
Deceased/Executors ⁽³⁾	Deceased/Executors ⁽³⁾
Lock Up Garage ⁽⁴⁾	Lock Up Garage ⁽⁴⁾
“The Occupier” accounts ⁽⁵⁾	Vacant (excluding Covid-19 Vacant) ⁽⁵⁾
Pre-Occupation Charge ⁽⁶⁾	Building Water Tariff (pre-occupation) ⁽⁷⁾
Troughs ⁽⁸⁾	Trough/Standpipe ⁽⁸⁾⁽⁹⁾
Garden Meter or External Supply ⁽¹⁰⁾	-
Missing Bill Schedule ⁽¹¹⁾	-
Indirect Customers - Water Purchasers (SWW non-GC50) ⁽¹²⁾	-
Indirect Customers – Water Purchasers (BW) ⁽¹²⁾	Non-core SPIDs (i.e. one record where both water and sewerage are supplied) ⁽¹³⁾

-	Special Agreement (Not Billed) ⁽¹⁴⁾
<p>Notes:</p> <p>(1) Not accruing ongoing charges as the occupier(s) have vacated the property.</p> <p>(2) Premises located within the Isles of Scilly.</p> <p>(3) Sole occupier account holder is deceased and/or in the name of the executor of the deceased's estate.</p> <p>(4) A property which is separate from any other dwelling or premises which is no larger than 240 square feet and used as a lock up garage.</p> <p>(5) Empty/uninhabited with no known current occupier(s).</p> <p>(6) Billed for a supply connected during construction which is intended for the purposes of providing a service to a household premises that is not yet occupied, and that is not a building water supply.</p> <p>(7) A temporary site supply that is used for construction purposes.</p> <p>(8) An animal drinking receptacle connected to a water supply.</p> <p>(9) Accounts where portable devices are used to obtain a temporary water supply from defined hydrant positions.</p> <p>(10) External metered water connection for the use of garden watering, swimming pool and garden pond replenishment or any other external use where water is not returned to sewer.</p> <p>(11) Accounts with no active billing schedule.</p> <p>(12) Somebody who pays a landlord, mobile-home site owner or any other person or company for water or sewerage services, rather than paying the water company direct.</p> <p>(13) A secondary supply point identifier.</p> <p>(14) Charging agreements outside of those laid out in the charges schedule.</p> <p>The terms relating to Exclusions are set at the sole discretion of the Company.</p>	

The following shows those that meet the criteria to be Eligible Customers or Qualifying Household Customers under the WaterShare+ Scheme:



6. Why did I receive this document?

You received this document as you are an Eligible Customer. If you are also a Qualifying Household Customer, you are eligible to select the Pennon Shares rebate option in your Choice Letter. Qualifying Household Customers should only select the Pennon Shares rebate option under the WaterShare+ Scheme on the basis of the information contained in this document. If you are in any doubt as to what action to take, please contact an authorised financial adviser.

The following documents are available on the WaterShare+ Choice Letter Portal:

- this document;
- the 2020 Financial Statements and other financial information incorporated by reference herein.

Following your review of this document, if you apply for Existing Ordinary Shares in the WaterShare+ Scheme Offer by completing the Application process, you will be agreeing with the Company to the terms and conditions set out in Part 7A (*Terms and Conditions of the WaterShare+ Scheme Offer*) and agreeing with the Nominee to the terms and conditions set out in Part 7B (*Terms and Conditions of the Nominee Service*).

7. Is Pennon issuing new shares as part of the WaterShare+ Scheme Offer?

No, Pennon is not issuing new Ordinary Shares in connection with the WaterShare+ Scheme Offer. The Ordinary Shares required for Participating Customers will be Existing Ordinary Shares purchased using the combined rebates due to the Participating Customers.

8. Is Pennon raising funds?

No, Pennon is not raising funds through the WaterShare+ Scheme Offer. The WaterShare+ Scheme is funded from the WaterShare+ Fund that has been built up through South West Water's outperformance in the delivery of its 2015-2020 business plan.

9. What is the Registration Period and when will it take place?

The Registration Period is the period during which Eligible Customers can select their rebate option under the WaterShare+ Scheme, with Qualifying Household Customers having the additional option of selecting the Pennon Shares rebate option.

The Registration Period will open on 9.00am on 21 September 2020 (the “**Registration Period Opening Date**”) and close on 11.59pm on 9 October 2020 (the “**Registration Period Closing Date**”).

10. How do I apply for the WaterShare+ Scheme Offer?

Application for the WaterShare+ Scheme Offer can only be made online via the Receiving Agent's Share Registration Portal, details of which can be found on the WaterShare+ Choice Letter Portal. Applications are not available by any other method.

11. Am I still eligible for a rebate under the WaterShare+ Scheme if I owe you money from unpaid bills?

Yes, the Company wants to share its success with its customers, so the rebate will be available to you under this circumstance. Assuming you meet the criteria to be a Qualifying Household Customer, you can use the money to reduce your bill, take the refund if you pay by direct debit, or choose to receive Existing Ordinary Shares by selecting the Pennon Shares rebate option.

12. Can I sell any WaterShare+ Shares I receive under the WaterShare+ Scheme Offer?

Yes, the WaterShare+ Shares acquired and held for you from the WaterShare+ Scheme Offer can be sold without charge, provided that (i) the only Existing Ordinary Shares held in the Nominee Share Account are those received pursuant to the WaterShare+ Scheme Offer; and (ii) these Existing Ordinary Shares are sold in the Nominee's Dealing Service (which has Tuesday and Thursday dealing days). There will be a two day cut-off initially to allow for dealing instructions to be collated in advance of each dealing day (Friday 5pm for Tuesday dealing days or Tuesday 5pm for Thursday dealing days). The Dealing Service, including the cut-off periods for dealing days may be updated by the Nominee and Participating Customers will be advised accordingly. You can also sell your WaterShare+ Shares (and any other Existing Ordinary Shares you may add and hold in the Nominee Share Account) during market opening hours by telephone. There is a charge for this service at 0.75% of the transaction value, minimum £15. See paragraph 3.10 of the terms and conditions set out in Part 7B (*Terms and Conditions of the Nominee Service*). Full details will be available to Participating Customers on or shortly after their opening Nominee Share Account Statement is made available online.

However, please be aware that holding Existing Ordinary Shares carries risk. In particular, see Part 2: Risk Factors: Risks relating to the Existing Ordinary Shares.

13. Can I elect to buy more Existing Ordinary Shares than those to which I am entitled as a rebate under the WaterShare+ Scheme Offer through the Application process?

No, the Application for the WaterShare+ Scheme is solely for receiving the amount of Existing Ordinary Shares to which you are entitled under the WaterShare+ Scheme Offer. Participating

Customers will have no opportunity to add funds to purchase additional Existing Ordinary Shares or to acquire more Existing Ordinary Shares during the Registration Period.

14. Can I buy more Existing Ordinary Shares after the Registration Period Closing Date?

Yes, additional Existing Ordinary Shares can be purchased through LMSTL and held in your Nominee Share Account. Please note that you will need to provide sufficient funds to purchase any additional Existing Ordinary Shares and that transaction charges will apply. See paragraph 3.5 of the terms and conditions set out in Part 7B (*Terms and Conditions of the Nominee Service*).

15. Can I sell the additional Existing Ordinary Shares that I purchase via the Nominee after the Registration Period Closing Date?

Yes, additional Existing Ordinary Shares that you purchase via LMSTL after the Registration Period can be sold at any time through the Nominee. However, if you have purchased additional Existing Ordinary Shares through your Nominee Share Account, please note that the Dealing Service will not be available for your WaterShare+ Shares or the additional Existing Ordinary Shares and additional charges will apply. See paragraph 3 of the terms and conditions set out in Part 7B (*Terms and Conditions of the Nominee Service*).

16. What happens if I move house or stop being an account holder after the WaterShare+ Scheme has started?

If you move to a new home after 8 September 2020, you are still entitled to the rebate on your account. You will still also be eligible for the Pennon Shares rebate option, provided your new home is in the United Kingdom and you continue to meet the other criteria to be a Qualifying Household Customer.

If you chose to receive the Existing Ordinary Shares under the WaterShare+ Scheme Offer, these Ordinary Shares will be yours until you decide to sell them even if you no longer live in the South West region. However, please see Part 11 (*Overseas Customers*) for additional information if you move outside the United Kingdom.

17. Will I be taxed if I elect to take up Existing Ordinary Shares under the WaterShare+ Scheme?

Any stamp duty or stamp duty reserve tax payable on the allocation of the Existing Ordinary Shares from the WaterShare+ Scheme will be paid by the Company.

However, a disposal or deemed disposal of Existing Ordinary Shares by an individual Qualifying Household Customer who is resident in the UK for tax purposes may, depending on the Qualifying Household Customer's circumstances and subject to any available exemptions and reliefs, give rise to a capital gain or loss for the purposes of UK taxation of capital gains. Depending on Qualifying Household Customers' circumstances, there could be other tax consequences, for example in connection with any dividends declared on the Existing Ordinary Shares.

18. What should I do if I live outside the United Kingdom?

Only customers who are resident in the United Kingdom (excluding the Channel Islands and Isle of Man) are entitled to participate in the WaterShare+ Scheme Offer. If you are not resident in the United Kingdom or moved from the United Kingdom after the receipt of the Choice Letter, you are no longer entitled to participate in the WaterShare+ Scheme Offer.

See Part 11 (*Overseas Customers*) for additional information.

19. What should I do if I need further assistance?

All enquiries in relation to the Application process not covered by the FAQ section of the Receiving Agent's Share Registration Portal should be addressed to the WaterShare+ Scheme Offer helpline on 0371 277 1021. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 9.00 am – 5.30 pm, Monday to Friday excluding public holidays in England and Wales. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the WaterShare+ Scheme Offer nor give any financial, legal or tax advice.

The contents of this document or any subsequent communication from Pennon or Link Group or any of their respective affiliates, officers, directors, employees or agents are not to be construed as legal, financial or tax advice. Each prospective investor should consult his, her or its own solicitor, independent financial adviser or tax adviser for legal, financial or tax advice.

PART 6

Details of the WaterShare+ Scheme Offer

1. Background to and Reasons for the WaterShare+ Scheme Offer

This section should be read in conjunction with Part 5 (*Overview of the WaterShare+ Scheme and some Questions and Answers about the WaterShare+ Scheme Offer*).

Since 2015, South West Water's voluntary outperformance sharing and reporting mechanism (**WaterShare**) has been central to its engagement with its customers and has been the framework against which South West Water has previously shared financial benefits arising from its regulatory outperformance with its customers, including by way of investment in improving services and bill reductions.

The idea of the WaterShare+ Scheme Offer as an alternative means of sharing profits with customers first arose in February 2018 during a South West Water focus group discussion in which the participating customers agreed that share offerings would be an effective way of sharing profits with them. This view was reiterated by subsequent customer research undertaken by South West Water which indicated that, although 77 per cent. of customers neither owned shares nor had a financial stake in any company, 79 per cent. of them believed shared ownership would be a positive addition to the existing methods of profit sharing as long they were able to choose whether or not they wished to participate.

South West Water has performed well over the period of 2015-2020, delivering its business plan targets, which were agreed in advance with Ofwat in its K6, for less cost than predicted and, as a result, is in a position to action the feedback garnered from its customer engagement and offer Qualifying Household Customers the opportunity to participate in the WaterShare+ Scheme Offer.

2. Overview and structure of the WaterShare+ Scheme Offer

This section should be read in conjunction with Part 3 (*Expected Timetable of Principal Events and WaterShare+ Scheme Offer Statistics*).

The Company is offering Qualifying Household Customers the opportunity to receive, pursuant to the WaterShare+ Scheme Offer, such number of Existing Ordinary Shares as are equal to a minimum of £20. No fractional entitlements to Existing Ordinary Shares will be received by Participating Customers and therefore each Participating Customer's WaterShare+ Scheme Entitlement will be satisfied by rounding up to the nearest whole number of Existing Ordinary Shares. Following the Registration Period Closing Date, the Company will know the number of Participating Customers who wish to receive their rebate through the WaterShare+ Scheme Offer. The Company will declare the WaterShare+ dividend on the Special Share and will instruct LMSTL, who in turn will instruct a broker (or brokers) to acquire the number of Existing Ordinary Shares in the open market, rounded up to the next whole share for each Participating Customer, required for the WaterShare+ Scheme Offer based on the number of Participating Customers and the share price.

As indicated above, the WaterShare+ Shares acquired for Participating Customers will be Existing Ordinary Shares purchased in the open market, avoiding the dilution of existing Shareholders' holdings in the Company, and their acquisition will be funded by the WaterShare+ Fund.

In order to facilitate the WaterShare+ Scheme, the Company has entered into certain agreements with Link Group. These include a WaterShare+ agreement which governs the terms on which Link Group has agreed to subscribe for the Special Share and use dividend funds it receives to arrange for the purchase of Existing Ordinary Shares for Participating Customers as part of the WaterShare+ Scheme

Offer. Second, a corporate actions services agreement under which Link Group has agreed to provide certain receiving agency services relating to the Pennon Shares rebate option under the WaterShare+ Scheme. Third, a nominee services agreement under which Link Group has agreed to provide ongoing nominee services in respect of the Existing Ordinary Shares acquired for Participating Customers.

The rights attaching to Existing Ordinary Shares are described in section 4 of Part 13 (*Additional Information*). Existing Ordinary Shares received by Participating Customers pursuant to the WaterShare+ Scheme Offer will rank *pari passu* in all respects with all other Ordinary Shares in issue and will rank in full for all dividends and other distributions that are declared, made or paid on the ordinary share capital of the Company after allocation of Existing Ordinary Shares to Participating Customers. However, Participating Customers will not be eligible to participate in the Company's DRIP Scheme at this time in accordance with the terms and conditions of the Nominee Service set out in Part 7B (*Terms and Conditions of the Nominee Service*).

Existing Ordinary Shares received by Participating Customers pursuant to the WaterShare+ Scheme Offer will be freely transferable in the UK.

3. Qualifying Household Customers

Only "Qualifying Household Customers", which is defined in section 5 of Part 5 (*Overview of the WaterShare+ Scheme and some Questions and Answers about the WaterShare+ Scheme Offer*), are eligible to participate in the WaterShare+ Scheme Offer.

4. Application procedure for Qualifying Household Customers

This section should be read in conjunction with the terms and conditions set out in Part 7A (*Terms and Conditions of the WaterShare+ Scheme Offer*).

The WaterShare+ Scheme Offer is being made to Qualifying Household Customers only. The WaterShare+ Scheme Offer is personal to each Qualifying Household Customer and Qualifying Household Customers should not transfer, sell or assign the benefit of the WaterShare+ Scheme Offer to any other person or designate any other person as an alternative participant under the WaterShare+ Scheme Offer.

From the Registration Period Opening Date, each Qualifying Household Customer will receive a Choice Letter notifying them that the WaterShare+ Scheme Offer, in which they are eligible to participate, is open for registration. The Choice Letter sent to Qualifying Household Customers will contain: (i) a unique five-digit code which is personal to each Qualifying Household Customer and should not be transferred, sold or assigned to any other person; (ii) the Qualifying Household Customer's ten-digit customer number; and (iii) a link to the WaterShare+ Choice Letter Portal.

On accessing the WaterShare+ Choice Letter Portal, Qualifying Household Customers will: (i) be asked to enter their ten-digit customer number and their unique five-digit access code; (ii) be able to read documentation relevant to the WaterShare+ Scheme Offer (including, without limitation, the Prospectus and any supplementary prospectus); (iii) be able to select one of three rebate options, including the Pennon Shares rebate option and, if they select the Pennon Shares rebate option, (iv) be directed to the Receiving Agent's Share Registration Portal where they can complete and submit their Application online. Applications may not be made by post.

The latest time for receipt of Applications is the Registration Period Closing Date. All Qualifying Household Customers who elect to participate in the WaterShare+ Scheme Offer must complete and submit their Application online by this time.

Applications will either be accepted or rejected – no Application will be accepted in part. If an Application is rejected, the Qualifying Household Customer will be notified by email to the email address provided in the Qualifying Household Customer's Application.

Joint Applications from more than one Qualifying Household Customer are not permitted in the WaterShare+ Scheme Offer and only one Application may be submitted per qualifying household. Therefore, if a single household contains two individuals who would otherwise meet the criteria of a "Qualifying Household Customer" (e.g. a married couple whose account with South West Water is registered jointly - in both their names) only one of the two will be entitled to submit an Application and that Application must be made in the name of the applicant only. If that Application is successful, Existing Ordinary Shares will be received by the applicant only.

All enquiries in relation to the Application process not covered by the FAQ section of the Receiving Agent's Share Registration Portal should be addressed to the WaterShare+ Scheme Offer helpline on 0371 277 1021. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 9.00 am – 5.30 pm, Monday to Friday excluding public holidays in England and Wales. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the WaterShare+ Scheme Offer nor give any financial, legal or tax advice.

5. Withdrawal rights

If the Company is required to publish a supplementary prospectus, Qualifying Household Customers who have submitted an Application shall have at least two clear Business Days following the publication of the supplementary prospectus within which to withdraw their Application in its entirety. If an Application is not withdrawn within the stipulated period, the Application will remain valid and binding. If a supplementary prospectus is published, Qualifying Household Customers will be sent an email notifying them and explaining to them how they may withdraw their Applications. Notice of withdrawal given by any means other than as specified in the aforesaid email or which is submitted after expiry of the withdrawal period will not constitute a valid withdrawal. If a supplementary prospectus is published, details of how to withdraw an Application will also be available on the Receiving Agent's Share Registration Portal or at the offices of the Receiving Agent (Link Group, The Registry, 34 Beckenham Road, Beckenham, Kent, United Kingdom BR3 4TU) and at the registered office of the Company (Peninsula House, Rydon Lane, Exeter, United Kingdom EX2 7HR).

Any supplementary prospectus will not be automatically distributed to Qualifying Household Customers but will be published on the WaterShare+ Choice Letter Portal and will be available in printed form free of charge at the registered office of the Company.

6. Holding and dealing in Existing Ordinary Shares

It is a condition of participating in the WaterShare+ Scheme Offer that all Participating Customers agree to hold their Existing Ordinary Shares in the Nominee Share Account on the terms and conditions set out in Part 7B (*Terms and Conditions of the Nominee Service*). No physical certificates for Existing Ordinary Shares received by Participating Customers through the WaterShare+ Scheme Offer will be issued.

A Company-sponsored nominee arrangement provides a way of holding Existing Ordinary Shares received pursuant to the WaterShare+ Scheme Offer and removes the need to have a share certificate which has to be kept safe and secure. In addition, individuals' names will not appear on the Company's register of members, which is a public register, so their details remain confidential. Instead, the Existing Ordinary Shares will be held on behalf of those individuals in the name of the Nominee in its capacity as the nominee of the Participating Customers – the beneficial interest in the Existing Ordinary Shares will be held by the Participating Customer by whom they are received.

Participating Customers holding Existing Ordinary Shares in the Nominee Share Account:

- have the right to receive the annual and other financial information that is sent to the shareholders of any company should they wish to and are entitled to, in accordance with the terms and conditions set out in Part 7B (*Terms and Conditions of the Nominee Service*) and the Pennon Articles, attend the annual general meeting of the Company and vote, on resolutions proposed by the Company on the basis of one vote per Existing Ordinary Share held provided that they are appointed as a proxy by the Nominee in respect of the Shares held in the Nominee Share Account on their behalf;
- will, within 10 days of allocation of the Existing Ordinary Shares, be able to access online their opening Nominee Share Account Statement showing the number of Existing Ordinary Shares held for them and will continue to receive Nominee Share Account Statements quarterly thereafter; and
- are entitled to leave the Nominee Share Account at any time and obtain a share certificate instead or have their Existing Ordinary Shares transferred into another nominee arrangement or deposit account (subject to payment of any applicable charges). Nominee Share Account Statements are valuable documents and should be looked after carefully. If a Nominee Share Account Statement is lost, damaged or defaced, a charge may be levied for its replacement.

7. Costs and expenses

A Qualifying Household Customer will be able to redeem their WaterShare+ Scheme Entitlement and become a Participating Customer at no cost to themselves. The costs associated with: (i) the initial allocation of WaterShare+ Shares to a Participating Customer; (ii) maintaining a Participating Customer's Nominee Share Account for the duration of the WaterShare+ Scheme (expected to last until on or around the fifth anniversary of the date on which the WaterShare+ Shares are purchased in accordance with the terms and conditions set out in Part 7A (*Terms and Conditions of the WaterShare+ Scheme Offer*); and (iii) the sale by a Participating Customer of WaterShare+ Shares by means of the Nominee's Dealing Service (which has Tuesday and Thursday dealing days) will be borne by the Company. Further details on the Dealing Service will be made available to Participating Customers on or shortly after they are able to access online their opening Nominee Share Account Statement.

Participating Customers will, however, bear certain costs of any other transactions made in a Participating Customer's Nominee Share Account, including the sale by a Participating Customer of Existing Ordinary Shares by any means other than through the Nominee's Dealing Service. For example, if a Participating Customer chooses to sell their WaterShare+ Shares during market opening hours by telephone, LMSTL will levy a charge for this service at 0.75% of the transaction value, minimum £15.

Please also note that where a Participating Customer adds further Existing Ordinary Shares to their Nominee Share Account, by buying additional Existing Ordinary Shares, the WaterShare+ Shares will be amalgamated with the non-WaterShare+ Shares and Participating Customers will not be able to use the Dealing Service. Any sale of the amalgamated WaterShare+ Shares and additional Existing Ordinary Shares must be made by telephone and LMSTL will levy a charge for this service at 0.75% of the transaction value, minimum £15. Further details on the Dealing Service will be made available to Participating Customers on or shortly after receipt of their opening Nominee Share Account Statement. See paragraph 3.10 of the terms and conditions set out in Part 7B (*Terms and Conditions of the Nominee Service*).

8. Taxation

Information on taxation with regard to the WaterShare+ Scheme Offer for Qualifying Household Customers who are resident and domiciled in the UK for UK tax purposes is set out in Part 12 (*United Kingdom Taxation Considerations*). The information contained in Part 12 (*United Kingdom Taxation Considerations*) is intended only as a general guide to the current tax position in the United Kingdom

and Qualifying Household Customers resident in the UK for UK tax purposes should consult their own tax advisers regarding the tax treatment of the WaterShare+ Scheme Offer in light of their own circumstances. Customers who are in any doubt as to their tax position or who are subject to tax in any other jurisdiction should consult an independent financial adviser authorised under the Financial Services and Markets Act 2000 (as amended) (“**FSMA**”), immediately.

9. Director and senior management participation

The following Directors and senior managers of the Company who are Qualifying Household Customers intend to participate in the WaterShare+ Scheme Offer:

- Susan Davy;
- Paul Boote; and
- Simon Pugsley.

PART 7A

Terms and Conditions of the WaterShare+ Scheme Offer

This Part 7A contains the terms and conditions of the WaterShare+ Scheme Offer pursuant to which Qualifying Household Customers may apply to receive Existing Ordinary Shares in the Company.

1. Introduction

For the purposes of these terms and conditions only, references to “**you**” are to the Qualifying Household Customer submitting an Application online to receive Existing Ordinary Shares pursuant to the WaterShare+ Scheme Offer.

If you elect to receive Existing Ordinary Shares pursuant to the WaterShare+ Scheme, you will be accepting the WaterShare+ Scheme Offer and agreeing with the Company and the Receiving Agent to the terms and conditions set out below.

2. Offer to receive Existing Ordinary Shares pursuant to the WaterShare+ Scheme Offer

Applications must be made online. By completing and submitting an online Application, you, as the applicant shall:

- a. offer to receive, pursuant to the WaterShare+ Scheme Offer and subject to these terms and conditions, the terms of the Application, the provisions of the Prospectus and any supplementary prospectus, such number of Existing Ordinary Shares as are equal to a minimum of £20. No fractional entitlements to Existing Ordinary Shares will be received by Participating Customers and therefore each Participating Customer's WaterShare+ Scheme Entitlement will be satisfied by rounding up to the nearest whole number of Existing Ordinary Shares. Following the Registration Period Closing Date, the Company will know the number of Participating Customers who wish to receive their rebate through the WaterShare+ Scheme Offer. The Company will declare the WaterShare+ dividend on the Special Share and will instruct LMSTL, who in turn will instruct a broker (or brokers) to acquire the number of Existing Ordinary Shares in the open market, rounded up to the next whole share for each Participating Customer, required for the WaterShare+ Scheme Offer based on the number of Participating Customers and the share price;
- b. acknowledge and agree that the Company has absolute discretion in determining whether or not you meet the criteria of a Qualifying Household Customer and that the Company's determination in this regard shall be final and conclusive in all respects;
- c. agree that the Existing Ordinary Shares received by you pursuant to the WaterShare+ Scheme Offer will be held in the Nominee Share Account in accordance with the terms and conditions set out in Part 7B (*Terms and Conditions of the Nominee Service*) and you authorise the Nominee to send you, on behalf of the Company, a Nominee Share Account Statement, at your risk, to your email address as set out in the Application submitted by you online;
- d. in consideration of the Company making the WaterShare+ Scheme Offer, and as a collateral contract between you, the Company and the Receiving Agent, which will become binding on you on the online submission by you of your Application, you:
 - i. agree that, subject to your statutory rights of withdrawal, your Application, once received by the Receiving Agent on behalf of the Company, may not be revoked or withdrawn by you;
 - ii. agree, on request by the Receiving Agent, to disclose promptly in writing such information as the Receiving Agent may request in connection with your Application and authorise the Receiving Agent to disclose any information relating to your Application it considers necessary or appropriate;
 - iii. agree that any Nominee Share Account Statement in respect of any Existing Ordinary Shares to which you may become entitled may not be made available to you pending investigation of any suspected breach of these terms and conditions;

- iv. agree that, if evidence of identity satisfactory to the Receiving Agent is not provided to the Receiving Agent or the Nominee on or before the Registration Period Closing Date (or such later date as the Company may in its absolute discretion determine), your Application may be rejected by the Receiving Agent on behalf of the Company;
- v. agree that any communication and/or documents sent to you in respect of the WaterShare+ Scheme Offer by the Company, South West Water or the Receiving Agent will be: (i) in the English language; (ii) in electronic form to the email address supplied in your Application; and (iii) sent at your own risk, and you agree that it is your responsibility to check your email regularly. Any failure by you to respond promptly to any email sent to you which results in your Application being deemed to have been withdrawn, or which otherwise affects your Application, will be your responsibility and none of the Company, South West Water nor the Receiving Agent shall have any liability to you in this respect. Your consent to receiving all communications in electronic form will not affect your right to receive a document or information in hard copy in accordance with section 1145 of the Companies Act;
- vi. agree that the Company reserves the right to alter any arrangements in connection with the WaterShare+ Scheme Offer (including the timetable and these terms and conditions); and
- vii. agree that the contract arising from acceptance of your Application under the WaterShare+ Scheme Offer will be, or will be deemed to be, entered into by you, the Company and the Receiving Agent on these terms and conditions (subject to paragraph 2.d.vi above) and that any changes, additions or alterations made by you to the online Application will have no effect.

If: (i) your Application is not completed correctly; (ii) your Application is completed with any information other than as specifically required on the Application; and/or (iii) your Application is submitted after the Registration Period Closing Date, your Application may be rejected by the Receiving Agent on behalf of the Company. In these circumstances, the Company's decision as to whether to reject or treat your Application as valid shall be final and binding on you. None of the Company, the Receiving Agent nor any of their respective officers, agents or employees will accept any liability for any such decision, and no claim will be made against any such persons in respect of your non-receipt or non-allocation of Existing Ordinary Shares, or for any loss resulting from such non-receipt or non-allocation.

Notwithstanding the above, any Application may be rejected by the Company in its absolute discretion.

The Company and those acting on its behalf (including the Receiving Agent) reserve the right to treat as valid any Application not complying fully with these terms and conditions, or not in all respects completed and submitted in accordance with the instructions on the WaterShare+ Choice Letter Portal and/or the Receiving Agent's Share Registration Portal. The Company and those acting on its behalf (including the Receiving Agent) reserve the right to waive (in whole or in part) any of the provisions of these terms and conditions, either generally or in respect of one or more Applications. In these circumstances, the decision of the Company as to whether to treat the Application as valid and how to construe, amend or complete it shall be final.

3. Acceptance of your offer to receive Existing Ordinary Shares pursuant to the WaterShare+ Scheme Offer

The Company may accept your Application if it is received, validated (or treated as valid), processed and not rejected by notifying acceptance to the Receiving Agent.

Subject to applicable law, you will not be entitled to exercise any remedy of rescission for innocent misrepresentation (including pre-contractual representations) at any time after acceptance of your Application. This does not affect any other rights you may have, including, for the avoidance of doubt, any statutory withdrawal rights.

4. Representations and warranties

By completing and submitting an Application, you:

- a. confirm that, in submitting an Application, you are not relying on any information or representation in relation to the Company, a member of the Group, or any one of them, other than as is contained in the Prospectus and in documents incorporated in the Prospectus by reference (or any supplementary prospectus) and agree that none of the Company, the Directors, the

Receiving Agent, or any person acting on behalf of them, or any person responsible solely or jointly for the Prospectus and/or in documents incorporated in the Prospectus by reference and/or any supplementary prospectus (or any part of any of them) shall have any liability for any such information or representation (excluding for fraudulent misrepresentation);

- b. agree that you have read and understood the Prospectus, the documents incorporated in the Prospectus by reference and any supplementary prospectus and you agree to be bound by these terms and conditions and the terms and conditions of your Application;
- c. acknowledge that any investment decision you take in relation to the Existing Ordinary Shares and/or participation in the WaterShare+ Scheme Offer should be based on consideration of the Prospectus, the documents incorporated in the Prospectus by reference and any supplementary prospectus;
- d. agree that, having had the opportunity to obtain and read the Prospectus, the documents incorporated in the Prospectus by reference and any supplementary prospectus, you shall be deemed to have noted all information and representations (including all matters identified in Part 2 (*Risk Factors*)) contained in the Prospectus or in documents incorporated in the Prospectus by reference or any supplementary prospectus;
- e. agree that you have read and understood the terms and conditions of the Nominee Service set out in Part 7B (*Terms and Conditions of the Nominee Service*);
- f. agree that no person is authorised in connection with the WaterShare+ Scheme Offer to give any information or make any representation other than as contained in the Prospectus, the documents incorporated in the Prospectus by reference and any supplementary prospectus and, if given or made, any information or representation must not be relied upon as having been authorised by the Company, the Directors, the Receiving Agent or any other person;
- g. agree to the fullest extent permitted by applicable law that you waive any right you may have under any law or regulation, other than English law or regulation, to bring an action or claim in any jurisdiction, other than in England, against any person in relation to any and all information, representations, statements or omissions contained in the Prospectus, the documents incorporated in the Prospectus by reference and/or any supplementary prospectus or in relation to your Application;
- h. confirm that you have reviewed the restrictions contained in Part 11 (*Overseas Customers*) and warrant, to the extent relevant, that you comply or have complied with the provisions of that Part 11 (*Overseas Customers*);
- i. represent and warrant that you are not applying as, or as nominee or agent for, a person who is or may be a person mentioned in any of sections 67, 70, 93 or 96 of the Finance Act 1986 (concerning depositary receipts and clearance services);
- j. represent and warrant that: (i) the offer of Existing Ordinary Shares pursuant to the WaterShare+ Scheme Offer was made to you in the UK; (ii) you are a person resident in the UK; and (iii) you are not applying for Existing Ordinary Shares with a view to the reoffer, resale or delivery of Existing Ordinary Shares, directly or indirectly in or into a Restricted Jurisdiction, or to a person located or resident in a Restricted Jurisdiction, or to any person who you believe is purchasing Existing Ordinary Shares for the purpose of such resale, reoffer or delivery;
- k. agree that any material downloaded from the WaterShare+ Choice Letter Portal and the Receiving Agent's Share Registration Portal: (i) is done at your own risk and that you will be solely responsible for any damage or loss of data that results from the download of any material; and (ii) will be used solely for personal use and will not be distributed in or into a Restricted Jurisdiction or to any other person wherever located or resident;
- l. represent, warrant and undertake that you are not engaged in money laundering;
- m. represent and warrant that you are (as at the date of your online submission of the Application) not under the age of 18 and are a Qualifying Household Customer;
- n. represent and warrant that only one Application per qualifying household is being made for your benefit in the WaterShare+ Scheme Offer;

- o. agree that neither the Company nor the Receiving Agent is liable for any loss of data in the course of receiving and/or processing your Application or responsible for the loss or accidental destruction of any Application or personal data relating to Qualifying Household Customers or any financial or other loss or damage which may result, directly or indirectly, therefrom, including any loss in relation to the non-receipt or non-delivery of any Existing Ordinary Shares as a result of such loss or destruction;
- p. acknowledge that, unless otherwise agreed between the Company and the Nominee, the WaterShare+ Scheme will terminate on or around the fifth anniversary of the date on which the WaterShare+ Shares are purchased, at which time: (i) the Nominee will arrange for your WaterShare+ Shares to be transferred into your name in the Company's register of Shareholders; and (ii) the Company will send you a share certificate in respect of your holding of WaterShare+ Shares or, if the Company does not issue share certificates, a share statement evidencing your holding of WaterShare+ Shares – both of which actions will be carried out at no cost to you;
- q. acknowledge that the WaterShare+ Scheme Offer is personal to each Qualifying Household Customer and that Qualifying Household Customers should not transfer, sell or assign the benefit of the WaterShare+ Scheme Offer to any other person or designate any other person as an alternative participant under the WaterShare+ Scheme Offer;
- r. represent and warrant that you are a Qualifying Household Customer who received the Choice Letter directly and not through any transfer, sale or assignment, except as separately agreed with the Company or the Receiving Agent.

5. Overseas customers

No person receiving a copy of the Prospectus and/or a Choice Letter, or accessing the WaterShare+ Choice Letter Portal or the Receiving Agent's Share Registration Portal in any territory outside the UK may treat the same as constituting an invitation or offer to that person in respect of the WaterShare+ Scheme Offer nor should that person in any event submit an Application online. None of the contents of the WaterShare+ Choice Letter Portal or the Receiving Agent's Share Registration Portal, nor any documents relating to the WaterShare+ Scheme Offer (including, without limitation, the Prospectus and the Choice Letter) have been submitted to the clearance procedures of any authorities other than the FCA, as the competent authority in the UK. Any Application made by a Qualifying Household Customer outside the UK will be rejected.

6. Data protection

The personal data relating to a Qualifying Household Customer provided in an Application (or subsequently by whatever means) will be held and processed by the Company, South West Water and/or the Receiving Agent (acting as data processor on behalf of the Company) in compliance with: (i) the Data Protection Legislation and the relevant UK legal and regulatory requirements; and (ii) the Company's privacy notice, a copy of which is available for review on the Company's website at <https://www.pennon-group.co.uk/privacy-policy>; and/or South West Water's privacy notice, a copy of which is available for review on South West Water's website at <https://www.southwestwater.co.uk/site-utilities/privacy-and-cookies/>; and/or the Receiving Agent's privacy notice, a copy of which is available for review at <https://www.linkassetserVICES.com/>.

Without limitation to the foregoing, each Qualifying Household Customer acknowledges that it has been informed that such information will be held and processed by the Company and/or the Receiving Agent in accordance with the applicable privacy notice, including for the following purposes:

- a. providing Qualifying Household Customers' details to third parties for the purpose of performing credit reference checks, money laundering checks and making tax returns (if applicable);

- b. keeping a record of applicants under the WaterShare+ Scheme for a reasonable period of time;
- c. carrying out the business of the Company and the administering of interests in the Company;
- d. meeting the legal, regulatory, reporting and/or financial obligations of the Company and/or the Receiving Agent and other relevant third parties to operate and/or administer the Company;
- e. disclosing personal data to agents of, functionaries of, or advisors to, the Company and/or the Receiving Agent and other relevant third parties to operate and/or administer the Company.

The aforementioned processing of personal data is necessary: (i) for the performance of the contract between the Company and/or the Receiving Agent and the Qualifying Household Customers; (ii) for compliance by the Company and/or the Receiving Agent with its legal and regulatory obligations; and/or (iii) for the purposes of the legitimate interests pursued by the Company and/or the Receiving Agent.

If the Company and/or Receiving Agent transfers personal data to an agent, functionary, advisor or other third party and/or transfers personal data outside of the UK to territories that do not offer the same level of protection for the rights and freedoms of Qualifying Household Customers' personal information as the UK, it will use reasonable endeavours to ensure that such transfer is subject to appropriate safeguards and otherwise in accordance with the Data Protection Legislation.

Qualifying Household Customers have certain rights in relation to their personal data; such rights and the manner in which those rights are capable of exercise are set out in the applicable privacy notices.

7. Miscellaneous

Persons who successfully apply to participate in the WaterShare+ Scheme Offer and who receive Existing Ordinary Shares may rely only on the information contained in the Prospectus, in documents incorporated in the Prospectus by reference and any supplementary prospectus and, to the fullest extent permitted by law, any liability for representations, warranties and conditions, express or implied and whether statutory or otherwise (including, without limitation, pre-contractual representations but excluding any fraudulent misrepresentations) are expressly excluded in relation to the Existing Ordinary Shares and the WaterShare+ Scheme Offer.

Save where otherwise stated or where the context otherwise requires, terms used in these terms and conditions are as defined in the Prospectus or in documents incorporated in the Prospectus by reference (as supplemented by any supplementary prospectus).

The rights and remedies of the Company and the Receiving Agent under these terms and conditions are in addition to any rights and remedies which would otherwise be available to any of them, and the exercise or partial exercise of any one will not prevent the exercise of others or full exercise.

You agree that all Applications, acceptances of Applications and contracts resulting from them under the WaterShare+ Scheme Offer shall be exclusively governed by, and construed in accordance with, English law and that you irrevocably submit to the exclusive jurisdiction of the English Courts and agree that nothing shall limit the right of the Company or the Receiving Agent to bring any action, suit or proceeding arising out of, or in connection with, any such Application, acceptances or contracts in any other manner permitted by law or in any court of competent jurisdiction.

You authorise the Company, the Receiving Agent, the Nominee and their respective agents to do all things necessary to effect registration in the name of the Nominee of any Existing Ordinary Shares received by you pursuant to the WaterShare+ Scheme Offer and authorise any representative of the Company, the Receiving Agent or the Nominee to execute and/or complete any document of title required therefor.

You acknowledge that any stamp duty or SDRT arising in the UK (currently at a rate of 0.5 per cent.) on any contract arising on acceptance of your Application, or any stamp duty or SDRT payable on any transfer of Existing Ordinary Shares to the Nominee on your behalf as a result of such contract (as applicable) shall be paid by the Company and you authorise the Company and its agents, on your behalf, to make any appropriate returns to HMRC.

The Company shall in its absolute discretion be entitled to amend the dates and times that Choice Letters are despatched or market purchases of Existing Ordinary Shares commence and amend or extend the Registration Period Closing Date and all related dates and times set out in these terms and conditions and this document and, in such circumstances, shall announce such amendments via a Regulatory Information Service and, if appropriate, notify Qualifying Household Customers.

The Company expressly reserves the right to determine, at any time prior to the time that LMSTL instructs a broker (or brokers) to acquire the number of Existing Ordinary Shares required for the WaterShare+ Scheme Offer based on the number of Participating Customers and the share price, not to proceed with the WaterShare+ Scheme Offer (or any part of it). If the WaterShare+ Scheme Offer (or any part of it) is terminated in accordance with this paragraph, Applications received up to and including the date of termination will automatically lapse and Applications received after that date will be of no effect.

PART 7B

Terms and Conditions of the Nominee Service

The Nominee Service is a convenient way to hold shares in a company without needing share certificates. Your shares are held by us on trust for you. You will remain the beneficial owner of your shares and will still be able to benefit from shareholder rights, as described in this document.

This Part 7B (*Terms and Conditions of the Nominee Service*) sets out all the terms and conditions (“Terms and Conditions”) of the Nominee Service provided by Link Market Services Trustees Limited (“LMSTL”). It replaces any previous terms and conditions which you may have received. These Terms and Conditions together with any Application or other form of acknowledgement constitute an agreement which is legally binding on LMSTL and you.

For your own benefit and protection you should read these Terms and Conditions carefully. If you do not understand any point please ask for further information.

Please note that you may remove all or part of your Shares from the Nominee Service at any time. The procedure to follow is set out in clause 19 below.

These Terms and Conditions will only take effect following the receipt by you of WaterShare+ Shares in the Company, when the WaterShare+ Shares are delivered to the Nominee.

The Nominee Service is administered by LMSTL, or any successor administrator that may be appointed. LMSTL is authorised and regulated by the Financial Conduct Authority (“FCA”) and is entered on the FCA register with registration number 184113. Further information may be obtained from the FCA’s register by visiting the FCA’s website <http://www.fca.org.uk/register/> or by contacting the FCA on 0800 111 6768. The FCA’s current address is 12 Endeavour Square, London, E20 1JN.

The main business of LMSTL is the provision of nominee, administration and trustee services. Enquiries about the Nominee Service, or these Terms and Conditions, should be addressed to LMSTL either by post to Link Group, Nominee Service, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU or by e-mail to: custodymgt@linkgroup.co.uk. You may also call us on (+44) (0) 371 664 9272.

TERMS AND CONDITIONS

1. DEFINITIONS AND INTERPRETATION

1.1 In these Terms and Conditions the following words and expressions have the meanings and interpretation set out below:

“Affiliated Company” means a company in the same group of companies as LMSTL;

“Agreement” means the legally binding agreement between us and you, incorporating these Terms and Conditions and any Application or other form of acknowledgement to these terms;

“Applicable Regulations” means all the statutory and other rules (including FCA Rules and FSMA), regulations and provisions in force from time to time,

	applicable to us or to the provision of the Nominee Service, including the rules, principles and codes of practice stipulated by any regulatory authority to which we are subject;
“Application”	means the online application to be completed by a person requesting to become a Member;
“Business Day”	means any day which is not a Saturday or Sunday and on which the banks are open for business in London and in any other city where the Shares are listed;
“Company”	means Pennon Group PLC, the corporate client of LMSTL at whose request the Nominee Service is provided to Members;
“CREST”	the computer based system operated by Euroclear UK & Ireland Limited (a subsidiary of Euroclear SA) for the transfer of uncertificated securities;
“CRS”	means the Common Reporting Standard;
“Dealing Service”	means the bulk share dealing service (which has Tuesday and Thursday dealing days) provided by LMSTL for the WaterShare+ Shares. There will be a two day cut-off initially to allow for dealing instructions to be collated in advance of each dealing day (Friday 5pm for Tuesday dealing days or Tuesday 5pm for Thursday dealing days). The Dealing Service, including the cut-off periods for dealing days may be updated by the Nominee and Members will be advised accordingly;
“FATCA”	means the Foreign Account Tax Compliance Act of 2010;
“FCA”	means the Financial Conduct Authority and any successor body;
“FCA Rules”	means principles, guidance and rules issued by the FCA from time to time;
“FSMA”	means the Financial Services and Markets Act 2000 (as amended from time to time);
“Investor Code”	means the unique reference number given to every Member;
“LMSTL”	Link Market Services Trustees Limited whose registered office address is at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. Registered in England, No. 2729260. Legal Entity Identifier (LEI) 213800LBUUOODDH3MG53;
“MiFID II”	means the Markets in Financial Instruments Directive (2014/65/EU) and all rules and regulations relating to it within the United Kingdom;
“NCI”	means the national client identifier as defined under MiFID II;
“Nominee”	means Link Market Services Trustees (Nominees) Limited (a wholly-owned subsidiary of LMSTL). Where Shares are not held by Link Market Services Trustees (Nominees) Limited, they will be held by

	LMSTL in a suitably designated account or by any other sub-custodian appointed from time to time by LMSTL;
“Nominee Account”	means the account which we open for each Member, in order for that Member to have access to the Nominee Service;
“Nominee Register”	the register of beneficial holders of Shares held through the Nominee Service maintained by LMSTL showing, inter alia, the name, address and number of Shares held on your behalf together with similar details in respect of every other Member;
“Nominee Service”	means the share custody service as described in these Terms and Conditions;
“Nominee Share Account Statement”	means the personal statement provided showing the composition of your Nominee Account;
“Prospectus”	means the prospectus published by the Company in respect of the WaterShare+ Scheme Offer;
“Representative”	means a person who is authorised to act on your behalf in relation to your Nominee Account and who has provided us with such proof of their authority to act, as we may reasonably require. Proof may include but shall not be limited to a duly executed Power of Attorney, Court of Protection Order and Grant of Representation;
“Shares”	means ordinary shares in the capital of the Company held or to be held on your behalf through the Nominee Service;
“Specified Event”	means any of the events listed in clause 22.1;
“WaterShare+ Shares”	means the Shares received by you pursuant to the WaterShare+ Scheme Offer;
“WaterShare+ Scheme Offer”	means the offer of WaterShare+ Shares to qualifying customers as described in the Prospectus;
“we” or “us”	means Link Market Services Trustees Limited and, where relevant, the Nominee, or any successor company appointed to replace us; and
“you” or “Member”	the person(s) on whose behalf we are holding the Shares or, if appropriate, the Representative(s) of such person(s) and “your” and “yourself” shall be construed accordingly.
1.2	The headings to the clauses are for convenience only and shall not affect the interpretation or construction of these Terms and Conditions. References to “clauses” are references to clauses of these Terms and Conditions.
1.3	Any reference to the Financial Conduct Authority or the FCA shall include any successor entity or entities to the Financial Conduct Authority from time to time.
1.4	Reference to any statute, statutory provision or the FCA Rules includes a reference to that statute, statutory provision or the FCA Rules as from time to time amended, extended or re-enacted.

1.5 Any phrase introduced by the terms **including, include, for example** or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms.

2. HOW TO JOIN THE NOMINEE SERVICE

2.1 Who is eligible to become a Member

The Nominee Service is only available to individuals (including Representatives) who participate in the WaterShare+ Scheme Offer, who are:

- (a) aged 18 years or over;
- (b) a tax resident in the United Kingdom (excluding the Channel Islands and Isle of Man) and not tax resident in any other jurisdiction;
- (c) not a citizen of the United States, and who are eligible to participate in the WaterShare+ Scheme Offer as a Qualifying Household Customer.

By submitting your Application to join the Nominee Service you represent and warrant that: (i) you are a United Kingdom tax resident; (ii) you are not a tax resident in any other jurisdiction; (iii) you are not a citizen of the United States; and (iv) all the information you have provided to us is complete and accurate.

You agree that you will notify us immediately if your circumstances change and you no longer satisfy the eligibility criteria in this clause 2.1.

You further acknowledge that we may share the information you provide to us with the appropriate local tax authority to meet our Foreign Account Tax Compliance Act ('**FATCA**') and Common Reporting Standard ('**CRS**') regulatory obligations.

2.2 How to become a Member

- (a) You will become a Member of the Nominee Service if your Application to participate in the WaterShare+ Scheme Offer is successful.
- (b) As a Member of the Nominee Service, you must provide your name, address, national insurance number, date of birth, nationality, email address, bank account information, and any other documents and information reasonably requested by us in order for your Shares to be held in the Nominee Service.
- (c) Failure to provide your information or keep your information up to date with us may affect your ability to be a Member. Failure to keep your email address and bank account information up to date with us may result in delays in communication and possibly delays in payments to you. More information about communications between us is set out in clauses 5, 9 below and 19.5 below.
- (d) By requesting us to hold your Shares for you under the Nominee Service, you agree to be bound by these Terms and Conditions.
- (e) If we agree to hold your Shares in the Nominee Service, we will open a Nominee Account in your name. When the Nominee Account is opened for you, you will be provided with an Investor Code. You are responsible for keeping your account details secure and you must not disclose details to any other person (who is not your Representative).
- (f) As the Nominee Service includes regulated activities, in accordance with the requirements of the FCA Rules, we are required first, to classify our customers and secondly, to notify our customers as to the client category in which we have classified them. For the purposes of the FCA Rules, we are classifying you as a 'Retail Client'. You may request to be treated as a different categorisation of client, meaning that you will receive less regulatory protection, however we have no obligation to accept such a request. These Terms and Conditions and any Application or other form of acknowledgement will, for the purposes of satisfying the FCA Rules, be regarded as the Client Agreement.

(g) The Nominee Services are provided by us to you and not the Company. We are not acting as agent for the Company in providing the Nominee Service although we have been requested to provide a nominee service to Members by the Company.

2.3 Verification of Identity and Account Opening

- (a) To comply with Applicable Regulations (including compliance with the UK Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017), we are required to verify the identity of our customers. You authorise us to make credit reference, identity (including searching the electoral roll), fraud and other such searches and enquiries that may be necessary for the purpose of opening the Nominee Account with us. The credit reference agency may check the details you supply against any particulars on any database (public or otherwise) to which they have access. They may also use your details in the future to assist other companies for verification purposes. You also authorise us to undertake further similar searches at regular intervals. A record of the search will be retained. You may also be required to provide additional information.
- (b) You may be required to provide additional information such as a recent (i.e. not older than three months) original council tax bill, utility bill or bank statement. In such instances, having made a record of this information, we will return such documents to you.
- (c) Account opening and registration is always at our discretion. We may therefore refuse to open the Nominee Account for you without informing you of our reasons for doing so and you agree that we will have no liability to you for any loss you may incur if we decide not to open a Nominee Account in your name.

3. HOW THE NOMINEE SERVICE WORKS

- 3.1 We will hold your Shares in the name of the Nominee in uncertificated form on your behalf as trustee subject to the provisions of the Company's Articles of Association and any other document governing the terms on which the Shares are issued or transferred. Although we will therefore be the legal owner of the Shares, you will remain the beneficial owner of the Shares which means that, subject to our legal obligations, we will treat the Shares as if they belonged to you.
- 3.2 The Shares will be registered in the name of the Nominee and we will hold the Shares as you direct. Neither LMSTL nor the Nominee will have or claim any interest in your Shares except under clauses 10.9, 18.5 and 22.2 of these Terms and Conditions or under any separate arrangement which you may have with LMSTL. LMSTL will be responsible to you for any acts or omissions of the Nominee in connection with your Shares.
- 3.3 We will maintain the Nominee Register. In connection with your holding of Shares, you agree to provide promptly any information which the Company is entitled to request from the Nominee in respect of those Shares registered in the Nominee's name (for example, this may include information required to satisfy nationality declaration requirements or the disclosure of information relating to beneficial ownership of the Company's share capital).
- 3.4 You can obtain the appropriate forms to transfer Shares or to provide us with instructions by writing to: Link Group, Nominee Service, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, or, by email to custodymgt@linkgroup.co.uk. You should state the name of the Company and quote your Investor Code. Except where otherwise stated in these Terms and Conditions, we will only act on written instructions which contain your Investor Code. Your Investor Code is shown on your Nominee Share Account Statement which will be sent to you by us in accordance with clause 9.
- 3.5 You can purchase additional Shares through LMSTL to be held on your behalf in the Nominee Account, but you will need to provide sufficient funds to purchase any additional Shares. We will not accept transfers of any other Shares into the Nominee Account. If you purchase additional Shares and hold these in your Nominee Account, such Shares will be combined with your WaterShare+ Shares. The Dealing Service will not be available and additional charges will apply to the sale of any combined Shares in your Nominee Account, including

your WaterShare+ Shares. More information about our dealing services and charges are available on our web portal.

3.6 If you wish to transfer your Shares you must first either:

- (a) ask for your Shares to be transferred into your own name in certificated form; or
- (b) instruct us to transfer your Shares to another custodian to hold your Shares on your behalf.

We will arrange for this on receipt of your written instruction to do so on the appropriate form and payment of any applicable charges (including stamp duty). If you ask for your Shares to be transferred into your name, they will be registered in your name on the main register of shareholders of the Company and a share certificate will be issued to you in accordance with the relevant provisions of its Articles of Association. If all your Shares are transferred into your name or to a third party in CREST, this means that you will leave the Nominee Service.

3.7 All movements of Shares which may include sales, purchases and transfers to and from the Nominee Account are subject to any applicable rules of the London Stock Exchange plc or other market on which the transaction is effected.

3.8 You may not cancel or change any instructions in relation to a transfer of Shares once they have been sent to us. We may refuse to act on instructions from you:

- (a) which are not given on the correct form or given on a form that has been incorrectly completed;
- (b) which are not given in writing (either by post or by email) or are incomplete; or
- (c) if we believe that complying with such instructions would breach the FSMA, the FCA Rules or any other applicable legal requirement.

We may also delay acting on your instructions if we reasonably feel that it is necessary (i) to obtain additional information from you to comply with any legal or regulatory requirement (including, for example, compliance with the UK Money Laundering Regulations and non-facilitation of tax evasion legislation) or (ii) to investigate any concerns we may have as to the validity of your instructions. Where further enquiries are required, you authorise us to make credit reference, identity (including searching the electoral roll), fraud and other enquiries that we reasonably deem necessary for these purposes. We accept no liability for any financial loss arising from such a delay. Instructions that are not accepted will be returned to you, where appropriate.

3.9 Instructions to transfer are acknowledged by the issue of a statement. Any other instructions will only be acknowledged by us acting on them and are not otherwise acknowledged.

3.10 If you wish to sell your Shares, separate charges will apply depending on the Shares held in your Nominee Account and whether the Dealing Service or the telephone dealing service is used to sell them. If you only hold WaterShare+ Shares in your Nominee Account, the sale of the WaterShare+ Shares via the Dealing Service is free of charge, but separate charges will apply if you sell via the telephone dealing service. If you purchase additional Shares to add to your Nominee Account, the additional Shares and the WaterShare+ Shares in your Nominee Account can only be sold via the telephone dealing service, which is subject to separate charges. The terms of the Dealing Service may change from time to time. Full details and terms of the Dealing Service are available upon request. If you want to use another dealing service you will need to transfer the Shares out of your account and into a third party in CREST (for example a broker through which you wish to sell), to another custodian, or into your own name in certificated form (so that you or the custodian can arrange for the sale of your shares through a broker of your choice). We will arrange for this on receipt of your written instruction to do so (such instruction to be provided in accordance with these Terms and Conditions) and payment of any applicable charge.

4. OUR SERVICE

4.1

We will not conduct investment business with you on our premises or in person. We offer the Nominee Service, only in relation to the Shares in the Company on these terms. Unless otherwise agreed in writing, there are no restrictions on the markets or types of investment in which we may carry on business on your behalf.

4.2

We will deal with you on an execution-only basis at all times. This means that our services are limited to the execution of your instructions. We shall not provide you with any advice on the merits or suitability of you holding your Shares or deciding to have your Shares held through the Nominee Service, or any transaction contemplated by these Terms and Conditions.

4.3

We will never provide you with any investment, trading, tax or financial advice or any investment management services. Nothing in these Terms and Conditions should be taken as a recommendation to buy, sell or hold shares in any company. **You should rely on your own judgment when deciding whether or not to enter into any transaction contemplated by these Terms and Conditions or seek any advice or assistance you may need from an appropriate independent professional adviser.**

4.4

LMSTL provides a Nominee Service to you only in relation to the Shares, which are traded on a regulated market. LMSTL will not assess the suitability of the instrument or the service provided or offered to you. As a result, the FCA rules on assessing suitability do not apply. Therefore, we will not assess whether:

- (a) the relevant product or service meets your investment objectives;
- (b) you would be able financially to bear the risk of any loss that the product or service may cause; or
- (c) you have the necessary knowledge and experience to understand the risks involved.

LMSTL is also not required to assess the appropriateness for you of the Nominee Service or any transaction connected to the Nominee Service.

5. COMMUNICATIONS

5.1

Communications from Us to You

(a)

All communications sent by us to you will be sent by email (unless we are required to send documentation and/or information, such as original share certificates, by post). Your Nominee Share Account Statements, which will be made available to you quarterly during each calendar year, will be made available online via a secure designated web portal, which can be accessed from www.signalshares.com. Further details around your Nominee Share Account Statements are set out in clause 9.

(b)

All communications will be sent by us to your last email address that you have notified to us. Communications sent to you by email will be treated as received by you at the time the email is evidenced as sent by us on a Business Day. All communications sent to you by post will be treated as received by you on the second Business Day following the day they were sent in the case of an address in the United Kingdom, or on the fifth Business Day following the day they were sent in the case of an address outside of the United Kingdom.

(c)

You are responsible for keeping your details on the Nominee Register up-to-date, by notifying us in writing of any change of name, your email address, your physical address, and your bank account details. You must also provide us with the supporting documentation where required (e.g. NCI where required, or in the case of a change of name, the deed poll or marriage certificate).

(d)

By sending to your email address a link to our website, we will have discretion to use that website to inform you of matters concerning the provision of the Nominee Service, including any amendments to these Terms and Conditions. This may include any changes to our fees and charges, and you will be deemed notified of such changes upon being emailed the link to our website.

(e) Where we feel that it is appropriate, we would like to write to you (or email you) with marketing information. Please note this would be different to sending you communications relating to the Nominee Service. This marketing information will cover:

- LMSTL products and services we believe may be of interest to you such as our share dealing services, dividend reinvestment programme services (if applicable), international payment services, services in relation to corporate actions such as initial public offerings and services which complement or are similar to this Nominee Service; and/or
- selected products and services from third party businesses we know and trust. This means services from other companies in our group as well as other companies outside our group in relation to financial education, corporate actions such as initial public offerings, investment and saving products (eg. ISAs, SIPPS and other financial products), international payment services and services which complement or are similar to this Nominee Service.

We may also contact you to obtain your feedback on our products and services, for example, through surveys.

If you wish to give consent to receive, from us, by **POST OR EMAIL**, the marketing communications described in this clause 5.1(e) (i.e. about our own products/services and about the products/services of the other people we have described to you) please "tick" the appropriate box on your online Application.

You can withdraw your consent at any time by contacting us using any of the methods set out below or by contacting us at custodymgt@linkgroup.co.uk or at Link Group, Nominee Service, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU. As soon as possible after receiving your withdrawal we will remove you from our marketing databases. You would need to write separately to the third parties using the unsubscribe link in their emails if you want to stop their own marketing to you.

(f) If we have sent documents to your physical address on two separate occasions and they have been returned and, after making all reasonable enquiries, we cannot find your current address, we will not send any more documentation to you until you provide us with your correct address.

5.2 Communications from You to Us

(a) You may communicate with us by email custodymgt@linkgroup.co.uk or via a designated web portal as notified by us from time to time. All communications between you and us, pursuant to these Terms and Conditions, must be in English. You can also call us on (+44) (0) 371 664 9272.

(b) If you wish to write to us by post, you may do so at the following address:

**Link Group
Nominee Service
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU**

(c) In all communications with us, you should quote:

- the name of the Company whose Shares you hold through the Nominee Service;
- your full name; and
- your Investor Code (which can be found on your Nominee Share Account Statement).

- (d) We shall be entitled to act upon any instructions or orders transmitted using your Investor Code or which we reasonably consider to be genuine. We do not have to establish the authority of anyone quoting or using your Investor Code in any communications provided that we have acted with all due care in accepting such communications. We may (in our sole discretion) accept communications which do not quote or use an Investor Code if we reasonably consider such communication to be genuine. We shall not be liable for forged or fraudulent instructions. If you are aware or suspect that your Investor Code is no longer confidential or any of your other details have been used by another person in communications regarding your Nominee Account then you should contact us as soon as possible.
- (e) You will be responsible for all instructions in respect of transactions contemplated by these Terms and Conditions and for the accuracy of all information given to us.

5.3 **Representatives**

- (a) You may also appoint a Representative in writing to give us instructions on your behalf. You may change your Representative or cancel the appointment of your Representative by written notice to us, but we shall not be bound by any such variation until we have actually received your written notice and obtained such proof of their authority to act as we may reasonably require. Proof may include but shall not be limited to a duly executed Power of Attorney, Court of Protection Order and Grant of Representation.
- (b) We shall be entitled to act upon the instructions of your Representative unless and until we have been sent written notice by you that their authority has been revoked. You agree that all instructions received from your Representative shall be treated as your instructions and you accept full responsibility in respect of any instruction or any error in any instruction given by you or a Representative. We may require NCI information for all parties involved in the transaction before we can follow such instructions.

5.4 **Postage Risks**

Where communications, documents or cheques are sent to you by us by post (or by you to us), such communications, documents or cheques will be sent at your own risk. We accept no liability prior to receipt by us of any communication, document or cheque or, where relevant, after despatch of any communication, document or cheque to you. Loss of communications, documents or cheques may mean additional costs are incurred by you in obtaining replacements. In the case of lost share certificates (where relevant), this will include you being liable for lost share certificate indemnity insurance which can be a significant cost where the value of the shareholding is high. If you would like for your communication, documentation or cheque to be delivered to you by courier, or tracked delivery, please contact us and this can be arranged for an additional fee.

6. COMPANY MEETINGS

- 6.1 We will send you information about shareholder meetings of the Company every time we receive notice that a shareholder meeting is being convened. We will also provide an instruction form and you will be able to use this to instruct the Nominee how to cast votes in respect of the Shares held in your Nominee Account on any poll called at the meeting. In such case, we must have received the relevant instructions from you on a correctly completed form before the deadline notified to you on the relevant form. In the absence of your instructions, no votes will be exercised in respect of your Shares.
- 6.2 Subject to the Articles of Association of the Company, you may instruct the Nominee to appoint yourself or another person of your choice, including the chairman of the meeting, as your proxy in respect of the Shares held in the Nominee Account on your behalf. This will enable you or the proxy to attend and vote on a poll and, provided this is continues to be permitted by the Articles of Association of the Company, on a show of hands.
- 6.3 Please note that the procedures described in this clause 6 will be subject to any matters regarding voting, attendance at meetings etc provided for in the Company's Articles of

Association and any policy decisions implemented by the Company in respect of the conduct of general meetings.

6.4 Except as provided for in this clause 6 and when you provide instructions to us, we shall have no duty or responsibility to attend shareholders' meetings on your behalf or to vote in respect of your Shares.

7. INFORMATION FROM THE COMPANY

7.1 We will ensure that any copies of summary financial statements and interim accounts sent by the Company to its registered shareholders and received by LMSTL are also sent to you (or made available to you in electronic form where you have requested electronic form and this service is available).

7.2 All other documents issued by the Company to registered holders generally will be forwarded by us to Members, at or around the same time as registered holders (subject to us receiving sufficient copies from the Company for Members).

8. DIVIDENDS, PAYMENTS AND CORPORATE ACTIONS

8.1 Subject to clause 8.3 we will on your behalf claim and receive cash dividends and other entitlements accruing on your Shares. Cash dividends and other entitlements will be distributed to Members as soon as reasonably practicable after receipt by us from the Company, by means of electronic payment or, at our discretion, cheque. Bank fees (if any) in respect of electronic payment or telegraphic transfer shall be charged to the Member's account. Payments will be made in pounds sterling.

8.2 If required to do so to comply with any legal or regulatory requirements, we may deduct or withhold for such purposes sums on account of tax and pay the net amount to you.

8.3 If a payment made to you in respect of your Shares is returned to us and after reasonable enquiry we cannot find your contact details (email address or current address), we will not send you another payment until you notify us in writing of your new email address or physical address.

8.4 In the event of a takeover, a capital reorganisation, conversion or other corporate action relating to the Company, we will endeavour to notify you promptly and implement any instructions you give us provided that the Company gives us adequate notice of the proposals and also that we receive your instructions in good time so as to allow us to take appropriate action (however we will not be liable if, for any reason, any notification by us does not reach you in time). We will however not be obliged to do anything in such an event unless the Company gives us adequate notice and we receive written instructions from you in reasonable time to allow us to take action in respect of the Shares held in your Nominee Account.

8.5 We will not accept a takeover offer or other offer for any of the Shares held in your Nominee Account in the absence of your instructions except where your Shares are compulsorily acquired. In the event of a compulsory acquisition, we will accept the basic terms of the acquisition on your behalf, but will not exercise choices or elections, in the absence of your specific instructions received before relevant deadline.

8.6 In circumstances where the Company offers its shareholders the opportunity to participate in a dividend reinvestment plan, whereby Company shareholders are offered the right to choose to receive further shares in the Company instead of a cash dividend, we will not participate in such dividend reinvestment plan on behalf of Members holding Shares in the Nominee Account. By agreeing to these Terms and Conditions each Member agrees to and acknowledges that we will not participate in any such dividend reinvestment plan on its behalf. In the event that we deem it appropriate to disapply this clause 8.6 and participate in any such dividend reinvestment plan, we will communicate this to Members in accordance with clause 5 above and will advise Members of any actions required to be taken by them in this regard. This restriction on participation in the Company's dividend reinvestment plan(s) applies only to the Shares held on behalf of Members in the Nominee Account, and will not apply to shares in the Company held by you outside of the Nominee Service.

8.7 Where the Company issues offer documents in respect of an optional corporate action (for example, a tender offer, rights issue, placing and open offer, merger, scheme of arrangement or amalgamation or reconstruction) we are not obliged to forward such documents to you. Where appropriate you should contact the Company directly to obtain offer documents.

8.8 We will not be responsible for taking any corporate action in respect of the Shares held in your Nominee Account and may allow the event to lapse if your instructions:

- (a) are not received by us by the stated time;
- (b) are incomplete or given by a third party who does not have the relevant authority; or
- (c) require payment on your behalf and you have insufficient funds in your Nominee Account.

8.9 Unless we receive instructions to the contrary, you authorise us to take all actions described below:

- (a) make payments to ourselves or others for properly incurred expenses in handling your Shares (for example costs of translation of foreign documents, foreign currency conversion or bank charges) or other matters relating to our duties under these Terms and Conditions;
- (b) receive and collect all income with respect to Shares and to credit cash receipts to your Nominee Account;
- (c) execute in your name such ownership and other certificates as may be required to obtain the payment of income from the Shares;
- (d) pay or cause to be paid from your Nominee Account any and all taxes, levies or withholdings imposed on the Shares by any governmental authority in connection with custody of and transactions in such Shares;
- (e) use reasonable efforts to promptly reclaim any foreign withholding tax relating to the Shares; and
- (f) make payments to ourselves for our reasonable fees if we are required by any Applicable Regulation to carry out additional services to those set out in these Terms and Conditions.

9. NOMINEE SHARE ACCOUNT STATEMENTS

9.1 You will receive an opening Nominee Share Account Statement on joining the Nominee Service showing the number of Shares you have. In addition, Nominee Share Account Statements showing the composition of your Nominee Account will be made available to you on a quarterly basis whilst you remain a Member. The Nominee Share Account Statements are provided free of charge and will be accessed electronically via the Link secure web portal. We will email you the URL to the web portal on each occasion when a new Nominee Share Account Statement is available to you. If you require an interim or duplicate Nominee Share Account Statement we may charge you in order to supply it.

9.2 It is your responsibility to check any Nominee Share Account Statement from us. If you have any query or concern in relation to the matters disclosed in a Nominee Share Account Statement you must contact us as soon as possible but, in any event, within two months of receipt of the statement concerned. We shall correct any mistaken credits or debits to the records maintained for your Nominee Account and will notify you of any changes relevant to you.

10. CHARGES, EXPENSES AND PAYMENTS

10.1 There is no initial charge for becoming a Member of the Nominee Service. The Company covers the existing initial and ongoing charges for this Nominee Service separately. There are, however, costs associated with certain transactions for which you may be responsible – please call our helpline on (+44) (0) 371 664 9272 or log onto our web portal for further details of these costs at <https://www.linksharedeal.com/>.

10.2 Our charges are subject to review and modification from time to time in the future for the following reasons:

- (a) to reflect reasonable changes in the way we provide the Service to you;
- (b) as a result of new services which we may make available to you;
- (c) where reasonably required as a result of changes in market conditions or market practice;
- (d) to take account of changes or anticipated changes to, or to comply better with, applicable laws or the interpretation of those laws, regulatory requirements, industry guidance or codes of practice that we follow, or the way that we are regulated;
- (e) to reflect a decision or recommendation of a court, ombudsman, regulator or similar body which is relevant to us or to the Service; or
- (f) to take account of, in a proportionate manner, the cost to us of providing the Service.

10.3 We will give you at least 30 days' prior notice of any increase in our charges payable by you. If you are unhappy with such increase, you may cancel your agreement with us at any time without charge (see clause 19.8 below) within 30 days of our sending you the notice of such increase.

10.4 In addition to the above charges, you will be charged Value Added Tax (VAT) on any fees and charges payable by you (for example, broker's fees).

10.5 In addition to our fees and charges, you are responsible for paying any stamp duties applicable to share transactions (other than any stamp duty payable on the initial allocation of WaterShare+ Shares to you following acceptance of your Application to participate in the WaterShare+ Scheme Offer), VAT, other duties and taxes in respect of your Shares, where applicable. You should note that there may be other taxes or costs that may exist that are not paid through us or imposed by us.

10.6 You may make any payments due to us under this Agreement by personal cheque crossed and made payable to 'Link Market Services Trustees Limited', drawn on a United Kingdom bank or building society account.

10.7 If any payment is not received by us on the due date for payment then, without limitation of any other rights which we may have, we will be entitled to charge interest on the overdue amount (both before and after judgement) at the rate of 1% above the sterling base rate from time to time of our main UK bank from the due date until the actual date of payment.

10.8 Subject to clause 10.9, 18.5 and 22.2 below, we and our agents will not have any lien (right to keep possession of) or claim security interest in your Shares.

10.9 We do however reserve the right to sell any of your Shares or connected rights and to retain the value of the amount which at any time is due and payable to us by you in respect of the provision of the Nominee Service. In these circumstances, you authorise us to execute any stock transfer form or other document or give any instruction necessary to give effect to any such sale and, by appointing us to provide the Nominee Service under these Terms and Conditions, you acknowledge and declare that in these circumstances we shall have a legal charge over your Shares and your rights and interests in or in relation to your Nominee Account. This legal charge enables us, in the event that you owe us money in respect of the provision of the Nominee Service, to sell your Shares up to the amount owed and use this money to pay your outstanding debt to us. We also reserve the right not to act on instructions from you until you have paid us in full.

11. CLIENT MONEY AND ASSETS

11.1 We will treat all Shares, money and any other assets ("Client Assets"), including dividend payments and other entitlements of a similar nature deriving from your Shares, awaiting distribution to you as client assets in accordance with the requirements of the FCA Rules on client assets. Funds used to purchase the WaterShare+ Shares do not constitute your Client Assets. Your Client Assets will be segregated from our own.

- 11.2 We will hold all Client Assets comprising money in a non-interest bearing client bank account in the United Kingdom, with an approved bank in the United Kingdom. **Client money in a currency other than sterling will be held in a client bank account denominated in the relevant foreign currency with an approved bank in the United Kingdom. No interest shall be payable to you in respect of such client money.** The money will not be used by us in any transactions other than as specified in these Terms and Conditions.
- 11.3 You agree that we may from time to time transfer your Client Assets to an intermediate broker, a settlement agent, an exchange or a clearing house located in the United Kingdom or in a jurisdiction outside the United Kingdom to facilitate transactions effected with or through such persons on your behalf. You should be aware that your Client Assets may be treated in a different manner once it passes outside the control of LMSTL and you may lose the full protection of the UK client money and assets regulations. We shall not be liable for any failure whatsoever, and however caused, by such persons to return your Client Assets which are held by them unless it was caused by our fraud, wilful default, negligence or breach of FCA Rules or FSMA.
- 11.4 You agree that we may pay away any unclaimed Client Assets (including, without limitation, Shares) to charity in accordance with the FCA Rules. We undertake to make good any valid claim which may subsequently be made against any Client Assets paid to charity in this way and reserve the right to request such evidence as we feel reasonably necessary to confirm the identity of the person claiming these Client Assets in order to validate any claim prior to settlement. Subject to clause 18.8, we will not be liable for any losses or claims for interest whatsoever in respect of such unclaimed Client Assets unless such losses or claims were caused by our fraud, wilful default, negligence or breach of the FCA Rules or FSMA.

12. POOLING

- 12.1 Cash balances for each Member will be recorded separately by us for recordkeeping purposes. However, at a banking level such cash balances will be pooled with the funds of other clients of LMSTL. Where a primary or secondary pooling event (as such terms are defined by the FCA Rules) occurs, such as a default by LMSTL or the Nominee or their bankers, you will not have a claim against a specific sum of money in a specific account; your claim would be against the client money pool, held by us in general. The funds may then be distributed on a pro rata basis to all Members which could result in each Member receiving less back than that which is held on their behalf before such an event.
- 12.2 While details of your Shares are recorded in your Nominee Account, we will pool your Shares with other customers' Shares and as a result individual entitlements may not be identifiable by separate certificates or other physical documents of title or equivalent electronic record. In the event of an unreconcilable shortfall following any default by a custodian appointed by us, you may not receive your full entitlement and any shortfall may be shared by all persons in proportion to their original holdings in the pool.
- 12.3 You may instruct us at any time (including at the time of initial membership, or closure) to transfer your investments from the nominee omnibus account into an individual account segregated for your shares (i.e. out of the pool) subject to the payment of an initial and annual fees. Further information in relation to the risks and benefits of each approach can be obtained by contacting us in accordance with clause 5.2(a).

13. FRACTIONAL BENEFITS

Due to us holding your investments in the Nominee Account on a pooled basis, additional amounts may arise that would not otherwise have occurred had such investments been registered in your own name, (for example, following certain corporate actions). You consent that we shall determine in our sole discretion, having regard to the size of the balance and the number of participants, whether we shall distribute the balance to you or retain the balance for our own account. Consequently, you may not be entitled to these additional amounts.

14. RISKS

- 14.1 **There are risks involved in investing in and holding Shares. As we only provide a Nominee Service, we take no responsibility for the decision of a Member to buy, sell, hold or exercise rights in relation to Shares. A share is a portion of the capital stock of**

a company which typically entitles the holder to vote at general meetings, receive income in the form of dividends and to share in the surplus assets of the company in the event of winding up.

14.2 The risks that are relevant to Shares include but are not limited to:

- (a) the risks that the issuer of a Share becomes insolvent, and so the Share becomes valueless;
- (b) the risk of sudden changes in the market for a Share, for example a regulator suspending trading in a particular Share; and
- (c) the value of Shares may rise or fall due to the volatility of world markets, the economy, interest rates and capital values.

These risks can be particularly important for shares of smaller companies, for example because there is less of an established market in shares in these companies.

14.3 The market information relating to the past performance of Shares is not an indication to their future performance. The value of Shares or income from them may go down as well as up. You may not necessarily get back the amount you invested. This arrangement should be considered as part of a diversified portfolio.

14.4 Instructions, given by you or on your behalf constitute a binding contract and they cannot be amended or cancelled after they have been given.

14.5 Taxes may affect the net value of your investments and income received from them. Levels and bases of, and relief from taxation depends on the individual circumstances of each customer and are subject to change as UK tax legislation may change from time to time. As we only provide a Nominee Service, we do not accept any responsibility for tax advice.

14.6 There are risks involved in the transactions in Shares with which we may be involved. In the case that your money is transferred to an intermediate broker, a settlement agent, an exchange or clearing house located outside the United Kingdom, your money might not be as well protected as would be the case if held by a bank or other financial institution in the United Kingdom.

15. COMPLIANCE WITH APPLICABLE REGULATIONS

15.1 The Terms and Conditions and all transactions between you and us are subject to Applicable Regulations. If there is any conflict between these Terms and Conditions and any Applicable Regulations, the Applicable Regulations will prevail to the extent necessary to avoid the conflict. Nothing in these Terms and Conditions will exclude or restrict any obligations which we have to you under the Applicable Regulations.

15.2 We may refrain from doing anything which could or might, in our reasonable opinion, be contrary to any Applicable Regulations which would or might otherwise in our reasonable opinion render us liable to any person. We may do anything which, in our reasonable opinion, is necessary to comply with any such Applicable Regulations or to avoid any such liability.

15.3 LMSTL is authorised and regulated by the FCA to provide the Nominee Service in the United Kingdom and nothing in these Terms and Conditions requires or implies that such services will be provided in any territory in which LMSTL is not appropriately authorised.

16. REPRESENTATIONS AND WARRANTIES

16.1 By applying to become a Member, you warrant and represent to us that:

- (a) all information that you supply to us is complete, true, accurate and not misleading in any material respect;
- (b) you enter into this Agreement and any transactions contemplated by this Agreement, as principal and not as another person's agent or representative;

- (c) you are not under any legal disability with respect to, and are not subject to any law or regulation which prevents your performance of, this Agreement and any transactions contemplated by this Agreement;
- (d) you are the legal and beneficial owner of all property provided by you to us under this Agreement and you are entitled to pass to us full legal ownership of such property, free from all liens, charges and encumbrances whatsoever and you will not create any security interest of any kind over such property;
- (e) you have obtained all necessary consents and have the authority to enter into this Agreement and any transaction contemplated by this Agreement; and
- (f) you are in compliance with all Applicable Regulations to which you are subject including, without limitation, all tax laws and regulations, exchange control requirements and registration requirements.

16.2 The above warranties and representations shall be deemed to be repeated each time you provide us with instructions or enter into any transaction contemplated by this Agreement.

16.3 **You undertake that, throughout the duration of this Agreement, you will promptly notify us of any change to the details supplied by you or any change or anticipated change in your financial circumstances (including any actual or threatened litigation) which may affect the basis upon which we undertake business with you.**

17. CREST AND OTHER CLEARING SYSTEMS

17.1 Neither LMSTL nor the Nominee accepts responsibility for any delays or liabilities suffered by you as a result of:

- (a) the operation, failure or suspension of CREST or the insolvency or other default of Euroclear UK & Ireland Limited or of any participants in CREST; or
- (b) the operation, failure or suspension of any other clearing system used by us or the insolvency or other default of the operator of such clearing system or of any participants in such clearing system; or
- (c) the failure by any CREST or other clearing system's settlement bank to make, receive, credit or debit any payment.

Neither LMSTL nor the Nominee accept responsibility for any delays and liabilities suffered by you as a result of the suspension or removal of the sponsor by CREST or any other clearing system as a CREST sponsor or a sponsor in respect of such other clearing system (as applicable), unless the suspension or removal is due to negligence, wilful default or fraud on the part of LMSTL or the Nominee.

17.2 You will pay our reasonable costs or liabilities incurred in connection with an instruction to transfer your Shares (whether or not involving Euroclear UK & Ireland Limited) that cannot be completed for any reason caused by you. You undertake to notify us if you know of any person (e.g. a bank) who has the right to prevent you from transferring your Shares.

17.3 Where Shares are held in uncertificated form by a clearing house, other than Euroclear UK & Ireland Limited, the legal and regulatory regime applying to such a clearing house may be different to that of the United Kingdom. In such a case, you agree that LMSTL's and the Nominee's liabilities in respect of the activities of the overseas clearing house will be limited to the extent as set out in section 17.1.

17.4 If we arrange for your Shares to be held in one or more jurisdictions outside of the United Kingdom, there may be different settlement, legal and regulatory requirements in overseas jurisdictions from those applying in the United Kingdom and there may be different practices for the separate identification of the Shares.

18. LIMITATION OF LIABILITY

18.1 We will take all reasonable care and skill in the set up and administration of the Nominee Service.

- 18.2 If we cannot provide the Nominee Service due to circumstances beyond our reasonable control (for example, because of failure of computer systems or telecommunications links or overriding emergency procedures, postal delays, flood, fire, storm, labour disputes, accident, vandalism, malicious damage, war or terrorism, failure of third parties to carry out their obligations, the suspension of trading by any exchange or clearing house, the acts of governmental or regulatory authority (including changes to Applicable Regulations), the absence of, or inaccuracy in any information provided to us by you or on your behalf), we will, where possible, take such reasonable steps as we can to provide the Nominee Service as soon as possible following any delay or failure.
- 18.3 Subject to this clause 18, our liability to you for providing the Nominee Service is limited to any losses directly associated with the act or omission that gave rise to the liability. We will not be liable for any damage or loss suffered by you which we could not reasonably have foreseen (for example the loss of an alternative investment opportunity or any tax benefit).
- 18.4 Neither LMSTL nor the Nominee is acting as agent for the Company and neither LMSTL nor the Nominee shall accept responsibility for the Company's acts and omissions, including any decision by the Company to suspend or terminate the Nominee Service.
- 18.5 Neither LMSTL nor the Nominee will be required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers under these Terms and Conditions. If, notwithstanding this provision, either LMSTL or the Nominee does so, LMSTL will be entitled upon notice to you to make such deductions from the Shares or any income or capital arising from them or to sell all or any of the Shares and make such deductions from the proceeds of sale as may be required to reimburse any loss or liability suffered.
- 18.6 Subject to clause 18.8, we will not be responsible for any acts or omissions of the Company, or any broker, settlement agent, depository, clearing or settlement agent or system.
- 18.7 We may employ agents and delegates on such terms as we think fit to carry out any part of our obligations or discretions in connection with the Nominee Service and, save as otherwise provided in these Terms and Conditions, we shall be liable for the acts and omissions of such agents and delegates as if they were our acts or omissions.
- 18.8 Nothing in this Agreement shall exclude or limit:
 - (a) our liability for death or personal injury resulting from the negligence caused by us or the Nominee; or
 - (b) liability for any losses or expenses (including loss of Shares) suffered by you as a direct result of the negligence, wilful default or fraud of either LMSTL or the Nominee; or
 - (c) any other liability which cannot be excluded or limited by law, including FCA Rules and FSMA.

19. TERMINATION

By you:

- 19.1 You may remove all or part of your Shares from the Nominee Service at any time by notifying us in writing and completing an appropriate form. Your instructions will take immediate effect on receipt by us of the form but will not cancel or amend any instructions you have already sent to us (including any previous instruction to sell your Shares or transfer your Shares out of the Nominee Service).
- 19.2 If you remove all of your Shares from the Nominee Service, your agreement with us on these Terms and Conditions will terminate. If we cease to hold Shares for you, you will need to enter into a new agreement if, at a later date, you acquire Shares which are to be held through the Nominee Service.
- 19.3 Removing all or part of your Shares from the Nominee Service will not affect any of your rights or obligations arising prior to the date of such removal or which arise in consequence of such removal or which relate to our provision of the Nominee Service to you and all such rights and

obligations shall continue to be subject to the Terms and Conditions prevailing at the time of the removal. You will be required to pay any charges that are reasonably incurred for transferring Shares from the Nominee Service (see also clause 10.2), but will not be required to make any additional payment to us in respect of the termination of your Agreement with us.

19.4 The Nominee Service will automatically terminate in the event of your death. If we receive adequate proof of your death, we will follow the instructions of your personal representative (appointed pursuant to a grant of probate, letters of administration or other legally effective appointment (or overseas equivalent)).

By us:

19.5 If, at any time:

- (a) you do not satisfy the eligibility criteria set out in clause 2.1, including, without limitation, if you cease to be tax resident in the United Kingdom (unless otherwise agreed with the Company and provided that (a) you are always satisfied that your participation under the Nominee is permitted under the laws of your country of residence, and (b) you are not resident in a jurisdiction that will impose any legal or regulatory procedures or compliance obligations on us or the Company); or
- (b) you fail to provide and/or keep your information up to date with us in accordance with clauses 2.2(b) and (c),

your participation in the Nominee Service and your Agreement with us on these Terms and Conditions may be terminated and we will notify you of this in writing.

19.6 We may withdraw the Nominee Service from you and terminate our Agreement with you on not less than 30 days' written notice if, in our opinion, you are in material breach of these Terms and Conditions or the Nominee is unable to comply with any obligations to which it may be subject in respect of your Shares under the Company's Articles of Association or under any applicable laws or regulations.

19.7 The provision of the Nominee Service is at the discretion of the Company. If the agreement between the Company and LMSTL for the provision of the Nominee Service terminates, our Agreement with you will automatically terminate and we will notify you of this in writing.

19.8 No penalty will be payable by either party on termination of these Terms and Conditions. On termination by either party and after the relevant notice period, we will arrange for your Shares to be transferred into your name on the register of shareholders as soon as practicable (free of charge) and shall with immediate effect (but subject to clause 19.9) cease to process instructions from you. The Company will send you either a share certificate in respect of your holding of Shares or, if the Company does not issue share certificates, a share statement evidencing your holding of Shares. **We may deduct all amounts due to us before transferring to you any credit balances on your Nominee Account.**

19.9 Termination of your Agreement with us will be without prejudice to the completion of transactions already initiated. All transactions in progress will be executed in accordance with your instructions and such transactions will be subject to our current charges (see clause 10).

20. CONFLICTS OF INTEREST

20.1 You acknowledge and agree that when we (or our agents or delegates) enter into a transaction for you, we may:

- (a) share fees or charges with our Affiliated Company and other third parties, or receive and retain remuneration from them in respect of transactions carried out on your behalf. Details of any such remuneration or sharing arrangements are available to you on request;
- (b) be acting as agent or making arrangements for you on your instructions in relation to transactions in which we are also acting for other customers; or
- (c) be in a position where we have some other material interest in relation to the transaction.

20.2 In accordance with FCA Rules, LMSTL has in place arrangements, which may be updated from time to time, to manage conflicts of interest that arise between itself and its clients or between its clients. LMSTL will deal with potential conflicts of interest in accordance with its Conflicts of Interests Policy. This Conflicts of Interests Policy provides that it will identify and manage conflicts of interest to ensure fair treatment of all clients and ensure that it acts in the client's best interests. If it is not possible to manage or avoid a potential conflict of interest then LMSTL may, as a measure of last resort where we are not able to ensure, with reasonable confidence, that the risk for damage to your interests cannot be prevented, seek to disclose the general nature and/or sources of conflict to you before undertaking business for you. LMSTL will provide full details of the Conflicts of Interest Policy upon receipt of a written request from you.

21. INDUCEMENTS

21.1 As part of providing our service to you, we may give or receive acceptable reasonable minor non-monetary benefits. These are benefits which are capable of enhancing the quality of service provided to you; of a scale and nature that could not be judged to impair our compliance with our duty to act honestly, fairly and professionally in your best interests; and reasonable, proportionate and of a scale that is unlikely to influence our behaviour in any way that is detrimental to your interests. Such benefits would usually comprise hospitality of a reasonable *de minimis* value, such as food and drink during a business meeting or a conference, seminar or other training events.

22. DEFAULT

22.1 We may in our absolute discretion refuse to accept any further orders or instructions from you and/or terminate this Agreement upon any of the following Specified Events:

- (a) you do not perform your obligations to us under this Agreement or any transaction contemplated by this Agreement;
- (b) any warranty or representation made by you as set out at clause 16 is or becomes incomplete, untrue, inaccurate or misleading;
- (c) a bankruptcy petition is presented to the Court in respect of you;
- (d) any regulator of our business or its rules so require; or
- (e) we reasonably believe that any of the circumstances set out in clauses 22.1(a) to 22.1(d) above are likely to happen and we reasonably believe that such action would be necessary or desirable to protect our position.

22.2 **Upon the happening of a Specified Event and without prejudice to LMSTL's other rights, we may at our discretion, without notice:**

- (a) refuse to perform or reverse any outstanding transaction between us;
- (b) sell any of your investments or other assets held by us (the time, place and method of any sale and the price shall be at our discretion and we shall inform you of the outcome of the sale);
- (c) buy in investments, bring any claim for damages or exercise any other right which we may have at law or otherwise or take any other action which appears appropriate to avoid or reduce our risk of loss; and/or
- (d) combine, close or consolidate all or any of your accounts with us or any of our Affiliated Companies and off-set any and all amounts owed to, or by, us or any of our Affiliated Companies in such manner as we may reasonably determine.

22.3 **You will bear any costs or associated costs of sale and for reasonable costs, losses, damages or expenses (including without limitation any legal fees) incurred or suffered by us as a direct consequence of a Specified Event or our taking any action as a consequence of such Specified Event.**

23. PROTECTION OF INFORMATION

23.1 LMSTL collects personal information about you and we are committed to protecting this information and your privacy. As part of providing the Nominee Service, we collect the following personal information:

- (a) name, address, email address, telephone number and other contact details which you provide us with on completing your Application;
- (b) date of birth, nationality, national insurance number, passport number and overseas identification card numbers (if required);
- (c) bank account details or other payment or financial information which you provide us with on completing your Application;
- (d) a record of any correspondence you have with us, including certain telephone calls which we may be legally required to record (but we will inform you at the beginning of the telephone conversation if recording will be necessary);
- (e) NCI information which you provide us with in accordance with clause 5.1(c) or 5.3(b);
- (f) information which you provide to us as part of, or contained within, any supporting documentation provided to us in accordance with clause 5.3(b) or where reasonably requested by us in accordance with clause 2.2(b);
- (g) information reasonably requested by us in accordance with the Terms and Conditions such as death certificates, marriage certificates, grants of probate and proof of identity and address;
- (h) where required by us in accordance with clause 3.8 of the Terms and Conditions, scanned or photocopied images of passports, driving licences and utility bills;
- (i) where you use our web portal, as part of the security questions and answers, your mother's maiden name and your user name combined with your passwords; and
- (j) any personal information provided to us by the Company.

23.2 Each time you use our websites, including our web portal (which can be accessed from www.signalshares.com), we will automatically collect certain technical information, including the type of browser you use, the 'Internet Protocol' (IP) address used to connect your computer to the internet, and information about your visit, including the full 'Uniform Resource Locations' (URL), clickstream to, through and from our sites, traffic data and other communication data, the resources that you access, and the information derived from the cookies we place on your mobile device and/or computer.

23.3 We collect your personal information as set out in clause 23.1 and 23.2 above in order to provide the Nominee Service to you and to deal with your enquiries and requests connected with the Nominee Service, and our use of your information is required for the purposes of entering into our contract with you and on an ongoing basis pursuant to our contract with you.

23.4 In addition, we are required by law to obtain "know your client" information in order to verify the identity of our customers as detailed in clause 2.3(a) and this includes certain personal information.

23.5 We will use the information we hold about you for the following purposes:

- (a) to provide you with the Nominee Services, and/or information you request from us;
- (b) to check your identity;
- (c) to assess any application you make to participate in any service we provide;
- (d) so that we can communicate with you as necessary, including to answer questions raised by you;
- (e) to carry out analysis about our services and how we might improve them;

- (f) to notify you about changes to our services;
- (g) to maintain records of your personal details, transactions and instructions;
- (h) to transfer Shares on your instructions, including transfers involving the creation or dematerialisation of certificated Shares;
- (i) to comply with Applicable Regulations in accordance with clause 2.3 of the Terms and Conditions;
- (j) to process and pay dividend monies, including the distribution of dividend vouchers;
- (k) to transmit and process instructions received regarding a takeover, a capital reorganisation, conversion or other corporate actions relating to the Shares;
- (l) to create Nominee Share Account Statements and make these available to you;
- (m) to forward to you documents issued by the Company;
- (n) to process your proxy voting requirements;
- (o) to record on your account information or orders from third parties and regulatory authorities, and where required, to record your death and documents such as grants of probate and letters of administration in accordance with clause 19.4 of the Terms and Conditions;
- (p) to record markers on your account to signify return of post from previous correspondence to you;
- (q) any other processing activity which is strictly necessary for the processing of personal data in accordance with the purpose for collection and processing identified in clause 23.3 and clause 23.4 above, and in accordance with your instructions; and
- (r) to write to you (or email you) with marketing information where you have consented to receive this in accordance with clause 5.1(e).

23.6 We will only disclose your personal information in accordance with applicable laws and regulations. We will disclose your personal information to the following third parties:

- (a) local tax authorities where required in accordance with applicable laws and regulation;
- (b) the Company, the Nominee, the Company's registrar, Euroclear UK & Ireland Limited (if entitled to such information), all of which may disclose the information to any person with legal or regulatory power over them such as regulatory, tax or governmental authorities as appropriate;
- (c) any other person with legal or regulatory power over us (such as the FCA, police or the Serious Fraud Office) that may require disclosure on legal grounds;
- (d) any replacement provider of the Nominee Service;
- (e) service providers engaged by us to help us run our business and provide the Nominee Service. Such service providers will include, for example, cloud storage providers (engaged by us to provide electronic storage facilities for our business data and your information), brokerage firms (engaged by us to facilitate deals in securities you instruct us to undertake), printer and mail firms (engaged by us or by the Company to facilitate the printing and mail-out of communications and documents relating to the Nominee Service) and providers of data protection risk management platforms and reporting tools (engaged by us to record and monitor data protection governance, risk and compliance in accordance with best practice risk management procedures); and
- (f) any member of the "**Link Group**" which means our subsidiaries, our ultimate holding company and its subsidiaries (from time to time) as necessary to provide the Nominee Service and to comply with our obligations under Applicable Laws.

23.7 Some of these third parties (including Link Group subsidiaries and service providers) may be outside of the United Kingdom. We will ensure that any such subsidiary or service provider has put in place adequate safeguards to ensure that your information is held securely and in accordance with these Terms and Conditions.

23.8 We store the information you provide about yourself in a secure database and take appropriate security measures to protect such information from unauthorised access. For example, we have adopted internal data protection procedures and trained our staff on them with a view to preventing breaches of security. All exchanges of information between you and our web portal go through encrypted channels in order to prevent interception of your information.

23.9 We generally hold your personal data on our systems for as long is necessary to perform our role under these Terms and Conditions. This is ordinarily 6 years from the date of termination of these Terms and Conditions and the Nominee Service we provide to you in accordance with clause 19, in order to allow us to comply with our regulatory obligations.

23.10 You agree that the purposes for which we may process your personal information may be amended from time to time to include other uses or disclosures of personal information subject to us notifying you of such amendment.

23.11 You have the following rights in relation to how we use your information. If you would like to exercise these rights please contact us using the contact details listed at the beginning of the Terms and Conditions.

- (a) Right of access – you have the right to know if we are using your information and, if so, about how we are using it.
- (b) Right of rectification – you have the right to require us to rectify any errors in the information we hold about you.
- (c) Right to erasure – you have the right to require us to delete your information if our continued use is not justified.
- (d) Right to restrict processing - in some circumstances, although you may not be entitled to require us to erase your information, but may be entitled to limit the purposes for which we can use your information.
- (e) Right of data portability – you have the right to require us to provide you with a copy of your information in a commonly used machine-readable format or to transfer your information directly to another controller (e.g. a third party offering services competing with ours).

23.12 Questions, comments and the exercise of your rights regarding this notice and your information are welcomed and should be addressed to the Data Protection Officer by email at lmsdpo@linkgroup.co.uk or by post to the Data Protection Officer, Nominee Service, Link Market Services Trustees Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, quoting your full name and address, the name of the Company and your Investor Code which may be found on your Nominee Share Account Statement.

23.13 If you wish to make a complaint on how we have handled your personal information, you can contact our Data Protection Officer. If you are not satisfied with our response or believe we are processing your personal information not in accordance with the law you can complain to the supervisory authority in the UK responsible for the implementation and enforcement of data protection law: the Information Commissioner's Office (the "ICO"). You have the right to complain to the ICO about our collection and use of your information. You can contact the ICO via their website – <https://ico.org.uk/concerns/> - or by calling their helpline – 0303 123 1113.

24. TAPE RECORDING OF CONVERSATIONS AND RECORD KEEPING

24.1 You agree that we may:

- (a) record all telephone conversations between you and us; and

- (b) use such recordings, or transcripts from such recordings, as evidence in any dispute or anticipated dispute between you and us.

24.2 Recordings or transcripts made by us may be destroyed under our normal practice, although will be retained for the period of time required under the FCA Rules. We may deliver copies or transcripts of such recordings to any court or regulatory body. Telephone recordings or copies of transcripts of our recordings with you are available to you upon request. Charges may apply.

24.3 We strongly recommend that you keep your own records of all communications between you and us (such as instructions and orders) including details of the times, dates and nature of your instructions as these details will be important if there is a dispute between you and us.

25. COMPLAINTS AND COMPENSATION SCHEME

25.1 If you think that you have reason to make a complaint please write in the first instance to:

Link Group
Link Market Services Trustees Limited - Nominee Service
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Your complaint will be fully investigated and a full resolution sought. Our complaints procedure is available upon request, but a copy will be provided automatically to you in the event of a complaint being received.

25.2 If you are unhappy or dissatisfied with our handling or findings in relation to your dispute or complaint you may refer the matter to the Financial Ombudsman Service for further investigation at Financial Ombudsman Service, Exchange Tower, London, E14 9SR.

You can find additional information at www.financial-ombudsman.org.uk.

25.3 In the event of a dispute or complaint being notified to us, we reserve the right to take any action necessary for the purpose of limiting the amounts involved in such dispute or complaint. We will inform you if we exercise this right, which shall be without prejudice to either your rights and remedies or our rights and remedies. Any action taken by us pursuant to this clause 25.3 will not be deemed to be an admission on our part.

25.4 LMSTL is a member of the Financial Services Compensation Scheme ("Scheme"). If we cannot meet our obligations you may be entitled to compensation from the Scheme. This depends on the type of business and the circumstances of the claim. Most types of investment business are covered for a maximum of £50,000 as at the date of these Terms and Conditions. The amounts of compensation may be changed from time to time and you should check your entitlement with the Scheme. Further information about compensation arrangements is available from the Scheme. You can contact the Scheme by calling their Helpline on 0207 741 4100, logging onto their website at www.fscs.org.uk or writing to the Financial Services Compensation Scheme, PO Box 300, Mitcheldean, GL17 1DY. You may request further information concerning the conditions governing compensation and the formalities which must be completed to obtain compensation by writing to Link Group, Link Market Services Trustees Limited, Nominee Service, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU or by e-mail to: custodymgt@linkgroup.co.uk.

26. TRANSFERRING CLIENT ASSETS AND MONEY

26.1 LMSTL may at any time transfer all or some of its rights and obligations under this Agreement to any person (the "Transferee") who:

- (a) is authorised by the FCA and agrees to hold any cash balances on your Nominee Account in accordance with the requirements of the FCA Rules on client money; or

- (b) in the reasonable opinion of LMSTL (after exercising all due skill, care and diligence), is able to apply adequate measures to protect any cash balances on your Nominee Account.

26.2 Such transfer will be given effect by LMSTL and/or the Transferee sending a notice of transfer to you specifying the date (the "Transfer Date") on which the Transferee will assume such rights and obligations under this Agreement. Such notice of transfer will be given to you at least 30 days prior to the Transfer Date. You may elect to leave the Service during this 30 day notice period, in which case no charge will be payable by you by LMSTL in facilitating your exit from the Service. The transfer will not affect any rights you may have against LMSTL which relate to the period prior to the Transfer Date. With effect from the Transfer Date:

- (a) LMSTL may transfer to the Transferee (or its nominee) all of your Shares (or other client assets), your client monies (if any) or any information (including personal information) it holds on your behalf, or otherwise arising under this Agreement;
- (b) this Agreement (as amended from time to time) shall be treated for all purposes as having been entered into between you and the Transferee in substitution of LMSTL; and
- (c) LMSTL shall be released and discharged from all of its obligations and liabilities arising howsoever under this Agreement.

27. VARIATION/REPLACEMENT OF THESE TERMS AND CONDITIONS

27.1 We may change these Terms and Conditions in the future for the following reasons:

- (a) to reflect reasonable changes in the way we provide the Service to you;
- (b) as a result of new services which we may make available to you;
- (c) to take account of any corporate restructuring within the Link group of companies;
- (d) where reasonably required as a result of changes in market conditions or market practice;
- (e) to take account of changes or anticipated changes to, or to comply better with, applicable laws or the interpretation of those laws, regulatory requirements, industry guidance or codes of practice that we follow, or the way that we are regulated;
- (f) to reflect a decision or recommendation of a court, ombudsman, regulator or similar body which is relevant to us or to the Service;
- (g) to reflect changes in the Bank of England base rate, other specified market rates or indices or tax rates;
- (h) to rectify errors, inaccuracies or ambiguities;
- (i) to reflect alterations in the scope and nature of the Nominee Service provided to you under these Terms and Conditions resulting from the alterations made to our agreement with the Company or our system capabilities or administration procedures;
- (j) to prevent misuse of the Nominee Service;
- (k) to take account of, in a proportionate manner, the cost to us of providing the Service;
- (l) to prevent fraud or to enhance the security of the Service; or
- (m) to make these Terms and Conditions easier to understand, fairer to you, or to correct mistakes.

27.2 We will give you at least 30 days' prior notice of any change to these Terms and Conditions that is to your disadvantage. You may cancel your agreement with us at any time without charge (see clause 19.8 above) within 30 days' of our sending you notice of such change. If you do not cancel your agreement with us within this 30 day period then you will be deemed to have accepted such change.

- 27.3 We may, as mentioned in clause 10.2, review and notify you of revised charging rates from time to time.
- 27.4 If you have received our written notice (which includes notice via email) and do not agree with the proposed changes, you may terminate our Agreement at any time without charge (see clause 19.8 above). Any change will be deemed to have been accepted by you if you have already instructed us to trade on your behalf after the change has taken effect.

28. GENERAL

- 28.1 We will not take notice of any trust affecting the Shares whether express, implied or constructive.
- 28.2 No conduct or delay on our part shall be taken as a waiver or variation of any rights which we may have unless we waive or vary a particular right in writing. No waiver or variation on a particular occasion will operate as a waiver or variation of our rights in respect of any other matter.
- 28.3 If any of the provisions of these Terms and Conditions is held invalid, illegal or unenforceable for any reason, such provision shall be severed and the remainder of the provisions in these Terms and Conditions shall continue in full force and effect as if they had been executed with the invalid provision eliminated.
- 28.4 The Nominee has the right to enforce these Terms and Conditions in accordance with the provisions of the Contracts (Rights of Third Parties) Act 1999. Except for the Nominee, nothing in these Terms and Conditions shall confer or is intended to confer on any third party any benefit or the right to enforce any terms contained herein for the purposes of the Contracts (Rights of Third Parties) Act 1999.
- 28.5 This Agreement is subject to English law and you submit to the exclusive jurisdiction of the English courts.

PART 8

Information on the Pennon Group

1. Introduction to the Group

The Company is one of the largest environmental infrastructure groups in the UK, is a constituent of the FTSE100, had total assets (excluding assets held for sale) of £4.1 billion as at 31 March 2020 and has a workforce of approximately 1,900 people. The Company's market capitalisation as at the Latest Practicable Date was £4.3 billion. The Company has an experienced management team, committed to sustainable development, enhancing the environment and providing high quality customer services.

The Company is the holding company for two principal operating subsidiaries:

- South West Water Limited (the merged businesses of South West Water and Bournemouth Water) provides water and sewerage services to a population of around 1.8 million in Devon, Cornwall and parts of Dorset and Somerset, and water only services to around 0.5 million customers in parts of Dorset, Hampshire and Wiltshire. From 1 April 2020, South West Water also provides water and sewerage services to domestic and non-household customers in the Isles of Scilly.
- Pennon Water Services (an 80:20 joint venture with South Staffordshire Plc) provides retail water, wastewater and value-added services to over 160,000 non-household customer accounts across England and Scotland. Pennon Water Services' operations are ring-fenced from South West Water's business.

On 18 March 2020, the Group announced the sale of its subsidiary, Viridor, a leading UK energy recovery and waste management company, to KKR equating to an enterprise value of £4.2 billion. The sale was subsequently completed on 8 July 2020 with net cash proceeds received of £3.7 billion. The transaction recognised the strategic value that has been created through the sustainable investment in Viridor over the last 30 years. Viridor's financial performance was shown as discontinued operations within the 2020 Financial Statements. Going forward, Pennon will continue to pursue operational excellence and growth within the UK water and waste water industry.

For the financial year ended 31 March 2020, the Group's revenue (excluding discontinued operations) was £636.7 million and profit before tax (excluding discontinued operations) was £193.1 million. Capital investment (excluding discontinued operations) was £161.6 million. Underlying EBITDA (excluding discontinued operations) was £365.3 million.

Pennon is a public limited company domiciled in the United Kingdom and was incorporated in England on 1 April 1989. The Company is registered in England and Wales under registration number 02366640. The principal legislation under which the Company operates is the Companies Act 1985 and the Companies Act 2006, together with regulations made under those acts.

The Company's address is Peninsula House, Rydon Lane, Exeter, United Kingdom EX2 7HR and its telephone number is +44 (0)1392 446677.

2. Strategy

The Company's strategic vision is to become a leader in UK infrastructure, delivering for the benefit of customers, communities and the environment. Following the sale of Viridor, the Group's operations are focused on the provision of essential utility services and environmental infrastructure to the water, wastewater and water retail services.

The strategic priorities of the Group are:

- *Leadership in UK infrastructure*

The Group aims to lead the sectors in which it operates by capitalising on Group strengths, capabilities, best practice and synergies, and achieving the right balance between risk and reward. The Group's priorities for 2020 onwards will be on continued environmental performance, delivering high quality drinking water whilst minimising supply interruptions and leakage, targeting industry-leading customer service performance and focusing on the our employees.

- *Delivering sector-leading operational and financial performance*

Over the five-year period, South West Water's outperformance against the K6 regulatory contract (1 April 2015 to 31 March 2020) achieved a sector-leading cumulative WaterShare RoRE of 11.8 per cent. and secured an ODI cumulative award of £13.3 million for K6 and a net ODI award of £2 million in the financial year ended 31 March 2020. In January 2019 South West Water's K7 2020-2025 business plan qualified for 'fast track' status; the only water and sewerage company to have achieved fast track status in two consecutive reviews.

- *Cost base efficiency*

Pennon is focused on driving down overheads and operating in the most efficient way to minimise costs.

South West Water maintained its strong momentum in controlling total expenditure with cumulative net savings of £297 million while the Group continues to deliver cost efficient, long-term financing with the average interest rate for the financial year ended 31 March 2020 at 3.5 per cent.; among the lowest in the sector.

South West Water's final determination received from Ofwat for the K7 regulatory period allowed approximately £2 billion of total expenditure over the K7 period (based on 2017/2018 prices) and South West Water is aiming to continue delivering sector-leading total expenditure outperformance over this period, as well as sector-leading efficiency savings through the identification of new technologies, system upgrades and overall performance improvement.

- *Sustainable growth*

The Group actively seeks opportunities to invest for growth, whether through investment to increase its asset portfolio, initiatives to expand its asset base or partnerships with other organisations.

In July 2020, Pennon sold Viridor, a UK leading UK energy recovery and waste management company equating to an enterprise value of £4.2 billion and net cash proceeds of £3.7 billion were received. The transaction recognised the strategic value that had been created through sustainable investment over many years. Going forward, Pennon will continue to pursue operational excellence and value enhancing growth opportunities within the UK water industry.

The Group places a focus on:

- *Maximising shareholder returns*

Dividend per share for the financial year ended 31 March 2020 was 43.77 pence per share.

Pennon's dividend policy for 2020-2025 for the rebased Continuing Group will be growth of CPIH plus 2 per cent. per annum, from an implied Continuing Group dividend for the financial year ended 31 March 2020 of 21.11 pence per share. The shift from the existing policy of linking the growth in dividend from RPI to CPIH reflects the change in the regulatory model for South West Water and assumes continued alignment in regulatory growth. The Company has a track record of delivering growth in dividend and sector leading total shareholder return over time. See "—Dividends and dividend policy" for a discussion of the Group's consideration with respect to the use of the net proceeds from the Disposal, including through investments for shareholder value creation or a dividend to shareholders.

- *Strong governance*

Strong governance is central to the successful management of the Group, and provides the framework for effective delivery of the strategy, creation of shareholder value and the ongoing development of sustainable business.

- *Strong focus on sustainability*

Built around its environmental, social and governance ("ESG") framework, the Group's sustainability strategy helps it to focus on the positive impact it can have on the communities it serves, and on the environment on which it relies. The Group's sustainability strategy supports the creation of value – financial, social and environmental – for Shareholders and stakeholders.

- *People*

The Group aims to attract, develop and retain a highly skilled and customer-centric workforce. It has a culture of continuous improvement through investment in people at all levels within the Group and is committed to pursuing equality and diversity in all its employment activities. The Group's policy is to provide and maintain a safe working environment while preventing injury and ill health wherever possible.

3. Principal Activities

The Company operates and invests in the areas of water and wastewater services. Its two principal operating subsidiaries are South West Water and Pennon Water Services.

South West Water

South West Water is the licensed water and sewerage service provider for Devon, Cornwall and parts of Dorset and Somerset and, since the acquisition of Bournemouth Water in April 2015, is also the water service provider in parts of Dorset, Hampshire and Wiltshire. It serves a region of 11,000 square kilometres with approximately 2.3 million residents and around 10 million annual visitors. On average, each day South West Water distributes over 525 million litres of treated water across the two regions and disposes the wastewater through an asset base comprising approximately 18,370 kilometres of water distribution mains, 17,515 kilometres of sewers, 23 raw water reservoirs, 34 water treatment works and 650 wastewater treatment works. South West Water manages its regions' drinking water and wastewater in an integrated way from source to sea, seeking to deliver high quality services in the most efficient and sustainable way possible. Additionally, from 1 April 2020 South West Water is the licensed water and sewerage service provider for the Isles of Scilly for both domestic households and non-household businesses.

Since privatisation in 1989, South West Water has successfully delivered the largest capital investment programme per capita of any of the water and sewerage companies in England and Wales with an initial focus on improving coastal wastewater treatment and disposal. The region currently has 150 EU designated bathing waters, more than a third of the total in England, and 24 shellfish waters. South West Water continues its programme of improving bathing waters recognising the importance to its regions' economies.

Ofwat is the economic regulator of the water sector in England and Wales. One of its responsibilities is to periodically determine the prices water companies are permitted to charge their customers. Ofwat's price control framework for both the K6 and K7 regulatory periods is based on a revenue cap formula which permits revenue to be recovered based on the percentage change of inflationary indices plus a 'K' factor which incorporates efficiency targets and the delivery of outcomes that drive improvements to service levels. Further detail on the regulatory framework is provided within *Regulation – South West Water* below.

South West Water began its new five-year regulatory period ("K7") in April 2020 as the only water and wastewater company to have achieved fast-track status for two consecutive price reviews. South West Water is focused on delivering for its customers and communities and continues to be committed to the highest standards of environmental performance. Delivery of the commitments in South West Water's business plan in respect of K7 is underway, focusing on cost base efficiency, operational performance, customer service and sustainable growth.

Pennon Water Services

Pennon Water Services is the non-household retail business of Pennon Group plc and South Staffordshire Plc, owner of South Staffordshire Water and Cambridge Water. It provides water and wastewater retail services to commercial retail customers. These services include the provision of billing, collections and account management services. Pennon Water Services also provides non-retail services including leakage detection and repair, infrastructure and installation projects, alternative water sources and consultation services.

Pennon Water Services' strategy is to acquire and retain long-term partnerships in key sectors. Pennon Water Services serves over 160,000 customer accounts across 18 different wholesale regions within the UK. 100 per cent. of all tendered customer contracts signed since the market opened in April 2017 have been renewed. Revenue for the financial year ended 31 March 2020 was £173.5 million. The loss before tax for the financial year ended 31 March 2020 was £0.4 million before the application of non-underlying items totalling £5.0 million relating to expected credit losses as a result of Covid-19.

Further consolidation of the UK retail market and difficult trading conditions, exacerbated by Covid-19, continue to create a challenging environment for Pennon Water Services which the Director's believe will flow into the 2021 financial year. While the full impact of Covid-19 on the non-household sector as a whole is yet to be fully understood, the Director's believe Pennon Water Services remains well placed to deliver against its long-term strategic objectives, growing organically and able to take advantage of opportunities to further consolidate the market for economies of scale should they arise. See also ("—*Current trading and prospects*").

4. Capital Investment

For the financial year ended 31 March 2020, capital investment in respect of the Group (excluding discontinued operations) was £161 million. The largest single project in South West Water's spending during K6 was the development of the innovative Mayflower water treatment works at North Plymouth. In addition, investment was targeted to improve wastewater compliance and process upgrades. A similar level of investment by South West Water is expected to continue into the next regulatory period, reflecting South West Water's K7 (2020-2025) capital programme, which includes two new water treatment works in the Bournemouth supply area.

5. Liquidity and Funding

The Group reported a strong liquidity and funding position with £1,639 million cash and committed facilities at 31 March 2020. This included cash and cash deposits of £666 million in the Continuing Group (including £226 million of restricted funds representing deposits with lessors against lease obligations), £33 million in the Viridor Disposal Group and undrawn facilities of £940 million.

As at 31 March 2020, the Group's total borrowings (excluding discontinued operations) were £3,715 million. The net debt of the Group (excluding discontinued operations) as at 31 March 2020 was £3,049 million; £2,227 million for South West Water with £822 million implied for Pennon.

Since the 31 March 2020, Pennon has repaid its £0.3 billion perpetual capital securities and announced on 8 July 2020 that Pennon company net debt was around £1.1 billion (gross debt of £1.2 billion, less cash of £0.1 billion). To efficiently manage Pennon's finance costs and optimise its capital structure following the sale of Viridor, the Group plans to retire and repay up to £900 million of these debt facilities over the coming months. Following these repayments, Pennon's company debt would be around £300 million, of which a fixed rate bond of £100 million will mature during the financial year ended 31 March 2022 resulting in a sustainable Pennon company debt level of around £200 million.

The Group's gearing ratio before the impact of IFRS 16 as at 31 March 2020, being the ratio of net debt to equity plus net debt, was 64.6 per cent. The Group's gearing ratio after the impact of IFRS 16 as at 31 March 2020 was 65.6 per cent.

South West Water's debt to RCV ratio as at 31 March 2020, before the impact of IFRS 16, was 63.6 per cent., which aligns with Ofwat's K6 target for efficient gearing of 62.5 per cent. South West Water's debt to RCV ratio as at 31 March 2020, after the impact of IFRS 16, was 64.6 per cent.

Net underlying finance costs for the Group (excluding discontinued operations) were £62.5 million for the financial year ended 31 March 2020. The Group has secured funding at a cost that is, in the Group's opinion, efficient and effective. The Group's interest rate on average net debt for the financial year ended 31 March 2020 was 3.5 per cent. reflecting lower margins on new and refinanced financing. For South West Water, this figure was 3.4 per cent.

For the financial year ended 31 March 2020, net interest cover ratio was 3.8.

As at 31 March 2020, the Group had a diversified funding mix of fixed (£1,797 million, 55 per cent.), floating (£844 million, 26 per cent.) and index-linked (£844 million, 19 per cent.) borrowings. The Group's debt had a maturity of up to 37 years with a weighted average maturity of circa 17 years. Much of the Group's debt is issued as floating rate and derivatives are used to fix the rate on that debt.

Following confirmation of South West Water's final determination for the 2020-2025 K7 regulatory period, the Group has aligned its hedging strategy with the changed regulatory methodology in this area. A proportion of new debt will be hedged in K7 on a rolling ten-year basis while still maintaining flexibility within the overall portfolio. Embedded debt hedging is aligned with the five-year regulatory delivery period. Around 60 per cent. of South West Water's embedded floating net debt has already been hedged through K7. South West Water's funding is treated for regulatory purposes as ring-

fenced. This means that funds raised by, or for, it are not available as long-term funding for other areas of the Group.

£576 million of South West Water's debt as at the financial year ended 31 March 2020 was index-linked (approximately 26 per cent.). This is below Ofwat's notional assumption of 33 per cent., giving an advantageous position through regulatory transition from RPI to CPIH.

6. Competition – Water Industry

Since 1 April 2017, up to 1.2 million businesses and other non-household customers across England have been able to choose which retailer they buy water and wastewater services from. Wholesale services, providing water to premises and taking wastewater away, are unaffected, but business customers can choose who provides their retail service.

The English non-household market operates through a controlled portal operated by Market Operator Services Limited ("MOSL") which has required the separation of the wholesale and retail arms of water businesses.

From 1 April 2020, water resources and bio-resources activities have been allocated separate revenue controls and competitive markets are being developed in those areas for the provision of those services. A system of inviting tenders to design, build and operate large investment schemes over £100 million (known as direct procurement) has also been introduced.

Pennon Water Services operates independently of South West Water and can secure services from any wholesaler in England and Scotland. South West Water has an obligation to provide wholesale services to retailers operating in its area.

7. Regulation – South West Water

Appointments

In England and Wales, water companies operating the public water networks hold appointments as water undertakers, and those operating the public wastewater networks hold appointments as sewerage undertakers, for the purposes of the Water Industry Act 1991. They also supply water and wastewater services direct to household customers (and in some cases to non-household customers) who are connected to their networks.

South West Water holds a licence, as regional water and sewerage undertaker (one of ten in England and Wales), to provide water and sewerage services in Devon, Cornwall and parts of Dorset and Somerset, and to provide water only services in parts of Dorset, Hampshire and Wiltshire, which together comprise approximately 1 million homes and businesses. From the 1 April 2020 South West Water also provides licensed water and sewerage services for domestic households and non-household businesses in the Isles of Scilly.

Since 1 April 2017, holders of new water supply and/or sewerage licences can provide water and sewerage retail services to eligible non-household premises. Pennon Water Services was granted such a licence on 3 October 2016 (one of 25 in England and Wales).

Licence conditions

South West Water's licences are subject to a range of conditions including (but not limited to):

- provisions relating to the operation of price control (see "*–Price Regulation*");
- undue preference or discrimination in charges;
- regulatory accounting standards;
- regulatory ringfence;
- levels of service information and service targets;
- termination and replacement of appointments;
- disposal of land;
- provision of combined and wholesale water suppliers; and

- provision of information to Ofwat.

Licence conditions can be modified by Ofwat, either with the licensee's agreement or following reference to the Competition and Markets Authority for a decision on public interest grounds. Licence modifications can also result, in certain circumstances, from a merger or market investigation reference to the Competition and Markets Authority.

Regulators and Legislation

South West Water operates within the water and sewerage sectors and is regulated by the Water Services Regulation Authority, the Secretary of State, the Environment Agency and the Drinking Water Inspectorate. It has to comply with several different Acts of Parliament and European Directives.

The legislation covers the following broad areas:

- economic regulation of the sector;
- water supply;
- sewerage services;
- drinking water quality;
- environmental standards;
- customer service; and
- flood and drought protection and adaptation.

Ofwat and the Secretary of State also have secondary duties that include obligations to promote efficiency and economy on the part of water companies in the carrying out of their functions as such and to contribute to the achievement of sustainable development.

The *Water Industry Act 1991* sets out the main powers and duties of the water and sewerage companies. The Water Industry Act also defines the powers and duties of Ofwat which must, among others:

- protect the interests of consumers, wherever appropriate, by promoting effective competition;
- secure that water and sewerage undertakers properly carry out their statutory functions;
- secure that water companies can (in particular through securing reasonable returns on their capital) finance the proper carrying out of their statutory functions;
- secure that water supply licensees and sewerage licensees properly carry out their licensed activities and statutory functions; and
- further the resilience objective to secure the long-term resilience of water companies' water supply and wastewater systems; and to secure that they take steps to enable them, in the long-term, to meet the need for water supplies and wastewater services.

The *Water Resources Act 1991* sets out the functions of the Environment Agency and introduced water quality classifications and objectives for the first time. Subsequent legislation has since come into force which has modified the framework set out above. This includes (but is not limited to) the *Environment Act 1995*, the *Water Industry Act 1991*, the *Flood and Water Management Act 2010* and the *Water Act 2014*.

Additionally South West Water is also required to comply with a number of European environmental directives that have been reflected in UK legislation. Key directives include (but are not limited to) the *Water Framework Directive*, *Marine Strategy Framework Directive*, *Floods Directive*, *Drinking Water Directive*, *Bathing Water Directive* and *Sewage Sludge Directive*. While the UK left the European Union on 31 December 2019, European directives remain applicable to the United Kingdom during the transition period through to 31 December 2020. Regulations resulting from European directives could be amended by the UK Government following this transition period.

Price Regulation

The most recent price control review was set out by Ofwat in a final determination issued in December 2019 and applies to the K7 period (2020-2025). This follows a final determination issued in December 2014 which applied to the K6 period (2015-2020).

The K6 price review implemented separate price controls for the retail and wholesale parts of the value chain enabling more targeted regulation and support for the opening of the non-household retail market. The December 2019 final determination in respect of the K7 period has increased the previous two price controls (water and wastewater) and now includes the following four wholesale price controls:

- Water network plus (water treatment and distribution);
- Wastewater network plus (wastewater collection and treatment);
- Water resources; and
- Bioresources.

The price controls framework for K7 is based on a revenue cap formula which permits revenue to be recovered based on the percentage change of the inflationary index plus a K factor which incorporates efficiency targets.

On 6 April 2017, Ofwat made modifications to the licences of the 17 largest water companies (including South West Water) to come into effect on 15 April 2017. These changes (which were accepted by all the companies) provide the framework for the proposed price controls described above to be introduced and the phased indexation move from RPI to CPIH (as indicated in the Ofwat licence modification).

The RoRE which can be earned by South West Water's regulated business is defined through a package of rewards and penalties. It is calculated using actual results before non-underlying items and compared against the final determination allowances, based on notional gearing (at 60 per cent. in K7 and 62.5 per cent. for K6), annual average RCV and taking into account the tax impact of outperformance. Ofwat's determination allowed for further investment by South West Water to improve the quality of water and sewerage services. South West Water's RCV (deflated by CPIH to 17-18 prices) is expected to increase by 0.4 per cent. over the K7 period. By the end of K7 in 2025, 60 per cent. of the total RCV (deflated by CPIH to 17-18 prices) will be indexed to CPIH, with the remaining 40 per cent. indexed to RPI.

The base return/equity cost of capital for South West Water was set at 3.9 per cent. for K7 (K6: 6.0 per cent.) with an overall weighted average cost of capital of 2.9 per cent. for APM7 (K6: 3.7 per cent.) real after tax for the wholesale business with a further 1.0 per cent. for K7 (K6: 0.2 per cent) from retail margins. RoRE actually earned can be higher or lower than this level through the operation of a number of regulatory mechanisms in place to assess and incentivise performance.

For the financial year ended 31 March 2020, the cumulative WaterShare RoRE performance for the K6 period was 11.8 per cent. with extra returns being earned in addition to the base return of 6.0 per cent. through total expenditure outperformance of 2.6 per cent., ODI performance of 0.3 per cent. and financing outperformance of 2.9 per cent.

During K6, WaterShare reflected the established mechanism for sharing total expenditure outperformance and also allowed customers to share in financing outperformance from movements in the market rates for new debt instruments. In addition, specific items are also shared with customers – with differing rates depending on the company delivery. During K6, the WaterShare mechanism shared cumulative net benefits of £139 million with customers through existing regulatory mechanisms and the remaining amount will be directly shared with customers under the WaterShare+ Scheme, which builds on the established WaterShare mechanism.

In the event of South West Water being materially affected by additional costs or lower revenues than originally anticipated at the time of the most recent Ofwat price determination, regulatory mechanisms permit South West Water to apply to Ofwat for price limits to be reset through an Interim Determination. Interim Determinations may be granted either as a result of specific relevant changes in circumstances, such as a new legal obligation requiring additional capital investment, which are set

out in South West Water's licence. Ofwat will examine the item and may adjust its price limits if the item is at least equal to 10 per cent. of the company's turnover.

It is also possible for South West Water to apply to Ofwat for a substantial effect determination if an unforeseen circumstance substantially increases costs or reduces revenues, where the total adverse impact on South West Water amounts to at least 20 per cent. of its revenue and where the impact on revenue and costs could not have been avoided by prudent action by the company.

South West Water can appeal to the Competition and Markets Authority with respect to any price limits which are set by Ofwat pursuant to a periodic review or Interim Determination. The Competition and Markets Authority will determine any such appeal in accordance with the same principles as apply to Ofwat in setting price limits.

Water efficiency

The Government has not yet decided to introduce universal water metering but has stated that the case for this may change. Approximately 81 per cent. of South West Water's (South West Water and Bournemouth Water customers combined) domestic customer base make payment for their water based on volume of water used as measured by a meter

Water affordability

Water companies are able to choose to use cross-subsidies in their charges schemes to reduce the bills of financially struggling customers. South West Water has a social tariff to help very low income customers (eligible for certain state benefits) by way of a bill reduction of up to 50 per cent.

Enforcement reform

The 2011 Water Act grants increases to the regulatory powers of the Secretary of State and Ofwat. These include new powers for the Secretary of State to issue orders in relation to the conduct of marketing activities (these provisions might be used to address issues around mis-selling of water supply contracts; for instance, if a new arrangement makes a customer worse-off than if it had remained with the undertaker) and an extension of Ofwat's information gathering powers.

Special administration regime

The Water Industry Act 1991 contains provisions enabling the Secretary of State or Ofwat to secure the general continuity of water supply and sewerage services in England and Wales through the appointment of a special administrator, who would have extensive functions similar to those of an administrator under the Insolvency Act 1986, but with certain important differences. The person appointed as a special administrator would be appointed only for the purposes of transferring as a going concern to one or more different water companies so much of the business of the water company as was necessary for the proper carrying out of its functions (the "**transfer purpose**") and pending the transfer, of carrying out those functions. Once the relevant provisions of the Flood and Water Management Act 2010 are brought into force, where a water company is placed in special administration on the grounds that it is, or is likely to be, unable to pay its debts, the special administrator will be required to seek to rescue the water company as a going concern (the "**rescue purpose**") rather than to transfer its business in accordance with the transfer purpose. However, the special administrator must pursue the transfer purpose instead of the rescue purpose where such special administrator thinks that a rescue is unlikely to be possible or that the objectives of a special administration order would be better achieved through a transfer.

If a special administration order were made in respect of South West Water, it would be for the special administrator to agree the terms of the transfer of all or any of the business of South West Water on behalf of South West Water, subject to the provisions of the Water Industry Act 1991. Until another company has been appointed as an undertaker in its place and its appointment as a water undertaker or sewerage undertaker is terminated, a water company may not be wound-up, nor may an administrator under the Insolvency Act 1986 be appointed in respect of it.

During the period of a special administration order, a water company is managed in such a way as to achieve the purposes of such order and in a manner that seeks to protect the respective interests of members and creditors of the water company. However, the effect of other provisions of the Water Industry Act 1991 is ultimately to subordinate members' and creditors' rights in favour of the purposes of the special administration order.

8. Environment

The water and waste water industry in the UK is subject to substantial regulation, placing significant statutory obligations on South West Water with regard to, among others, the quality of treated water supplied, waste water treatment and the effects of the South West Water's activities on the environment, biodiversity and human health and safety.

The ongoing development of such regulation could lead to additional obligations and restrictions being imposed on South West Water which may adversely impact its operations and increase expenditure.

All water companies have general duties, in exercising their functions, to conserve and enhance biodiversity and natural beauty and to promote efficient use of water. Environmental and public health regulation in the water sector is primarily the responsibility of the Secretary of State together with:

- The Environment Agency, which is responsible for conserving and redistributing water resources and securing their proper use, including the licensing of water abstraction from, and the environmental permitting of discharges to, controlled waters, for pollution control generally and for drought control and flood defence measures. The Government has proposed extending the scope of the environmental permitting regime to cover water abstraction as well as water discharge.
- The Drinking Water Inspectorate, which enforces drinking water quality standards, being involved in ensuring that water companies fulfil their statutory duty to supply drinking water that is wholesome.
- Natural England, which is responsible for the protection of designated sites for nature conservation, for example so-called Sites of Special Scientific Interest.

EU directives, including the Water Framework Directive, the Drinking Water Directive, the Bathing Water Directive, the Urban Wastewater Treatment Directive and the Industrial Emissions Directive, are implemented in the UK by primary and secondary legislation. Any pollution of controlled waters or other environmental harm caused by South West Water or failure to meet drinking water quality or fitness requirements may result in enforcement action (including prosecution) or in liability for remedial or compensatory works under a number of statutory liability regimes, including that implemented in the UK pursuant to the EU Environmental Liability Directive, or for damages or other compensation.

Energy use in water and waste water treatment and other activities carried out by South West Water results in indirect emissions of greenhouse gases. South West Water was principally subject to the CRC Energy Efficiency Scheme, a mandatory UK emissions trading scheme for significant consumers of energy (which resulted in an annual cost to it of £0.2 million in the financial year ended 31 March 2020). This scheme has now ceased and has been replaced by a new streamlined energy and carbon reporting framework. The change will be neutral as there has been an increase in the Climate Change Levy.

9. Insurance

The Group manages its property and third party liability risks through insurance policies that mainly cover property and business interruption, motor, public liability, environmental pollution and employers' liability. The Group uses three tiers of insurance to cover operating risks:

- self-insurance – Group companies pay a moderate excess on most claims;
- cover by the Group's subsidiary (Peninsula Insurance Limited) of the layer of risk between the self-insurance and the cover provided by external insurers; and
- cover provided by the external insurance market, arranged by its brokers with insurance companies that have good credit ratings.

The Group's insurance policies are subject to commercially negotiated deductibles, exclusions and limitations and the Group will only receive insurance proceeds in respect of a claim made by it to the extent that its insurers have the funds to make payment. Therefore, insurance may not cover all losses incurred by the Group and no assurance is given that the Group will not suffer losses beyond the limits of, or outside the cover provided by, its insurance policies.

10. Current trading and prospects

The Group announced its results for the financial year ended 31 March 2020 on 4 June 2020. On 8 July 2020, the sale of the Viridor business, which was treated as a discontinued operation and assets held for sale in the financial year ended 31 March 2020, was completed and the Group received gross proceeds of £3.7 billion. On that date, the Group announced it was planning to repay up to £900 million of the Company's borrowings of £1.2 billion over a number of months following completion. This debt had been drawn previously to fund the expansionary investment in Viridor. The Group has also contributed £36 million of proceeds into the Group's principle pension scheme, to move the scheme closer to being fully funded on a technical provisions basis.

As part of its results presentation updated guidance on the performance of the Group was provided.

The Group reported Underlying Revenue for the financial year ended 31 March 2020 of £636.7 million. Revenues in the financial year ended 30 March 2021 are expected to reduce from this level through the combination of the lower tariffs based on the K7 final determination and the overall impact of Covid-19 on water demand. (See – *“Impact of Covid-19”*).

While operating costs will be impacted by inflationary increases, the Group is focused on cost efficiency and strong operational cost control.

As part of its regulatory commitments, the Group's capital investment programme continues in line with the K7 profile of investment. The level of capital investment is expected to be lower than in the financial year ended 2020 where some investment was accelerated to ensure the business was well prepared for the start of the new regulatory period.

Impact of Covid-19

The Covid-19 pandemic has negatively impacted economic conditions globally, the UK economy and has presented a number of operational challenges. The Group has, and continues to assess, the potential impact on the Group's activities caused by Covid-19 and measures have been implemented to ensure the continued delivery of the expected levels of service to its stakeholders as an essential service provider. The Group also continues to work closely with its wider stakeholders and peers ensuring a joined up and collaborative response.

The Group has revised its processes and ways of working and drawn on its resilience and continuity plans to ensure its services continue to be provided to its customers as necessary, while continuing to prioritise the health, safety and wellbeing of its employees and customers, which remain paramount. Additional measures introduced have strictly followed the UK Government and public health guidance. To date the Group has not taken advantage of the UK Government's Coronavirus Job Retention Scheme or any other Covid-19 support schemes, while Pennon Water Services has not taken advantage of wholesaler regulatory support through the deferral of any payments at this stage.

During the lockdown period from late March 2020 and early July 2020 South West Water saw a decline in wholesale demand from businesses (approximately 20 per cent.), particularly those within the hospitality and retail sectors, while residential demand increased (approximately 5 per cent.) as more people remained at home. Following the relaxation of the UK Government's restrictions from the 4 July 2020 and the reopening of some businesses, the Group has seen a shift towards a rebalancing of demand. The Group has indicated an expected impact on net revenue during the year ended 31 March 2020 and year ended 31 March 2021 of approximately £10 million as a result of lower business customer revenue net of higher residential customer demand; however the regulatory mechanism allows this value to be recovered in future years.

The macroeconomic impact of Covid-19 may create increased affordability challenges on the Group's residential and business customers impacting on the collection of outstanding debt. Despite cash collection through to July 2020 remaining relatively robust the Group recognised a non-underlying charge of £8 million (excluding discontinued operations) (residential customers: £3 million; business customers: £5 million) as at 31 March 2020 in respect of expected credit losses arising from Covid-19.

The medium and long term impact of Covid-19 remains uncertain, however, as at the 31 March 2020 the assessment of the Group's financial viability confirmed that the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over a five-year period. Scenarios applied in performing this assessment included the potential impact from the ongoing Covid-19 pandemic. As a regulated water business, a separate assessment of South West Water's viability was also performed over a longer term period to 2030, which also considered

the potential impact from the ongoing Covid-19 pandemic, and concluded that the scenarios did not compromise the viability of South West Water during this period. Furthermore, the essential nature of the services that the Group provides, the sustainable financing strategy and significant cash and committed facilities of £3,865 million as at 31 July 2020 has meant that the Director's continue to believe the Group is well positioned to manage the continued impact of Covid-19.

11. Capitalisation and indebtedness

The following tables show the Group's capitalisation and indebtedness as at 31 July 2020.

	£ million
Capitalisation⁽¹⁾	
Share capital-ordinary shares	171.5
Share premium account	227.6
Capital redemption reserve	144.2
Own shares	(4.5)
Other reserves	(26.5)
Total capitalisation as at 31 July 2020	512.3

(1) This statement of capitalisation, which is unaudited, has been extracted without material adjustment from the Group's unaudited underlying account records as at 31 July 2020 and prepared under IFRS as adopted by the European Union using policies which are consistent with those used in preparing the Group's audited consolidated financial statements for the financial year ended 31 March 2020.

	£ million
Indebtedness⁽¹⁾	
Current debt	
–Guaranteed	-
–Secured	-
–Unguaranteed/unsecured	77.8
–Collateralised	-
–Non-collateralised	-
Total current debt	77.8
Non-current debt (excluding current proportion of long-term debt)	
–Guaranteed	-
–Secured	-
–Unguaranteed/unsecured	3,138.7
–Collateralised	-
–Non-collateralised	-
Total non-current debt (excluding current portion of long-term debt) ...	3,138.7
Total indebtedness as at 31 July 2020	3,216.5

(1) This statement of indebtedness, which is unaudited, has been extracted without material adjustment from the Group's unaudited underlying account records as at 31 July 2020 and prepared under IFRS as adopted by the European Union using policies which are consistent with those used in preparing the Group's audited consolidated financial statements for the financial year ended 31 March 2020.

As at 31 July 2020, the Group had no indirect or contingent indebtedness.

There has been no material change to the Group's total capitalisation or indebtedness since 31 July 2020.

The following table sets out the Group's net financial indebtedness as at 31 July 2020.

	£ million
Net-financial indebtedness⁽¹⁾⁽²⁾	
Cash ⁽³⁾	(3,475.0)
Cash equivalents	-
Trading securities	-
Liquidity	-
Current financial receivable	-
Current bank debt	41.1
Current portion of non-current debt	-
Other current financial debt ⁽⁴⁾	36.7
Net current financial indebtedness	(3,397.2)
Non-current loans ⁽⁵⁾	549.9
Private Placements	624.5
Bonds issued	568.5
Other non-current debt ⁽⁶⁾	1,395.8
Non-current financial indebtedness	3,138.7
Net financial indebtedness as at 31 July 2020	(258.5)

- (1) This statement of net financial indebtedness, which is unaudited, has been extracted without material adjustment from the Group's unaudited underlying accounting records as at 31 July 2020 and prepared under IFRS as adopted by the European Union using policies which are consistent with those used in preparing the Group's audited consolidated financial statements for the financial year ended 31 March 2020.
- (2) Net financial indebtedness is presented net of unamortised pre-paid borrowing fees of £6.5 million.
- (3) Following the Viridor disposal and prior to 31 July 2020, the Group has made a £36 million contribution to fund the Pennon Group Pension Scheme using the proceeds from the Viridor disposal.
- (4) Other current financial debt is short-term right-of-use lease liabilities recognised under IFRS 16.
- (5) As at 31 July 2020, the Group has repaid £485 million of non-current loans that were outstanding at 31 March 2020 using the proceeds from the Viridor disposal.
- (6) Other non-current debt is long-term right-of-use lease liabilities recognised under IFRS 16.

12. Dividends and dividend policy

In the announcement of its results for the financial year ended 31 March 2020, the Company confirmed that the Board had evaluated the Group's dividend for the financial year ended 31 March 2020 in light of the Covid-19 pandemic and had concluded that it was appropriate for Pennon to continue to deliver on its dividend commitment.

Having received shareholder approval at the Annual General Meeting held on 31 July 2020, a final dividend of 30.11 pence for the financial year ended 31 March 2020 was paid on 2 September 2020. Together with the interim dividend of 13.66 pence, this resulted in a total dividend of 43.77 pence for the financial year ended 31 March 2020. This was in line with the Company's dividend policy for 2010-2020 of Retail Price Index ("RPI") plus 4 per cent. growth per annum, which was achieved while investing more than £3.6 billion in Pennon's businesses over the past ten years. Pennon offers Shareholders the opportunity to invest their dividend in a DRIP Scheme. However, Participating Customers will not be eligible to participate in the Company's DRIP Scheme at this time in accordance with the terms and conditions of the Nominee Service set out in Part 7B (*Terms and Conditions of the Nominee Service*).

2020 – 2025 Group Dividend Policy

The crystallisation of the Viridor sale was equivalent to 22.66 pence per share of the recommended dividend for the financial year ended 31 March 2020. This implies a Continuing Group dividend (after

excluding Viridor) of 21.11 pence per share (the “**implied re-based Continuing Group dividend rate**”).

The Company will use a portion of the approximately £3.7 billion of net cash proceeds to reduce company borrowings and the pension deficit. The Board is reviewing the most efficient and effective method of returning the remaining value to shareholders, alongside considering earnings-accretive market opportunities. Any potential investment will be assessed in terms of value creation and the impact on Shareholder returns, income and growth, as well as the impact on customers and other stakeholders. Any use of capital to pursue an investment opportunity will be compared with the alternative of returning that capital to Shareholders, maintaining the Company’s strong focus on financial discipline. The Company aims to update Shareholders on this review at Pennon’s half-year results announcement on 24 November 2020.

Pennon’s dividend policy for 2020 to 2025 for the Group will be growth of CPIH plus 2 per cent. per annum, from the implied re-based Continuing Group dividend rate of 21.11 pence per share. The shift from the existing policy of linking the growth in dividend from RPI to CPIH reflects the change in the regulatory model for South West Water, matching allowed revenues.

The re-based dividend reflects the sector-leading position of the Group, with expectations for outperformance on financing and total expenditure supporting the sustainable dividend growth policy and dividend cover.

PART 9

Financial Information relating to the Pennon Group

The consolidated financial statements of the Group as at and for the year ended 31 March 2020, as set out in the 2020 Financial Statements, are incorporated by reference into this document, as explained in Part 14 (Documentation incorporated by Reference).

PART 10

Unaudited *Pro Forma* Financial Information of the Group

SECTION A

Accountants' Report on the Unaudited *Pro Forma* Financial Information of the Group

18 September 2020

The Directors
Pennon Group plc
Peninsula House, Rydon Lane
Exeter
EX2 7HR
Dear Sirs

We report on the *pro forma* financial information (the “*Pro Forma* Financial Information”) set out in Section B of Part 10 of the prospectus dated 18 September 2020, which has been prepared on the basis described in the *Pro Forma* Financial Information, for illustrative purposes only, to provide information about how the disposal of Viridor Limited might have affected the financial information presented on the basis of the accounting policies adopted by Pennon Group plc in preparing the financial statements for the period ended 31 March 2020. This report is required by Section 3 of Annex 20 of Commission Delegated Regulation (EU) 2019/980 and is given for the purpose of complying with that rule and for no other purpose.

Save for any responsibility arising under Prospectus Regulation Rule 5.3.2R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 1.3 of Annex 3 to Commission Delegated Regulation (EU) 2019/980, consenting to its inclusion in the Prospectus.

Responsibilities

It is the responsibility of the directors of Pennon Group plc to prepare the *Pro Forma* Financial Information in accordance with Sections 1 and 2 of Annex 20 of Commission Delegated Regulation (EU) 2019/980.

It is our responsibility to form an opinion, as required by Section 3 of Annex 20 of the Commission Delegated Regulation (EU) 2019/980, as to the proper compilation of the *Pro Forma* Financial Information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the *Pro Forma* Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the *Pro Forma* Financial Information with the directors of Pennon Group plc.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the *Pro Forma* Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of Pennon Group plc.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- (a) the *Pro Forma* Financial Information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of Pennon Group plc.

Declaration

For the purposes of Prospectus Regulation Rule 5.3.2R (2)(f) we are responsible for this report as part of the prospectus and declare that, to the best of our knowledge, the information contained in this report is in accordance with the facts and that the report contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with item 1.2 of Annex 3 of Commission Delegated Regulation (EU) 2019/980.

Yours faithfully

Ernst & Young LLP

SECTION B

Unaudited *Pro Forma* Financial Information

The unaudited *pro forma* financial information of the Pennon Group has been prepared to illustrate the effect of the Disposal of the Viridor Business on: (i) the consolidated net assets of the Pennon Group as at 31 March 2020 as if the Disposal had taken place on that date; and (ii) the consolidated income statement of the Pennon Group for the year ended 31 March 2020 as if the Disposal had taken place on 1 April 2019.

The unaudited *pro forma* financial information has been prepared on the basis set out in the notes below and has been prepared in a manner consistent with the accounting policies applied by the Pennon Group in preparing its consolidated financial statements for the year ended 31 March 2020 and in accordance with the requirements of sections 1 and 2 of Annex 20 of Commission Delegated Regulation (EU) 2019/980.

The unaudited *pro forma* financial information has been prepared for illustrative purposes only. The hypothetical financial position or results included in the *pro forma* financial information may differ from the Pennon Group's actual financial position or results.

The unaudited *pro forma* financial information does not purport to represent what the Pennon Group's financial position or results would have been if the Disposal had taken place on the dates indicated nor does it purport to represent the Pennon Group's results expected to be achieved in the future.

The unaudited *pro forma* financial information does not constitute financial statements within the meaning of section 434 of the Companies Act.

Investors should read the whole of this document and not rely solely on the unaudited *pro forma* financial information in this Part 10.

Ernst and Young LLP's accountant's report on the unaudited *pro forma* financial information is set out in Section A of this Part 10 (Accountants' Report on the Unaudited *Pro Forma* Financial Information of the Group).

UNAUDITED PRO FORMA STATEMENT OF NET ASSETS

£ million	Pennon Group as at 31 March 2020 (Note 1)	Viridor Disposal (Note 2)	<u>Adjustment</u>	Pro forma as at 31 March 2020 (Note 3)
Assets				
Non-current assets				
Goodwill	42.3	-	-	42.3
Other intangible assets.....	1.2	-	-	1.2
Property, plant and equipment	3,171.8	-	-	3,171.8
Derivative financial instruments...	4.1	-	-	4.1
Retirement benefit obligations	6.6	(6.6)	-	-
	3,226.0	(6.6)		3,219.4
Current assets				
Inventories	4.9	-	-	4.9
Trade and other receivables.....	185.8	54.0	-	239.8
Current tax assets	1.9	-	-	1.9
Derivative financial instruments...	2.7	-	-	2.7
Cash and cash deposits	665.9	3,688.5	-	4,354.4
	861.2	3,742.5		4,603.7
Assets held for sale	2,675.3	(2,675.3)		-
Total assets	6,762.5	1,060.6		7,823.1
Liabilities				
Current liabilities				
Borrowings	(59.9)	-	-	(59.9)
Financial liabilities at fair value through profit	(1.5)	-	-	(1.5)
Derivative financial instruments ...	(7.1)	-	-	(7.1)

Trade and other payables	(115.3)	-	(115.3)
Provisions	(0.6)	-	(0.6)
	(184.4)	-	(184.4)
Liabilities directly associated with assets classified as held for sale.....	(756.3)	756.3	-
Non-current liabilities			
Borrowings	(3,654.9)	-	(3,654.9)
Other non-current liabilities	(122.9)	-	(122.9)
Financial liabilities at fair value through profit	(43.1)	-	(43.1)
Derivative financial instruments...	(27.2)	-	(27.2)
Retirement benefit obligations....	-	(5.7)	(5.7)
Deferred tax liabilities	(261.6)	2.3	(259.3)
	(4,109.7)	(3.4)	(4,113.1)
Total liabilities.....	(5,050.4)	752.9	(4,297.5)
Net assets.....	1,712.1	1,813.5	3,525.6

Notes:

- (1) The net assets of the Pennon Group have been extracted without material adjustment from the audited consolidated financial statements of the Pennon Group as at 31 March 2020, incorporated by reference in Part 14 (Documentation incorporated by Reference) of this document, as published in the Group's Annual Report and Accounts which were approved by the Board on 3 June 2020 and were prepared in accordance with IFRS.
- (2) The Viridor disposal adjustment comprises:
 - (a) The adjustments to Assets held for sale and Liabilities directly associated with assets classified as held for sale remove the assets and liabilities of the Viridor Group which were treated as held for sale in the consolidated balance sheet of the Pennon Group as at 31 March 2020.
 - (b) The adjustment to Cash and cash deposits of £3,688.5 million represents the consideration receivable for the Viridor disposal, disposal transaction costs incurred to effect the disposal, and pension contributions as set out below:

	£ million
Disposal proceeds	2,511.5
Amounts to settle intercompany balances as at 31 March 2020	1,199.5
Amounts to settle additional intercompany balances arising from 1 April 2020 to date of completion	43.5
Gross cash proceeds	3,754.5
Deferred consideration ⁽ⁱ⁾	54.0
Total consideration.....	3,808.5
Gross cash proceeds	3,754.5
Transaction costs.....	(63.2)
Net cash proceeds.....	3,691.3
Pension scheme contribution ⁽ⁱⁱ⁾	(2.8)
Pro forma cash adjustment.....	3,688.5

- (i) The adjustment to Trade and other receivables of £54.0 million represents the deferred consideration which may be receivable in future under the terms of the Sale Agreement. The Company considers that the amount of deferred consideration could be up to £0.2 billion, dependent upon future actions and the outcome of underlying events. As required under IFRS and the Company's accounting policies, the Company has estimated the fair value of this amount to be £54.0 million, reflecting the Company's current expectations about future actions and the outcomes of the underlying events.
- (ii) An additional payment of £2.8 million was made in to the Citrus pension scheme as a pre-completion condition of the sale and purchase agreement for the Viridor disposal.
- (c) The adjustments to Retirement benefit obligations, totalling £12.3 million, includes (i) a decrease in the obligation of £2.8 million related to the payment made to the Citrus pension scheme referred to in note 2(b)(ii) above, and (ii) an increase in the obligation of £15.1 million representing the recognition of an additional defined pension scheme liability as under the share purchase agreement, Pennon Group plc will retain all responsibilities for the accrued defined benefit scheme liabilities within the Viridor business. The adjustment to Deferred tax liabilities represents the corresponding deferred tax impact of these adjustments at the relevant corporate tax rate.
- (3) No account has been taken of any trading or results of the Pennon Group since 1 April 2020 up to the date of this document or of the Viridor Group since 1 April 2020 up to the date of disposal on 8 July 2020.

UNAUDITED PRO FORMA INCOME STATEMENT

		<u>Adjustment</u>	
	Pennon Group for the year ended 31 March 2020 (Note 1)	Viridor Disposal (Note 2)	Pro forma for the year ended 31 March 2020 (Note 3)
Revenue	636.7	-	636.7
Operating costs.....		-	-
Employment costs.....	(70.0)	-	(70.0)
Raw materials and consumables used	(14.9)	-	(14.9)
Other operating expenses	(186.5)	-	(186.5)
 Underlying earnings before interest, tax, depreciation and amortisation	 365.3	 -	 365.3
Operating non-underlying items	(7.9)	-	(7.9)
Investments in subsidiary undertakings	(119.8)	-	(119.8)
 Operating profit	 237.6	 -	 237.6
Finance income.....	4.1	-	4.1
<i>Finance costs: Underlying</i>	<i>(66.6)</i>	<i>(0.6)</i>	<i>(67.2)</i>
<i>Finance costs: Non-underlying</i>	<i>18.0</i>	<i>-</i>	<i>18.0</i>
Finance costs.....	(48.6)	(0.6)	(49.2)
Net finance costs	(44.5)	(0.6)	(45.1)
 Underlying profit before tax	 183.0	 (0.6)	 182.4
Non-underlying operating and finance costs	10.1	-	10.1
Profit before tax	193.1	(0.6)	192.5
Taxation charge	(70.6)	0.1	(70.5)
Profit from continuing operations	122.5	(0.5)	122.0
Profit from discontinued operations .	83.8	1,729.7	1,813.5
Profit for the year	206.3	1,729.2	1,935.5

Notes:

- (1) The income statement of the Pennon Group has been extracted without material adjustment from the audited consolidated financial statements of the Pennon Group as at 31 March 2020, incorporated by reference in Part 14 (Documentation incorporated by Reference) of this document, as published in the Pennon Group's Annual Report and accounts which were approved by the Board on 3 June 2020 and were prepared in accordance with IFRS.
- (2) The Viridor disposal adjustment comprises:
 - (a) The adjustment to Finance costs of £0.6 million reflects the notional pension interest charge recognised by Viridor in the 12 months to 31 March 2020 that would have been borne by the Pennon Group. Under the terms of the share purchase agreement, Pennon Group plc will retain all responsibilities for the accrued defined benefit scheme liabilities within the Viridor business.
 - (b) The adjustment to Taxation charge of £0.1 million reflects the tax credit relating to the pro forma twelve-month interest expense described above.
 - (c) The adjustment to Profit from discontinued operations includes: (i) removal of £83.8 million being the profit generated by Viridor in the 12 months to 31 March 2020 which was disclosed separately from continuing operations, as discontinued operations, in the consolidated income statement of the Pennon Group for the year ended 31 March 2020 and (ii) the pro forma net gain associated with the Viridor disposal of £1,813.5 million, comprising proceeds from the disposal, net of transaction costs directly attributable to the disposal, less the net assets disposed of, as follows:

	£ million
Total consideration (see note 2b of the Pro Forma Statement of Net Assets).....	3,808.5
Transaction costs (see note 2b of the Pro Forma Statement of Net Assets).....	(63.2)
Net transaction consideration	3,745.3
Less: net assets disposed of (see note 2a of the Pro Forma Statement of Net Assets).....	(1,919.0)

Less: pension scheme contribution (see note 2b of the Pro Forma Statement of Net Assets)	(2.8)
Less: assumption of retirement benefit obligations (net of deferred tax) (see note 2c of the Pro Forma Statement of Net Assets)	(10.0)
Pro forma gain on disposal ⁽ⁱ⁾	1,813.5

(i) The pro forma gain on disposal is expected to qualify for the Substantial Shareholding Exemption and consequently is not subject to corporation tax.

- (3) No account has been taken of any trading or results of the Pennon Group since 1 April 2020 up to the date of this document or of the Viridor Group since 1 April 2020 up to the date of disposal on 8 July 2020.
- (4) All of the adjustments to the Unaudited Pro Forma Income Statement are considered to be recurring except for the adjustment for the pro forma gain on disposal of the Viridor business.

PART 11
Overseas Customers

1. Overseas Customers

This document has been approved by the FCA, being the competent authority in the UK. It is expected that no Qualifying Household Customers in any Restricted Jurisdiction will be able to participate in the WaterShare+ Scheme Offer.

No person receiving a copy of the Prospectus and/or Choice Letter, or accessing the WaterShare+ Choice Letter Portal or the Receiving Agent's Share Registration Portal in any territory outside the UK may treat the same as constituting an invitation or offer to that person nor should that person in any event submit an Application online. None of the contents of the WaterShare+ Choice Letter Portal or the Receiving Agent's Share Registration Portal, nor any documents relating to the WaterShare+ Scheme Offer (including, without limitation, the Prospectus and Choice Letter) has been submitted to the clearance procedures of any authorities other than the FCA, as the competent authority in the UK. Any Application made by a Qualifying Household Customer outside the UK will be rejected.

Only individuals that are resident in the United Kingdom are Qualifying Household Customers that may participate in the WaterShare+ Scheme Offer. Invitations to participate in the WaterShare+ Scheme will be sent to customers who are determined to be Eligible Customers as of the Qualifying Date. Neither this document nor the Choice Letter may be forwarded to anyone in a Restricted Jurisdiction.

Having considered the circumstances, the Directors have formed the view that it is necessary or expedient to restrict the ability of the customers in the United States and the other Restricted Jurisdictions to participate in the WaterShare+ Scheme Offer due to the time and costs involved in the registration of the document and/or compliance with the relevant local legal or regulatory requirements in those jurisdictions.

The Company may treat as invalid any acceptance or purported acceptance of the WaterShare+ Scheme Offer or an online Application which appears to the Company or its agents to have been executed, effected or despatched in a manner which may involve a breach of the laws or regulations of any jurisdiction or if it believes or they believe that the same may violate applicable legal or regulatory requirements or if, in the case of an online Application, it provides an address for delivery of the Nominee Share Account Statement for Existing Ordinary Shares and the Customer's registered address is in a Restricted Jurisdiction, including the United States, or if the Company believes or its agents believe that the same may violate applicable legal or regulatory requirements.

Specific restrictions relating to certain jurisdictions are set out below.

(A) Offering restrictions relating to the United States

The Existing Ordinary Shares have not been and will not be registered under the Securities Act or any relevant securities laws of any state or other jurisdiction of the United States and may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, within the United States.

No offering is being made in the United States and neither this document nor the Choice Letter constitutes or will constitute an offer or an invitation to apply for, or an offer or an invitation to acquire or subscribe for, any Existing Ordinary Shares in the United States. The Choice Letter will not be sent to and a Nominee Share Account Statement may not be delivered to any Eligible Customer with an address in the United States.

All Participating Customers must provide an address outside of the United States for registration of the Existing Ordinary Shares in the Nominee Share Account Statement.

Neither the Existing Ordinary Shares, the Choice Letter, this document nor any other document connected with the WaterShare+ Scheme Offer has been or will be approved or disapproved by the SEC or by the securities commissions of any state or other jurisdiction of the United States or any other regulatory authority, nor has any of the foregoing authorities or any securities commission passed upon or endorsed the merits of the WaterShare+ Scheme Offer or any related documentation. Any representation to the contrary is a criminal offence in the United States.

Any person who receives this document, the Choice Letter or a Nominee Share Account Statement will be deemed to have declared, represented, warranted and agreed to, by accepting delivery of this document or the Choice Letter or by applying for Existing Ordinary Shares under the WaterShare+ Scheme Offer, and any delivery of such Existing Ordinary Shares, the representations and warranties set out in section 2 of this Part 11 (Overseas Customers).

The Company reserves the right, in its absolute discretion, to treat as invalid any Application: (i) that appears to the Company or its agents to have been executed in or despatched from the United States; or (ii) where the Company believes acceptance of such Application may infringe applicable legal or regulatory requirements, and the Company shall not be bound to accept any such Application.

2. Representations and warranties relating to overseas territories

Any person receiving this document, the WaterShare+ Scheme Offer, the Choice Letter, accepting an Application or requesting the Existing Ordinary Shares comprised therein represents and warrants to the Company that:

- such person is not accepting an Application from within the United States or any other Restricted Jurisdiction; (ii) such person is not in any territory in which it is unlawful to make or accept the WaterShare+ Scheme Offer or to use the Application in any manner in which such person has used or will use it;
- such person is not acting on for a person located within the United States or any other Restricted Jurisdiction at the time the instruction to accept or renounce was given; and
- such person is not acquiring Existing Ordinary Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Existing Ordinary Shares into the United States or any other Restricted Jurisdiction.

Furthermore, any person receiving this document, the WaterShare+ Scheme Offer, the Choice Letter, accepting an Application or requesting the Existing Ordinary Shares comprised acknowledges and agrees that:

- the Company may treat as invalid any acceptance or purported acceptance of an Application if it: (a) appears to the Company to have been executed in or despatched from the United States or any other Restricted Jurisdiction or otherwise in a manner which may involve a breach of the laws of any jurisdiction or if the Company believes the same may violate any applicable legal or regulatory requirement; (b) provides an address in any Restricted Jurisdiction, including the United States, for delivery of the Nominee Share Account Statement; or (c) purports to exclude the representation and warranty required by this section.

(A) Waiver

The provisions of sections 1 and 2 of this Part 11 (Overseas Customers) and of any other terms of the WaterShare+ Scheme Offer relating to Restricted Jurisdictions may be waived, varied or modified as regards specific Qualifying Household Customer(s) or on a general basis by the Company in its absolute discretion. Subject to this, the provisions of sections 1 and 2 of this Part 11 (Overseas Customers) supersede any terms of the WaterShare+ Scheme Offer inconsistent herewith. References in sections 1 and 2 of this Part 11 (Overseas Customers) to Qualifying Household Customers shall include references to the person or persons executing an Application and, in the event of more than one person executing an Application, the provisions of this section 2 of this Part 11 (Overseas Customers) shall apply jointly to each of them.

PART 12

United Kingdom Taxation Considerations

1. UK Taxation

The following statements are intended to apply only as a general guide to certain UK tax considerations in relation to the Existing Ordinary Shares acquired by Qualifying Household Customers. They are based on current UK tax law and what is understood to be the current practice of HMRC (which may not be binding on HMRC), both of which are subject to change at any time, possibly with retrospective effect.

They relate only to certain limited aspects of the UK taxation treatment of, and are intended to apply only to Qualifying Household Customers who are individuals who are resident and domiciled or deemed domiciled, solely in the UK for UK tax purposes and do not apply to Shareholders to whom split-year treatment applies. They apply only to Qualifying Household Customers who will hold the Existing Ordinary Shares as investments (other than under an individual savings account or a self-invested personal pension) and who will be the absolute beneficial owners of both the Existing Ordinary Shares and any dividends paid on them. The statements may not apply to certain classes of Qualifying Household Customer such as (but not limited to) persons receiving Existing Ordinary Shares who are employed by the Company or South West Water.

If Qualifying Household Customers are in any doubt about the taxation consequences of acquiring or holding or disposing of Existing Ordinary Shares, they should seek advice from their own professional advisers without delay. Investors should note that tax law and interpretation can change and that, in particular, the level and basis of, and reliefs from, taxation may change and that may alter the benefits of investment.

1.1. Tax consequences of Qualifying Household Customers accepting the WaterShare+ Scheme Offer

The acceptance of the WaterShare+ Scheme Offer is not expected to give rise to any tax liabilities for Qualifying Household Customers.

1.2. Dividends

Withholding tax

The Company will not be required to deduct or withhold amounts on account of UK tax at source from dividend payments it makes, irrespective of the residence or particular circumstances of the Qualifying Household Customer receiving such dividend payment.

Qualifying Household Customers receiving dividends

Qualifying Household Customers are not expected to be taxed on any dividends paid on Existing Ordinary Shares that they acquire pursuant to the WaterShare+ Scheme Offer.

This is because a nil rate of income tax will apply for the first £2,000 of dividend income received by a Qualifying Household Customer in a tax year (the “**Nil Rate Band**”) and, assuming that the Qualifying Household Customer does not have any other dividend income in the relevant tax year, any dividends paid on Existing Ordinary Shares that they acquire pursuant to the WaterShare+ Scheme Offer are unlikely to exceed that Nil Rate Band.

If Qualifying Household Customers do have other dividend income in the relevant tax year and the total dividends that they receive (from both the Company and other companies) exceeds the Nil Rate Band, the rate of tax applicable to dividend income in excess of the Nil Rate Band will depend on the wider tax position of the Qualifying Household Customer. Broadly speaking, after taking into account the amount (if any) of a Qualifying Household Customer’s personal allowance, and any other allowances, exemptions and reliefs, the Qualifying Household Customer’s taxable income up to the basic rate limit will fall within the basic rate band; taxable income between the basic rate limit and the higher rate limit will fall within the higher rate band; and taxable income above the higher rate limit will fall within the additional rate band. For the tax year running 6 April

2020 to 5 April 2021 for Qualifying Household Customers in England, the basic rate limit is £37,500 and the higher rate limit is £150,000 (although, these limits can be increased in certain circumstances).

The rates of income tax for Qualifying Household Customers in England on dividends received above the Nil Rate Band are (a) 7.5% for dividends in the basic rate band; (b) 32.5% for dividends in the higher rate band; and (c) 38.1% for dividends in the additional rate band.

In determining the tax band in which any dividend income over the Nil Rate Band falls, dividend income is treated as the top slice of a Shareholder's income and dividend income within the Nil Rate Band is still taken into account.

Because dividend income (including income within the Nil Rate Band) is taken into account in assessing whether a Shareholder's overall income is above the higher or additional rate limits, the receipt of such income may also affect the amount of personal allowances to which the Shareholder is entitled.

1.3. UK taxation of capital gains arising on sale or other disposal by Qualifying Household Customers

A disposal or deemed disposal of Existing Ordinary Shares by a Qualifying Household Customer who is resident in the UK for tax purposes may, depending on the Qualifying Household Customer's circumstances and subject to any available exemptions and reliefs, give rise to a capital gain or loss for the purposes of UK taxation of capital gains.

Qualifying Household Customers are not however expected to be taxed on any gains made on Existing Ordinary Shares that they acquire pursuant to the WaterShare+ Scheme Offer. This is because, assuming that Qualifying Household Customers do not realise any other capital gains in the tax year in which they dispose of the Existing Ordinary Shares that they acquire pursuant to the WaterShare+ Scheme Offer, any gain made on those Existing Ordinary shares is unlikely to exceed the Annual Exemption defined below.

The principal factors that will determine the UK capital gains tax position on a disposal or deemed disposal of Existing Ordinary Shares are the base cost that the Qualifying Household Customer has in the Existing Ordinary Shares, the extent to which the Qualifying Household Customer realises any other capital gains in the UK tax year in which the disposal is made, the extent to which the Qualifying Household Customer has incurred capital losses in that or earlier UK tax years, the UK income tax band into which the Qualifying Household Customer falls, and the level of the annual allowance of tax-free gains in that UK tax year (the "**Annual Exemption**"). The Annual Exemption for the tax year running 6 April 2020 to 5 April 2021 is £12,300.

Qualifying Household Customers should have a base cost equal to the market value of such Existing Ordinary Shares on the date when they receive their Existing Ordinary Shares pursuant to the WaterShare+ Scheme Offer.

If Qualifying Household Customers do realise other capital gains in the relevant tax year in excess of the Annual Exemption, the applicable rate for an individual Qualifying Household Customer who makes a capital gain on the disposal (or deemed disposal) of Existing Ordinary Shares which (after deducting any available capital losses) is liable to UK capital gains tax is 10% or 20%, depending on the individual's personal circumstances, including other taxable income and gains in the relevant year.

A Qualifying Household Customer who ceases to be resident in the UK for tax purposes and then reacquires UK tax residence before five complete tax years have elapsed and who disposes of Existing Ordinary Shares during that period of non-residence may also be liable on their return to the UK to tax on any capital gain realised, subject to any available exemptions or reliefs.

1.4. Stamp duty and SDRT

The following statements about UK stamp duty and SDRT apply regardless of whether or not a Qualifying Household Customer is resident, domiciled or deemed domiciled in the UK. This section does not cover the treatment of any Existing Ordinary Shares which are transferred (i) to, or to a nominee for, a person whose business is or includes the provision of clearance services or

(ii) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts.

Acquisition of Existing Ordinary Shares pursuant to the WaterShare+ Scheme Offer

Qualifying Household Customers should not be required to pay any stamp duty or SDRT on the acquisition of Existing Ordinary Shares pursuant to the WaterShare+ Scheme Offer. Any stamp duty or SDRT payable on the acquisition will be paid by the Company.

Deposit of Existing Ordinary Shares in CREST

Deposits of Existing Ordinary Shares into CREST will generally not be subject to stamp duty or SDRT unless such a transfer is made for a consideration in money or money's worth, in which case a liability to SDRT will arise usually at the rate of 0.5% of the amount of value of the consideration.

Subsequent transfers within CREST

Paperless transfers of Existing Ordinary Shares within CREST are generally liable to SDRT, rather than stamp duty, at the rate of 0.5% of the amount of value of the consideration. CREST is obliged to collect SDRT on relevant transactions settled within the system and to account for this to HMRC.

Subsequent transfers outside CREST

The conveyance or transfer on sale of Existing Ordinary Shares outside the CREST system will generally be subject to stamp duty on the instrument of transfer at the rate of 0.5% of the amount or value of the consideration given (rounded up to the nearest £5).

An exemption from stamp duty is available on an instrument transferring Existing Ordinary Shares where the amount or value of the consideration is £1,000 or less, and it is certified on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions for which the aggregate consideration exceeds £1,000.

An unconditional agreement to transfer Existing Ordinary Shares will normally give rise to a charge to SDRT at the rate of 0.5% of the amount or value of the consideration for the Existing Ordinary Shares. However, where within six years of the date of the agreement (or, if the agreement is conditional, the date on which it becomes unconditional) an instrument of transfer is executed pursuant to the agreement, and stamp duty is paid on that instrument, any SDRT already paid will generally be refunded (generally, but not necessarily, with interest) provided that a claim for payment is made, and any outstanding liability to SDRT will be cancelled.

The purchaser or transferee of the Existing Ordinary Shares will generally be responsible for paying SDRT. In the absence of contractual agreement no party is legally responsible for the payment of stamp duty as it is not an assessable tax; however in practice the purchaser or transferee will usually pay this to ensure that the company register of members can be updated by the registrar to show the transfer.

PART 13

Additional Information

1. Responsibility Statement

The Directors, whose names and principal functions appear in section 6.1. of this Part 13 (Additional Information) and the Company accept responsibility for the information contained in this document. To the best knowledge of the Directors and the Company, the information contained in this document is in accordance with the facts and this document makes no omission likely to affect its import.

2. The Company

The Company was incorporated on 1 April 1989 and is domiciled in the United Kingdom. It is a public limited company incorporated under the laws of England and Wales with registered number 02366640. Its registered office is Peninsula House, Rydon Lane, Exeter, United Kingdom, EX2 7HR and the Company's main telephone number is +44 (0)1392 446677.

The principal legislation under which the Company operates is the Companies Act and regulations made thereunder.

The Company's LEI is 213800V1CCTS41GWH423.

The Existing Ordinary Shares are listed on the Official List of the London Stock Exchange. The ISIN of the Existing Ordinary Shares is GB00B18V8630.

3. Rights attached to the Special Share

The Pennon Articles are available for inspection on the Company's website as specified in section 20 of this Part 13 (Additional Information). A full description of the rights and restrictions attached to the Special Share are contained therein.

The Special Share is the mechanism by which Pennon funds the WaterShare+ Scheme Offer. Link LMSL will subscribe for the Special Share for 0.01 pence and will hold the Special Share as bare trustee for LMSTL and its purpose is solely to facilitate the purchase of Existing Ordinary Shares for Participating Customers (and covering associated costs) and cannot be used for any other purpose. At the Company's annual general meeting held on 25 July 2019, Pennon Shareholders authorised an amendment to the Pennon Articles to define the rights and restrictions attached to the Special Share and granted the Pennon Directors the authority to issue the Special Share in connection with the WaterShare+ Scheme.

The Pennon Articles provide that the Special Share carries a right to:

- i. a single dividend of up to £25 million for the sole purpose of acquiring Existing Ordinary Shares for Participating Customers and to cover certain costs of the holder of the Special Share (which will be the Link Group), in setting up and running the WaterShare+ Scheme in its first year (the "**Initial Dividend**"); and
- ii. a dividend of up to £1 million payable in each calendar year following the year in which the Special Share is issued for the purposes of covering certain ongoing costs of the WaterShare+ Scheme (the "**Subsequent Dividends**").

Because the Special Share is simply a vehicle to enable Pennon to fund the WaterShare+ Scheme Offer, it carries no other substantive rights. In particular:

- i. it is redeemable at its nominal amount (1 penny) at any time;
- ii. its terms provide for the dividends paid on it (as described above) to be applied in a particular way;
- iii. it carries no right to vote, attend any meetings or any other right to participate in profits of the Company; and
- iv. it cannot be listed, traded on any stock exchange, or transferred other than with the prior consent of the Pennon Directors.

At the Company's annual general meeting held on 31 July 2020, Pennon Shareholders authorised the Pennon Directors to resolve to pay the Initial Dividend on the Special Share. Payment of the Subsequent Dividends was conditional on Pennon Shareholders' authorising the Board to resolve to pay the Initial Dividend, which condition has now been met.

4. Rights attached to the Existing Ordinary Shares

The Pennon Articles are available for inspection on the Company's website as specified in section 20 of this Part 13 (Additional Information. Full details of the rights and restrictions attached to the Existing Ordinary Shares are contained therein.

Transferability

The Existing Ordinary Shares do not contain any restrictions on their transferability except where the Company has exercised its right to prohibit their transfer following the omission of their holder or any person interested in them to provide the Company with information requested by it in accordance with Part 22 of the Companies Act 2006.

Dividend Rights

Each Existing Ordinary Share entitles the holder to dividends paid by the Company to its members, or to any other distribution of the Company's assets made to its members (including on the winding-up of the Company).

Subject to applicable law, the Company may by ordinary resolution from time to time, declare dividends not exceeding the amount recommended by the Directors. The Directors may pay interim dividends, and also any fixed dividend, whenever the financial position of the Company, in the opinion of the Directors, justifies its payment.

All dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid. All dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. Dividends may be declared or paid in any currency.

No dividend or other monies payable by the Company on or in respect of any Existing Ordinary Share will bear interest as against the Company. The Directors may also deduct from any dividend or other monies payable on or in respect of any shares all sums of money (if any) payable to the Company on account of calls or otherwise in respect of that share.

All unclaimed dividends, interest or other sums payable may be invested or otherwise made use of by the Board for the benefit of the Company until claimed. All dividends unclaimed for a period of 12 years after having become due for payment shall be forfeited and cease to remain owing by the Company.

Voting Rights

Each Existing Ordinary Share entitles members to a right to attend and to vote at a general meeting of the Company and such members will have one vote per Existing Ordinary Share held. Participating Customers accepting Existing Ordinary Shares through the WaterShare+ Scheme Offer will, if appointed as a proxy by the Nominee in respect of the Shares held in the Nominee Share Account on their behalf, be entitled to participate in general meetings of the Company subject to the terms and conditions of the Nominee Service - see Part 7B (*Terms and Conditions of the Nominee Service*) and the Pennon Articles.

Subject to the Board deciding otherwise, a member's voting rights may be suspended at a general meeting of the Company whether voting in person or by proxy in respect of the shares that person holds, unless all calls and other sums presently payable by that person in respect of that share have been paid. The Company may also exercise its right to suspend a member's voting rights if the relevant member fails to provide the Company with information requested by it in accordance with Part 22 of the Companies Act 2006 or where the member is precluded from exercising voting rights by the Financial Conduct Authority's Listing Rules or the City Code on Takeovers and Mergers.

No statutory right of pre-emption

There are no pre-emption rights under the Pennon Articles in respect of transfers of Existing Ordinary Shares. In certain circumstances, Pennon Shareholders may have statutory pre-emption rights as provided for by the Companies Act (save to the extent not previously disapplied by Pennon Shareholders). These statutory pre-emption rights would require the Company to offer new Ordinary Shares for allotment for cash to existing Pennon Shareholders on a pro rata basis before allotting them to other persons. In such circumstances, the procedure for the exercise of such statutory pre-

emption rights would be set out in the documentation by which such Ordinary Shares would be offered to Pennon Shareholders.

Capitalisation of reserves or profits:

The Pennon Directors may, with authority of an ordinary resolution capitalise any sum which is part of the Company's reserves or which the Company is holding as net profits (and not required for the payment of any preferential dividend). Unless the ordinary resolution states otherwise, the Directors will set aside the capitalised sum for the holders of the Existing Ordinary Shares in proportion to the nominal amount of the ordinary share capital held by them respectively.

Return of capital:

Subject to any special rights attaching to any class of shares (including the Special Share), on a winding-up, the balance of the assets available for distribution will be distributed in accordance with applicable law.

No option to redeem or convert Existing Ordinary Shares

There is no option to redeem the Existing Ordinary Shares and the Pennon Articles do not provide for any specific means of converting the Existing Ordinary Shares.

5. Major Shareholders

5.1. As at the Latest Practicable Date, insofar as it is known to the Company by virtue of notifications made to it pursuant to Chapter 5 of the Disclosure Guidance and Transparency Rules, the following persons are interested directly or indirectly in voting rights representing 3 per cent. or more of the total voting rights in respect of the issued Ordinary Share capital of the Company:

Voting rights as at the Latest Practicable Date		
	Number of voting rights	% of voting rights
Lazard Asset Management LLC	41,575,771	9.858
Norges Bank	12,857,235	3.048

5.2. Save as disclosed in this section 5, Pennon is not aware of any person who, as at the Latest Practicable Date, directly or indirectly, has a holding which is notifiable under English law.

5.3. None of the Shareholders referred to in this section 5 has different voting rights from any other holder of Ordinary Shares in respect of any Ordinary Shares held by them.

5.4. As at the Latest Practicable Date, the Company was not aware of any persons who, directly or indirectly, jointly or severally, will exercise or could exercise control over the Company.

5.5. As at the Latest Practicable Date, the Company was not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company.

6. Directors and senior management

6.1. Directors

The Directors and their principal functions within the Company, together with a brief description of their management experience and expertise, and an indication of the principal activities performed by them outside the Company, are set out below. The business address of each of the Directors (in respect of their function within the Company) is Peninsula House, Rydon Lane, Exeter, United Kingdom EX2 7HR.

Name	Position
Gill Rider	Chair

Susan Davy	Chief Executive Officer
Paul Boote	Group Finance Director
Neil Cooper	Senior Independent Director
Jon Butterworth	Independent Non-Executive Director
Iain Evans	Independent Non-Executive Director
Claire Ighodaro	Independent Non-Executive Director

Gill Rider – Chair

Gill was appointed to the Board on 1 September 2012 and became Chair on 31 July 2020. She has extensive experience in leadership, governance and remuneration across a broad range of sectors including professional services, education not for profit and government. Gill is currently a non-executive director of Intertek Group plc, president and trustee of the Marine Biological Association and the Sir Alister Hardy Foundation for Ocean Science, and Pro-Chancellor of the University of Southampton. Her previous roles include senior independent director of Charles Taylor plc (until its sale in January 2020), chair of the Council of the University of Southampton and president of the Chartered Institute of Personnel and Development. Gill's executive career was spent at Accenture LLP, followed by five years in the UK civil service as Director General in the Cabinet Office.

Gill is chair of the Nomination Committee.

Susan Davy – Chief Executive Officer

Susan was appointed to the Board as Chief Financial Officer on 1 February 2015 and became Chief Executive Officer on 31 July 2020. She joined the Group as Finance Director of South West Water in 2007. Susan's knowledge of the industry, coupled with her financial and regulatory expertise, has underpinned the development of Pennon's strategy which has included the value creating acquisition of Bournemouth Water in 2015 and the successful Viridor Disposal process, both of which she has led. In her 25 years' experience in the utility sector, Susan has also held a number of other senior roles in the water sector, including at Yorkshire Water. Under her guidance, South West Water is the only water company to have achieved fast-track status for two consecutive business plans – the first in 2014, the second in 2019. She is chair of the CBI South West and a non-executive director and audit chair of Restore Plc.

Susan is a member of the Sustainability Committee.

Paul Boote – Group Finance Director

Paul was appointed to the Board on 8 July 2020. He is a chartered accountant with over 20 years' experience in a variety of industries. Paul has held a number of senior roles at Pennon and most recently has been Pennon's Director of Treasury, Tax and Group Finance. He has been responsible for the development of Pennon's sector-leading sustainable debt portfolio, ensuring the Group maintains a responsible approach to tax, as well as leading on financial reporting matters. Over the past year, Paul has been instrumental in the development and successful implementation of the Group's recent strategic review. Prior to joining Pennon, Paul held senior finance roles at companies operating in the sport, construction and environmental infrastructure industries.

Paul is a member of the Sustainability Committee.

Neil Cooper – Senior Independent Director

Neil was appointed to the Board on 1 September 2014 and became Senior Independent Director on 31 July 2020. He brings to the Board extensive experience in a wide variety of corporate and financial matters. Neil is currently the chief financial officer of Currencies Direct, a foreign exchange broker and international payment provider. Previously, he was group finance director of Barratt Developments plc and, before that, group finance director of William Hill plc and Bovis Homes plc. He also held senior finance positions at Whitbread plc, worked for PricewaterhouseCoopers as a management consultant and held a number of roles with Reckitt & Colman plc.

Neil is chairman of the Audit Committee and a member of the Remuneration, Nomination and Sustainability Committees.

Jon Butterworth – Independent Non-Executive Director

Jon was appointed to the Pennon Board on 8 July 2020, having joined the board of South West Water in 2017. He has a distinguished track record within the utility industry which spans over 40 years, starting as an apprentice technician with British Gas and subsequently progressing through a variety of senior leadership roles. Jon is currently Chief Executive Officer of National Grid Ventures, and a member of the National Grid Plc Executive Committee. He is passionate about corporate and social responsibility and was awarded an MBE in 2009 for services to Britain's gas industry.

Jon is a member of the Audit, Remuneration, Nomination and Sustainability Committees. He is also the independent scrutineer of health and safety processes across the Group.

Iain Evans – Independent Non-Executive Director

Iain was appointed to the Board on 1 September 2018. He 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 chairman. He continues to act as an independent corporate strategy consultant.

Iain is chairman of the Sustainability Committee and a member of the Audit, Remuneration and Nomination Committees.

Claire Ighodaro – Independent Non-Executive Director

Claire was appointed to the Board on 1 September 2019. She has extensive board experience of serving on audit and governance committees and is currently non-executive chairman of Axa XL UK entities and non-executive director and audit committee chair of Flood Re Limited. Previously, she was a member of Bank of America's Merrill Lynch International Board and president of CIMA. Claire spent most of her executive career with BT plc and has held non-executive directorships across a diverse portfolio including audit committee chair of Lloyd's of London, The Open University and various UK public bodies including UK Trade & Investment and the British Council. In 2008 she was awarded a CBE for services to business.

Claire is chair of the Remuneration Committee and a member of the Audit, Nomination and Sustainability Committees.

6.2. Senior Management

The Company's Senior Managers, in addition to the Chief Executive Officer and Group Finance Director listed above, who are relevant to establishing that the issuer has the appropriate expertise and experience for the management of its business, are as follows:

Name	Position
Simon Pugsley	Group General Counsel and Company Secretary
Adele Barker	Group Chief People Officer

Simon Pugsley – Group General Counsel and Company Secretary

Simon is a highly experienced in-house lawyer and company secretary. He qualified as a solicitor in 1993 and joined Pennon Group from private practice in 1998. He was appointed as Group General Counsel and Company Secretary in February 2019, having undertaken the role on an interim basis since November 2018. Simon supports all Board and associated committee meetings of both Pennon Group plc and South West Water Limited and provides strategic legal and commercial advice to the Group and to the Board in its deliberations.

Adele Barker – Group Chief People Officer

Adele joined Pennon in July 2017. She is a member of the Group Executive and supports the Remuneration and Nomination Committees. Adele's areas of responsibility include the Group wide Human Resources function, Health & Safety and Corporate Communications. Her remit includes the implementation of the Group's People Strategy, diversity and inclusion initiatives, talent development, people engagement, leadership and cultural change. Her background includes senior roles in FTSE organisations including Marks and Spencer, Orange, John Lewis and British Gas. Adele is a trustee director of the Company's pension schemes.

7. Directors' and Senior Managers' confirmations

7.1. Set out below are the directorships and partnerships held by the Directors and Senior Managers (other than, where applicable, directorships held in the Company and its subsidiaries and the subsidiaries of the companies listed below), in the five years prior to the date of this Prospectus:

	Current directorships/ partnerships	Past directorships/ partnerships
Gill Rider	Intertek Group plc The Sir Alister Hardy Foundation for Ocean Science	Charles Taylor plc
Susan Davy	Restore plc	None
Paul Boote	None	None
Neil Cooper	CD Midco Ltd CD Acquisitions Ltd CD Topco Ltd CD Tribute Holdings Currencies Direct Holdings Ltd Currencies Direct Financial Markets Ltd Currencies Direct Ltd Currencies Direct Spain SL CDFX Ltd Currencies Direct South Africa (Pty) Ltd Currencies Direct Solutions Pvt Ltd Currencies Direct Japan G.K Currencies Direct Hong Kong Currencies Direct Canada Inc Currencies Direct Inc Currency UK Limited Efirst-fx Limited The Foremost Currency Group Ltd Foreign Currency Consultants Limited Foreign Exchange Consultants Limited Foremost Property Group Limited Foremost Markets Ltd Torfx Ltd Torfx Pty Ltd Tor Currency Exchange Ltd E4F Forex Pty Ltd	William Hill PLC ¹ Barratt Developments PLC ²

¹ Including 119 group subsidiary companies

² Including 124 group subsidiary companies

Jon Butterworth	Britned Development Limited Droylsden Metering Services Limited E.Tapp & Co Limited The National Gas Museum Trust National Grid Grain LNG Limited National Grid IFA 2 Limited National Grid Interconnector Holdings Limited National Grid Interconnectors Limited National Grid Metering Limited National Grid North Sea Link Limited National Grid Smart Limited National Grid Viking Link Limited Nemo Link Limited Shopfittings Manchester Limited Thamesport Interchange Limited TMA Property Limited	Barry Wood Plant Hire Limited Barry Wood Plant Sales Limited Corgi Services Limited The Gas Safety Trust M3 Group Limited National Grid Metering Limited National Grid Smart Limited The Pipeline Industries Guild Limited Sustainable Quarrying and Tanker Services Group Limited
Iain Evans	Bologna Topco Limited Hot Spots Movement Limited	None
Claire Ighodaro	XL Catlin Insurance Company UK Limited Catlin Underwriting Agencies Limited Flood Re Limited	Cipher Management Limited Merrill Lynch International XL Insurance Company SE
Simon Pugsley	None	Ford Energy from Waste Limited Lakeside Energy from Waste Holdings Limited Lakeside Energy from Waste Limited
Adele Barker	NHS Professionals Limited	None

7.2. None of the Pennon Directors or Senior Managers has, during the five years prior to the date of this document: PR (iii) 8.1

- (A) been convicted in relation to a fraudulent offence;
- (B) been associated with any bankruptcy, receivership, compulsory liquidation, administration, company or partnership voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors, while acting in the capacity of a member of the administrative, management or supervisory body or of senior manager of any company;
- (C) been subject to any official public incrimination and/or sanction by statutory or regulatory authorities (including designated professional bodies); or
- (D) been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any issuer or from acting in the management or conduct of the affairs of any issuer.

7.3. No Pennon Director was selected to be a Director of Pennon pursuant to any arrangement or understanding with any major customer, supplier or other person having a business connection with the Pennon Group.

7.4. There are no family relationships between any of the Pennon Directors or Senior Managers.

8. Conflicts of interest

8.1. Save as explained in section 8.2 below, there are no actual or potential conflicts of interest between the duties owed by the Directors to the Company and their private interests and/or other duties that they may also have.

8.2. The Pennon Directors:

- (A) who are Pennon Shareholders have a legal and/or beneficial interest in the Ordinary Shares; and
- (B) owe duties to the entities (if any) opposite his or her name in the table in section 7.1 above.

8.3. Each of the Pennon Directors has a statutory duty under the Companies Act to avoid conflicts of interest with the Company and to disclose the nature and extent of any such interest to the Board. Under the Pennon Articles and, as permitted by the Companies Act, the Board may authorise any matter which would otherwise involve a Director breaching this duty to avoid conflicts and may attach to any such authorisation such conditions and/or restrictions as the Board deems appropriate (including in respect of the receipt of information or restrictions at certain Board meetings), in accordance with the Pennon Articles.

9. Related party transactions

Save for the related party transactions listed below, no related party transactions have been entered into by any member of the Group during the period between 31 March 2020 to the Latest Practicable Date.

Pennon Group

The Viridor business, which was disposed of on 8 July 2020, had a number of joint venture companies which were not subsidiary companies of the Pennon Group plc. During the period from 31 March 2020 to the date of the disposal of Viridor, Pennon Group companies entered into the following transactions with these joint venture companies:

	2020 £ million⁽¹⁾
Sales of goods and services	
INEOS Runcorn (TPS) Limited.....	3.5
Purchase of goods and services	
Lakeside Energy from Waste Limited.....	3.8
INEOS Runcorn (TPS) Limited.....	2.2

Notes:

(1) All numbers stated for the period from 31 March 2020 to the date of this document are unaudited.

The Company

During the period from 31 March 2020 to the date of this document, the Company entered into the following transactions with subsidiary undertakings:

	2020 £ million⁽¹⁾
Sales of goods and services (management fees) ⁽²⁾	6.1
Purchases of goods and services (support services) ⁽²⁾	0.5
Interest receivable	4.0

Notes:

(1) All numbers stated for the period from 31 March 2020 to the date of this document are unaudited.

(2) Includes transactions with Viridor up to the date of disposal on 8 July 2020. Sales of goods and services (management fees) includes £2.6 million of sales to Viridor to 8 July 2020. Purchases of goods and services (support services) includes £nil million in respect of Viridor to 8 July 2020.

Sales of goods and services to subsidiary undertakings are at cost. Purchases of goods and services from subsidiary undertakings are under normal commercial terms and conditions, which would also be available to unrelated third parties.

	2020 £ million⁽¹⁾
Receivables due from subsidiary undertakings	
Loans	26.1
Trading balances	6.6
Payables due to subsidiary undertakings	
Loans	281.9
Trading balances	16.2

Notes:

(1) All numbers stated at the date of this document are unaudited numbers.

Interest on £13.0 million of the loans to subsidiary undertakings has been charged at a fixed rate of 5.0 per cent. Interest on £13.1 million of the loans to subsidiary undertakings has been charged at 12-month LIBOR plus 3.0 per cent. These loans are due for repayment in instalments over a five-year period following receipt of a request to repay.

No material expected credit loss provision has been recognised in respect of loans to subsidiaries.

The loans from subsidiary undertakings are unsecured and interest-free without any terms for repayment.

10. Material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Pennon Group: (a) in the two years immediately preceding the date of this document and are, or may be, material to the Pennon Group as at the date of this document; or (b) at any time which contain provisions under which any member of the Pennon Group has any obligation or entitlement which is material to the Pennon Group as at the date of this document:

Sale Agreement

The Sale Agreement between the Company and Planets UK Bidco Limited (**Bidco**) was entered into on 18 March 2020 (as amended on 6 July 2020), pursuant to which the Company agreed to the sale of Viridor Limited and its subsidiaries (**Viridor**) to Bidco (the **Disposal**). The Disposal completed on 8 July 2020.

The net cash proceeds received by the Company from the Disposal were £3.7 billion. Depending on the occurrence of certain future events, there is the potential for an additional deferred consideration of up to £0.2 billion, and the Company's entitlement to receive any deferred consideration expires on the sixth anniversary of completion. However, the fair value risk-adjusted quantum of any additional consideration has been assessed and is expected to be approximately £54 million.

The Company, on behalf of itself and the Group, has provided an undertaking to Bidco that it will not engage in any business carried on in competition with Viridor for a period of 12 months after completion. The Company has also provided customary non-solicitation undertakings in respect of customers of Viridor and key individuals within their group. The non-solicitation undertakings are subject to customary carve-outs.

The Company has agreed to indemnify Bidco in respect of certain pre-completion tax liabilities although, subject to certain limited exceptions, the Company's liability here is effectively limited to £1 and Bidco instead has recourse to a warranty and indemnity insurance policy. In broad terms, the Company is only liable to pay amounts to Bidco in respect of the ongoing national minimum wage

enquiry or as a result of a failure of certain previous group relief surrenders as well as any secondary tax liabilities incurred by Bidco arising as a result of a failure by the Company to pay its tax liability. Bidco is responsible for the conduct of all post-completion tax affairs of Viridor (other than certain ongoing matters relating to a landfill tax refund claim, tax liabilities arising in connection with a national minimum wage enquiry being conducted by HM Revenue and Customs, and the investments into the Energy Recovery Facility enquiry for recycling and residual waste management, which the Company will retain conduct of) subject to the Company having certain oversight rights where the conduct could continue to affect its tax position. If Bidco or any member of the Viridor group becomes aware of any tax assessment or any other matter which could result in a claim against the Company under the tax covenant or for breach of any of the tax warranties, then Bidco is required to give notice of such assessment or matter to the Company and the Company will then have certain oversight rights over the claim.

At completion of the Disposal and in accordance with the Sale Agreement, the Company and Viridor Limited entered into a transitional services agreement. Under this agreement, the Company provides services to Viridor for a transitional period of up to 18 months pending the establishment by Viridor of its own standalone operations in respect to such services. Under the Sale Agreement, certain employees of the Company were transferred to Viridor after completion and, in some cases, other employees will be transferred to Viridor upon termination of the transitional services agreement.

Under the terms of the Sale Agreement, the Company has agreed with Bidco to assume responsibility for all liabilities and obligations of Viridor in respect to their defined benefits and pension schemes at completion and to release Viridor from all such liabilities and obligation, by entering into a flexible apportionment arrangement with the trustees of those pensions schemes, among other things.

The Sale Agreement is governed by the laws of England and English courts have exclusive jurisdiction in relation to all disputes arising out of or in connection with the Sale Agreement.

Sponsors' Agreement

The Company entered into a sponsors' agreement dated 7 May 2020 pursuant to which Barclays Bank plc ("Barclays") and Morgan Stanley Bank, N.A. ("Morgan Stanley") each agreed to act as joint sponsors to the Company in connection with the Disposal and the Circular (the **Sponsors' Agreement**). Under the terms of the Sponsors' Agreement, the Company has agreed to provide Barclays and Morgan Stanley with certain customary indemnities, undertakings and warranties. The indemnities provided by the Company indemnify Barclays and Morgan Stanley and certain of their respective affiliates against claims made against them or losses incurred by them, subject to certain exceptions. The Sponsors' Agreement gives Barclays and Morgan Stanley the right to terminate in certain circumstances, which is usual for a sponsor agreement of this kind.

Revolving Credit Facility

The Company was party to a revolving credit facility agreement dated 26 September 2019 (the **Revolving Credit Facility Agreement**) with Barclays and Morgan Stanley Bank, N.A. as lenders and Barclays as agent. The amount of the revolving credit facility (RCF) under the Revolving Credit Facility Agreement was £500 million, capable of drawing in pounds sterling. The Revolving Credit Facility Agreement was repaid in July 2020.

Bonds issued by Pennon Group plc

Perpetual Capital Securities

On 22 September 2017, the Company issued £300 million Perpetual Capital Securities (the **Capital Securities**). The Capital Securities, which were governed by English law, were subordinated obligations of the Company and ranked in priority only to the Company's ordinary share capital.

On 6 May 2020, the Company issued an irrevocable notice to holders of the Capital Securities exercising its right to redeem the Capital Securities on 22 May 2020 in accordance with the terms and conditions of the Capital Securities. Consequently, the Capital Securities were redeemed at their principal amount, together with accrued and unpaid returns thereon, on 22 May 2020.

11. Governmental, legal and arbitration proceedings

So far as Pennon is aware, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Pennon Group is aware) during the

period covering the 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on the financial position or profitability of the Pennon Group.

11. Working Capital

The Company is of the opinion that, taking into account the bank and other facilities available to the Group, the Group has sufficient working capital available for its present requirements, that is, for at least the next 12 months from the date of publication of this document.

12. No significant change

There has been no significant change in the financial performance or financial position of the Pennon Group since 31 March 2020 (the date to which Pennon's latest audited year-end financial information was prepared), save for:

- (A) the Disposal of Viridor completed on 8 July 2020 in which the net cash proceeds received by the Company from the Disposal were £3.7 billion; and
- (B) the Group has repaid £485 million of non-current loans that were outstanding at 31 March 2020.

13. Regulatory Disclosures

The Company regularly publishes announcements via the RNS system and the Company's website. Below is a summary of the information disclosed in accordance with the Company's obligations under the Market Abuse Regulation over the last 12 months relevant at the date of this Prospectus. In addition to the RNS system, full announcements can be accessed on the webpage of the Company at <https://www.pennon-group.co.uk/investor-information/rns-announcements>.

Inside information

General

On 17 September 2019, the Company announced that its Chief Executive Officer at the time, Chris Loughlin, had been appointed as a non-executive director of Mears Group PLC, effective immediately.

On 27 September 2019, by way of a trading update, the Company announced that it anticipated meeting management's expectations for the financial year ended 31 March 2020 and it was reviewing strategic focus, growth options and capital allocation policies for the Group.

On 26 November 2019, the Company announced its half-year results for the half-year ended 30 September 2019, highlighting that the Company's performance was in line with management expectations.

On 14 February 2020, the Company announced that it would not be applying for South West Water to be referred to the Competition and Markets Authority based on Ofwat's final determination as part of the price review 2019 process. Ofwat published its final determination for South West Water's business plan for the period 2020-2025 on 16 December 2019, including: a post-tax real cost of capital for the industry of 2.92 per cent. on a CPIH basis (1.92 per cent. on an RPI basis); a total expenditure allowance of £2 billion, which was consistent with South West Water's draft of their anticipated determination in April 2019; and outcome delivery incentives for customers.

On 30 March 2020, by way of a trading update, the Company announced that its performance was still in line with management's expectations. Highlights from the announcement showed that South West Water had outperformed during its five-year regulatory period 2015-2020, on its total expenditure and will end the five-year period in 2020 in a net reward position on ODIs.

On 6 May 2020, the Company announced that it was to redeem £300 million of capital securities in full on 22 May 2020.

The Company announced its full year results for the financial year ended 31 March 2020 on 4 June 2020, stating that the Company is well positioned to weather the ongoing uncertainty with strong funding and liquidity of £1.6 billion (before the receipt of the net cash proceeds from the sale of Viridor). On 3 July 2020, the Company announced it had published its annual report and accounts 2020. On 8 July 2020, the Company announced that the Group Chief Executive Officer, Chris Loughlin, and the Chairman, Sir John Parker, would step down from their respective positions effective

31 July 2020. Susan Davy would become the Chief Executive Officer, having previously been the Company's Chief Financial Officer, and Paul Boote became the Group Finance Director.

The Company will today announce the publication of this document for the WaterShare+ Scheme Offer.

In relation to the disposal of Viridor

On 18 March 2020, the Company announced that it had entered into an agreement for the sale of Viridor for an amount of £4.2 billion on a cash-free, debt-free basis representing an enterprise value/EBITDA multiple of 18.5x.

On 7 May 2020, the Company announced that it had published a Class 1 circular in connection with the disposal of Viridor.

On 8 July 2020, the Company announced that it had completed the sale of Viridor for an enterprise value of £4.2 billion. After accounting for the debt that remained with Viridor and the customary transaction costs, the Company received £3.7 billion in net cash proceeds. The announcement indicated that the net cash proceeds from the sale were expected to go towards reducing Company borrowings, potential investments, returning value to shareholders, and funding the Company's pension scheme, which will move the scheme closer to being fully funded on a technical provisions basis.

Dealings by persons discharging managerial responsibilities and their persons closely associated

The Company has made a number of disclosures in accordance with Article 19 of the Market Abuse Regulation in relation to transactions carried out by certain of the Company's persons discharging managerial responsibilities ("PDMRs") and their persons closely associated. Recent transactions have included the grant and vesting of awards over Ordinary Shares and the acquisition of Ordinary Shares by certain PDMRs under all-employee share schemes.

14. Takeovers and Mergers

The City Code is issued and administered by the Takeover Panel. The Takeover Panel has been designated as the supervisory authority to carry out certain regulatory functions in relation to takeovers and merger transactions pursuant to the Directive on Takeover Bids (2004/25/EC) (the "**Takeovers Directive**"). Following the implementation of the Takeovers Directive by the Takeovers Directive (Interim Implementation) Regulations 2006, the rules in the City Code, which are derived from that Directive, now have a statutory basis.

The City Code applies to all takeovers and merger transactions, howsoever effected, where, among other things, the offeree company is a public company (except an open-ended investment company) which has its registered office in the United Kingdom, the Channel Islands or the Isle of Man.

However, the City Code applies to the Company in respect of matters relating to the information to be provided to its employees and matters relating to company law (in particular the percentage of voting rights which confers control and any derogation from the obligation to launch an offer, as well as the conditions under which the Board may undertake any action which might result in the frustration of an offer). This includes Rule 9 of the City Code, under which any person who acquires, whether by a series of transactions over a period of time or not, an interest in shares which (taken together with shares in which persons acting in concert with such person are interested) carry 30 per cent. or more of the voting rights of a company subject to the City Code, must make a general offer in cash to the holders of any class of equity share capital whether voting or non-voting and also to the holders of any other class of transferable securities carrying voting rights to acquire the balance of the shares not held by such person and any person acting in concert with that person. An offer under Rule 9 of the City Code must be in cash or be accompanied by a cash alternative at not less than the highest price paid within the 12 months prior to the announcement of the offer for any shares by the person required to make the offer or any person acting in concert with that person.

The takeover provisions are intended to ensure that, in the event of an offer, sufficient information will be made available to the Shareholders, that the Shareholders will be treated equally and that there will be a proper and timely offer period.

For the purposes of the City Code:

- “**persons acting in concert**” comprise persons who, pursuant to an agreement or understanding (whether formal or informal), co-operate to obtain or consolidate control (as defined below) of a company or to frustrate the successful outcome of an offer for a company; and
- “**control**” means an interest, or interests, in shares carrying, in aggregate 30 per cent. or more of the voting rights of a company, irrespective of whether such interest or interests give de facto control.

In the event that the Takeovers Directive ceases to apply in the UK, it is expected that the City Code will apply in full to any offer for the Company.

No public takeover bid has been made in relation to the Company during the last financial year or the current financial year.

15. Taxation

Please see Part 12 (United Kingdom Taxation Considerations) for certain information relating to UK taxation

16. Third party information

Certain information contained in this document has been sourced from third parties. In each case, the source of such information is indicated where the information appears in this document. The Company confirms that the information in this document that has been sourced from third parties has been accurately reproduced and that, as far as it is aware and is able to ascertain from information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

17. Consents

- 17.1. Ernst & Young LLP has given, and not withdrawn, its written consent to the inclusion in this Prospectus of its report set out in Section A of Part 10 (Accountants' Report on the Unaudited *Pro Forma* Financial Information of the Group), and has authorised the contents of this report as part of the Prospectus for the purposes of Prospectus Regulation Rule 5.3.2R (2)(f) and item 1.3 of Annex 3 of Commission Delegated Regulation (EU) 2019/980.

18. General

- 18.1. The total estimated costs and expenses of the WaterShare+ Scheme Offer payable by the Company are approximately £0.5 million (exclusive of VAT). Participating Customers will be able to redeem their WaterShare+ Scheme Entitlement at no cost to themselves as the costs associated with the initial allocation of WaterShare+ Shares to a Participating Customer (including SDRT) and maintaining a Participating Customer's Nominee Share Account for the duration of the WaterShare+ Scheme (expected to last until on or around the fifth anniversary of the date on which the WaterShare+ Shares are purchased) will be covered by the Company.
- 18.2. The auditors of the Company are Ernst & Young LLP of 1 More London Place, London SE1 2AF, who have audited the consolidated financial statements of the Group for the financial year ended 31 March 2020. Ernst & Young LLP issued an unqualified report on the consolidated financial statements of the Group for the financial year ended and 31 March 2020. Ernst & Young LLP is registered to carry out audit work by the Institute of Chartered Accountants in England and Wales.
- 18.3. The Company remains subject to the continuing obligations of the Listing Rules with regard to the issue of securities for cash, and the provisions of section 561 of the Companies Act (which confers on Shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) apply to any further issuances of share capital of the Company.
- 18.4. The Existing Ordinary Shares are in registered form, are capable of being held in uncertificated form and are admitted to the Official List and are traded on the main market for listed securities of the London Stock Exchange.

- 18.5. The Existing Ordinary Shares for Participating Customers will be delivered to a Nominee Share Account, the terms and conditions of which are set out in Part 7B (*Terms and Conditions of the Nominee*).
- 18.6. The Company will make an appropriate announcement(s) to a Regulatory Information Service in relation to the results of the WaterShare+ Scheme Offer, which is expected to be on or around 12 October 2020.

19. Sources and bases of selected financial information

In this document:

- 19.1. Unless otherwise stated, financial information reported under IFRS relating to the Company has been extracted or provided (without material adjustment) from the published annual report and accounts for the Company for the financial year ended 31 March 2020.
- 19.2. Unless otherwise stated, all prices quoted for Ordinary Shares are closing mid-market prices and are derived from the Daily Official List of the London Stock Exchange.
- 19.3. As at the Latest Practicable Date, the Company had 421,764,619 Existing Ordinary Shares in issue excluding 8,443 Existing Ordinary Shares held in Treasury (all of which were fully paid or credited as fully paid).
- 19.4. All share prices expressed in pence and all percentages have been rounded to one decimal place.

20. Available documents

Copies of the following documents will be available for inspection on the Company's website at www.pennon-group.co.uk/investor-information/watershare from the date of this document until at least 10 days after the allocation of the Existing Ordinary Shares by LMST:

- 20.1. the Pennon Articles;
- 20.2. the 2020 Financial Statements;
- 20.3. the reporting accountant's report on the *pro forma* financial information contained in Section A of Part 10 (Accountants' Report on the Unaudited *Pro Forma* Financial Information of the Group) of this document;
- 20.4. the written consent referred to in paragraph 17 of this Part 13 (*Additional Information*) of this document; and
- 20.5. this document.

PART 14

Documentation incorporated by Reference

The table below sets out the various sections of such documents which are incorporated by reference into this document, so as to provide the information required pursuant to the Prospectus Regulation and to ensure that this document contains the relevant reduced information which is necessary to enable investors to understand the prospects of the Company and the significant changes in the business and the financial position of the Company that have occurred since the end of the last financial year and the rights attaching to the Existing Ordinary Shares.

The parts of these documents which are not being incorporated by reference are either not relevant for an investor or are covered elsewhere in this document. Information that is itself incorporated by reference or referred or cross-referred to in the documents below is not incorporated by reference into this document. Except as set forth above, no other portion of these documents is incorporated by reference into this document. These documents incorporated by reference are available for inspection in accordance with section 20 of Part 13 (Additional Information).

Reference document	Information incorporated by reference	Page numbers of reference document
2020 Annual Report and Accounts	Independent Auditor's Report	124-131
	Consolidated Income Statement	132
	Consolidated Statement of Comprehensive Income	133
	Balance Sheets	134
	Statement of Changes in Equity	135
	Company Statement of Changes in Equity	136
	Cash Flow Statement	137
	Notes to the Financial Statements	138-190
	Alternative Performance Measures and Glossary	191-194

APPENDIX I

Definitions

The following definitions apply throughout this document unless the context otherwise requires:

'2020 Annual Report and Accounts'	means the published annual report for the Group for the year ended 31 March 2020, including the 2020 Financial Statements;
'2020 Financial Statements'	means the audited consolidated financial statements of the Group prepared in accordance with IFRS as adopted by the EU as at and for the financial year ended 31 March 2020, together with the notes thereto and auditor's report thereon;
'Application'	means a Qualifying Household Customer's application to participate in the WaterShare+ Scheme Offer, which must be completed and submitted online on the Receiving Agent's Share Registration Portal;
'Arranging'	means the regulated activities described in Article 25 of the FSMA (Regulated Activities) Order 2001;
'Board' or 'Pennon Board'	means the board of directors of Pennon;
'Business Day'	means any day (other than a Saturday or Sunday) on which banks generally are open for business in London (other than solely for settlement and trading in Euro);
'Choice Letter'	means the letter sent to Eligible Customers and Qualifying Household Customers explaining the rebate options under the WaterShare+ Scheme and the manner to register their rebate choice;
'City Code'	means the City Code on Takeovers and Mergers of the United Kingdom;
'Companies Act'	means the Companies Act 2006, as amended;
'Continuing Group'	means the Company and its subsidiary undertakings from completion of the Viridor Disposal;
'Court'	means the High Court of Justice in England and Wales;
'CPIH'	means a consumer price index, a measure of inflation in a representative sample of retail goods and services using a geometric mean, including owner occupiers' housing costs;
'CREST'	means the relevant system (as defined in the CREST Regulations) in respect of which Euroclear is the operator (as defined in the CREST Regulations);
'CREST Regulations'	means the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended from time to time;

'CRS'	means the Common Reporting Standard;
'Daily Official List'	means the daily official list of the London Stock Exchange;
'Data Protection Legislation'	means the Data Protection Act 2018 and the General Data Protection Regulation ((EU)2016/679);
'dealing day'	means a day upon which dealings in domestic securities may take place on the London Stock Exchange;
'Dealing Service'	means the bulk share dealing service (which has Tuesday and Thursday dealing days) provided by LMSTL for the WaterShare+ Shares. There will be a two day cut-off initially to allow for dealing instructions to be collated in advance of each dealing day (Friday 5pm for Tuesday dealing days or Tuesday 5pm for Thursday dealing days). The Dealing Service, including the cut-off periods for dealing days may be updated by the Nominee and Participating Customers will be advised accordingly;
'Directors'	means Pennon Directors;
'Disclosure Guidance and Transparency Rules'	means the disclosure guidance and transparency rules made by the FCA acting under Part VI of FSMA (as set out in the FCA Handbook), as amended from time to time;
'DRIP Scheme'	means any dividend reinvestment plan offered by the Company to Pennon Shareholders from time to time;
'EEA'	means the European Economic Area;
'EEA State'	means a member state of the EEA;
'Eligible Customers'	means those customers of South West Water described in section 5 of Part 5 (<i>Overview of the WaterShare+ Scheme and some Questions and Answers about the WaterShare+ Scheme Offer</i>);
'EU'	means the European Union;
'Euro' or '€'	means the single currency of the member states of the European Union that adopt or have adopted the euro as their lawful currency under the Treaty on the Functioning of the European Union;
'Euroclear'	means Euroclear U.K. & Ireland Limited;
'Existing Ordinary Shareholders'	means holders of Existing Ordinary Shares;
'Existing Ordinary Shares'	means the Ordinary Shares in issue as at the date of this document;
'FATCA'	means the Foreign Account Tax Compliance Act of 2010;

'FCA'	means the Financial Conduct Authority in the UK;
'FCA Handbook'	the FCA's Handbook of Rules and Guidance, as amended from time to time;
'FSMA'	means the Financial Services and Markets Act 2000, as amended;
'HMRC'	means HM Revenue & Customs;
'IFRS'	means the International Financial Reporting Standards;
'K6'	means Ofwat's asset management plan for the planning period for 1 April 2015 – 31 March 2020;
'K7'	means Ofwat's asset management plan for the planning period for 1 April 2020 – 31 March 2025;
'Latest Practicable Date'	means 16 September 2020, being the latest practicable date prior to the publication of this document;
'Link Group'	means LMSL, LMSTL and any of their affiliated entities involved in the WaterShare+ Scheme;
'Listing Rules'	means the rules and regulations made by the FCA under FSMA and contained in the FCA's publication of the same name;
'LMSL'	means Link Market Services Limited (Company number 02605568);
'LMSTL'	means Link Market Services Trustees Limited (Company number 02729260);
'LMSTNL'	means Link Market Services Trustees (Nominees) Limited (Company number 03915424);
'London Stock Exchange'	means London Stock Exchange plc;
'Market Abuse Regulation'	means Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation);
'Member States'	means member states of the European Economic Area;
'MiFID II'	means Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, as amended;
'Nominee'	means LMSTNL or any other person appointed by the Company to act as the nominee shareholder of Existing Ordinary Shares in the Nominee Share Account;

'Nominee Share Account'	means the arrangements for the holding of Existing Ordinary Shares through the Nominee, the terms and conditions of which are set out in Part 7B (<i>Terms and Conditions of the Nominee Service</i>);
'Nominee Share Account Statement'	means a statement of Participating Customer's beneficial holding record of Existing Ordinary Shares in the Nominee Share Account, created by the Nominee;
'ODI'	has the meaning given in the Alternative Performance Measures and Glossary incorporated by reference as set out in Part 14 (<i>Documentation incorporated by Reference</i>);
'Official List'	means the list maintained by the FCA;
'Ofwat'	means the Water Services Regulation Authority, being the body responsible for economic regulation of the privatised water and sewerage industry in England and Wales;
'Ordinary Shares'	means an ordinary share in the capital of the Company;
'Overseas Customers'	means South West Water customers who are resident in, ordinarily resident in, or citizens of, jurisdictions outside the United Kingdom;
'Participating Customers'	means Qualifying Household Customers that elect to receive Existing Ordinary Shares under the WaterShare+ Scheme Offer;
'pence', 'pounds', '£', 'pounds sterling', 'sterling' or 'UK pence'	means the lawful currency of the United Kingdom;
'Pennon' or the 'Company'	means Pennon Group plc;
'Pennon Articles'	means the articles of association of Pennon;
'Pennon Directors'	means the directors of Pennon, and 'Pennon Director' means any one of them;
'Pennon Group' or 'Group'	means the Company and its subsidiaries and subsidiary undertakings;
'Pennon Shareholders'	means holders of Ordinary Shares;
'Pennon Shares'	means Existing Ordinary Shares of the Company;
'Pennon Shares rebate option'	means electing the WaterShare+ Scheme Offer rebate option;
'Pennon Water Services'	means Pennon Water Services Limited;
'Prospectus' or 'this document'	means this document, comprising a prospectus relating to the Company for the purpose of the WaterShare+ Scheme Offer;

'Prospectus Regulation'	means the Regulation (EU) No 2017/1129 of the European Parliament and of the Council of 14 June 2018 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC;
'Prospectus Regulation Rules'	means the prospectus regulation rules made by the FCA pursuant to Part VI of FSMA (as set out in the FCA Handbook), as amended;
'Qualifying Date'	means the date used to determine which customers are eligible to participate in the WaterShare+ Scheme as described in Part 3 (<i>Expected Timetable of Principal Events and WaterShare+ Scheme Offer Statistics</i>);
'Qualifying Household Customers'	means those customers of South West Water who meet the eligibility criteria to participate in the WaterShare+ Scheme Offer described in section 5 of Part 5 (<i>Overview of the WaterShare+ Scheme and some Questions and Answers about the WaterShare+ Scheme Offer</i>); for the purposes of the WaterShare+ Scheme Offer estimates there are assumed to be 950,000 Qualifying Household Customers;
'rebate'	means the rebate from the WaterShare+ Scheme which may be received in one of three forms: (1) a minimum of £20 in Existing Ordinary Shares, rounded up to the nearest whole Existing Ordinary Share, (2) a £20 bill reduction, or (3) a £20 credit to bank account (for direct debit payers only).
'Receiving Agent'	means Link Group;
'Receiving Agent's Share Registration Portal'	means the Application portal set up by the Receiving Agent where Qualifying Household Customers will complete and submit their Applications, accessible at https://watershare.signalshares.com
'Registration Period'	means the period commencing on the Registration Period Opening Date and terminating on the Registration Period Closing Date;
'Registration Period Closing Date'	means 11.59 pm (London time) on 9 October 2020 (or such later date as the Company may in its absolute discretion determine);
'Registration Period Opening Date'	means 9 am (London time) on 21 September 2020 (or such later date as the Company may in its absolute discretion determine);
'Regulatory Information Service'	one of the regulatory information services authorised by the FCA to receive, process and disseminate regulatory information from listed companies;
'Restricted Jurisdiction'	means any jurisdiction outside of the United Kingdom, including but not limited to Australia, Canada, Japan, Switzerland, New Zealand, the Republic of South

	Africa and the United States of America, where the extension or availability of the WaterShare+ Scheme Offer (and any other transaction contemplated thereby) would (i) result in a requirement to comply with any governmental or other consent or any registration filing or other formality which Pennon regards as unduly onerous; or (ii) otherwise breach any applicable law or regulation;
'RoRE'	has the meaning given in the Alternative Performance Measures and Glossary incorporated by reference as set out in Part 14 (<i>Documentation incorporated by Reference</i>);
'RPI'	means retail price index, a measure of inflation in a representative sample of retail goods and services using an arithmetic mean;
'SDRT'	means stamp duty reserve tax;
'SEC'	means the US Securities and Exchange Commission;
'Securities Act'	means the US Securities Act of 1933, as amended;
'Shareholders'	means Pennon Shareholders;
'South West Water'	means South West Water Limited;
'Special Share'	means the "WaterShare+ Share" as set out in Article 5A of the Pennon Articles;
'subsidiary'	has the meaning given in section 1159 of the Companies Act 2006, unless otherwise provided in this document;
'subsidiary undertaking'	has the meaning given in section 1162 of the Companies Act 2006;
'Takeover Panel'	means the United Kingdom Panel on Takeovers and Mergers;
'UK' or 'United Kingdom'	means the United Kingdom of Great Britain and Northern Ireland;
'uncertificated' or 'in uncertificated form' .	means a share or other security recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which by virtue of the Uncertificated Securities Regulations, may be transferred by means of CREST;
'Uncertificated Securities Regulations'	means the Uncertificated Securities Regulations (2001) S.I. 2001/3755;
'US' , 'United States' or 'United States of America'	means the United States of America, its territories and possessions, any State of the United States and the District of Columbia;
'US\$' or 'US dollar'	means the lawful currency of the United States;

'VAT'	means value added tax;
'Viridor'	means Viridor Limited, a private limited company incorporated in England and Wales with registered number 02456473;
'WaterShare+ Choice Letter Portal'	means the application portal set up by the Company and accessible at www.southwestwater.co.uk/watershareplus or www.bournemouthwater.co.uk/watershareplus ;
'WaterShare+ Fund'	means the £20 million fund set aside and arising from cost efficiencies achieved and financial rewards received as a result of performance incentive outperformance in relation to the K6 period to share these financial benefits with Eligible Customers through a rebate in accordance with the WaterShare+ Scheme;
'WaterShare+ Panel'	means the panel which provides an independent review of the operation of the WaterShare performance sharing mechanism;
'WaterShare+ Scheme'	means the scheme established by South West Water in order to return a share of the financial benefits arising from South West Water's regulatory outperformance for the regulatory period of 2015-2020 to Eligible Customers;
'WaterShare+ Scheme Entitlement'	means a Qualifying Household Customer's entitlement to receive Existing Ordinary Shares pursuant to the WaterShare+ Scheme Offer in accordance with the terms and conditions set out in Part 7A (<i>Terms and Conditions of the WaterShare+ Scheme Offer</i>) and Part 7B (<i>Terms and Conditions of the Nominee Service</i>);
'WaterShare+ Scheme Offer'	means the offer of Existing Ordinary Shares to Qualifying Household Customers in accordance with the terms and conditions set out in Part 7A (<i>Terms and Conditions of the WaterShare+ Scheme Offer</i>), the Application and the Choice Letter, being made by way of this Prospectus and pursuant to the WaterShare+ Scheme; and
'WaterShare+ Shares'	means the Existing Ordinary Shares Qualifying Shareholders are being invited to elect to receive pursuant to the terms of the WaterShare+ Scheme Offer.

All references to legislation in this document are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.

Words importing the singular shall include the plural and vice versa, and words importing the masculine gender shall include the feminine or neutral gender.