

28 April 2023

Sent by Email

Dear Colleagues,

**Consultation – Reflecting Customer Interests in Performance Related Pay**

Thank you for your email of 30 March 2023, inviting comment on the proposed guidance on protecting customer interests in performance related pay.

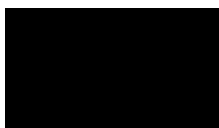
Pennon welcomes the opportunity to comment, recognising the positive intent of the guidance, particularly given executive pay is under scrutiny. It is clear the sector needs to do more to demonstrate that it is acting in the best interests of customers and in rebuilding trust with the public, regulators and wider stakeholders. The awarding of executive bonuses has attracted widespread scrutiny.

Pennon has always adopted best practice in the application of its Remuneration Policy. As one of the three listed FTSE companies in the water sector, the governance framework applicable to listed companies means that there is typically less opportunity to apply bespoke arrangements that can often be a feature in private ownership structures. Remuneration decisions are transparent and subject to annual voting by shareholders. Furthermore, we are the only water company, and listed business, that has four times the number of customers shareholders as we do institutional shareholders. Our unique WaterShare+ mechanism was a key feature of our PR19 business plan, and was designed to give customers both a stake and a say in the performance and outcomes of the business, including executive pay.

Ofwat's proposed guidance aligns with our current approach and our proposed future application. The FY23 bonus arrangements had a significant weighting on metrics related to customers, communities and the environment, however the proposed changes for FY24 will make this alignment clearer. We have a track record of setting stretching performance targets, as demonstrated by modest bonus outcomes in recent years despite the overall performance of the Group. Prior to approving incentive outcomes, we also undertake a holistic review of performance and adjust formulaic outcomes where necessary. Under our discretion framework, performance is considered from a number of perspectives (e.g. culture and conduct, customer, non-bonus performance metrics). We also have best practice features of deferral, malus and clawback.

Pennon is committed to acting in a manner that is fair, measured and transparent. As previously communicated and as evidenced by our track record, we will continue to take on board the guidance of Ofwat, and our wider stakeholders as we develop our approach to executive remuneration.

Yours sincerely



Adele Barker  
Chief People Officer, Pennon Group plc