

DEROGATION LETTER

IN RESPECT OF INITIAL ENFORCEMENT ORDERS ISSUED PURSUANT TO SECTION 72(2) ENTERPRISE ACT 2002

**Consent under section 72(3C) of the Enterprise Act 2002 to certain actions for
the purposes of the Initial Enforcement Order made by the Competition and
Markets Authority ('CMA') on 8 January 2024**

ACQUISITION BY PENNON GROUP PLC OF SUMISHO OSAKA GAS WATER UK LIMITED

We refer to your emails of 8 May 2024 and 20 May 2024 requesting that the CMA consents to a derogation from the Initial Enforcement Order of 8 January 2024 (the '**Initial Order**'). The terms defined in the Initial Order have the same meaning in this letter.

Under the Initial Order, save with the written consent of the CMA, Pennon and the Target are required to hold separate the Target business from the Pennon business and refrain from taking any action which might prejudice a reference under section 22 of the Act or impede the taking of any remedial action following such a reference.

After due consideration of your request for a derogation from the Initial Order, based on the information received from you and in the particular circumstances of this case, Pennon and the Target may carry out the following actions, in respect of the specific paragraphs:

Paragraphs 5(a) and 5(g) of the Initial Order

Pennon submits that it operates an HMRC-approved Sharesave Scheme. The Sharesave Scheme is an all-employee savings-related plan administered by Link Group on behalf of Pennon. [X] period which occurs shortly after publication of Pennon's full year financial results. The Sharesave Scheme enables employees to invest up to a maximum of [X] per month for [X].

[X].

Pennon submits that the Sharesave Scheme helps to incentivise employees and improve employee retention and recruitment and that the Target does not currently offer any kind of share scheme to its employees.

Pennon further submits that the Sharesave Scheme 2024 invitation period is between [X] 2024 and [X] 2024, and occurs only on an annual basis. Accordingly, if they are not granted access to the Sharesave Scheme imminently, there would be a period of several months during which Target employees are not able to benefit from the same

tax-efficient savings opportunities that the Sharesave Scheme otherwise provides to Pennon employees. Pennon submits that this is likely to have a detrimental effect on the Target business.

Pennon therefore requests a derogation from paragraphs 5(a) and 5(g) of the Initial Order to allow Pennon to offer Target employees the opportunity to participate in the Sharesave Scheme.

The CMA consents to Pennon's request for a derogation on the basis that:

- (a) this derogation will not result in Pennon having any influence over the commercial or strategic direction of the Target or the Target having any influence over the commercial or strategic direction of Pennon;
- (b) this derogation will not result in Target staff being disincentivised from acting in the best commercial interests of the Target;
- (c) offering Target employees the opportunity to participate in the Sharesave Scheme will not be difficult or costly to reverse;
- (d) should Target employees be required to cease participation in the Sharesave Scheme (for instance due to Pennon implementing a divestiture remedy), Target employees can choose at any point within 6 months to:
 - a. [REDACTED]; or
 - b. [REDACTED];
- (e) this derogation will not result in any disruption to, or impact the viability of, the Pennon business or the Target business; and
- (f) this derogation will not result in any pre-emptive action which might prejudice the outcome of a reference or impede the taking of any action which may be justified by the CMA's decision on a reference.

Yours sincerely,

Matteo Alchini

Assistant Director, Remedies Business and Financial Analysis

24 May 2024