



CHAMPIONING DIVERSITY

AT PENNON

WHY EQUALITY AND DIVERSITY MATTERS

Gender diversity and equality are critical issues for every business operating today. The UK's record in this area is not strong, with a 2016 report from Glassdoor Economic Research ranking the country 11th out of 18 based on factors including pay, employment gap and representation at board level.

The media is full of stories that prove we still have a long way to go before we can call our society truly equal – from unequal pay claims to allegations of discrimination and harassment against big names in the entertainment industry.

But this increase in attention has brought some positives. The government has legislated that all businesses with 250 or more employees must publish details of their gender pay gap from 5 April 2018.

We're ready to do just that, and to tell you about the work we're doing to ensure Pennon is a diverse company, which treats all employees fairly and equally.

Because, while the national gender pay gap has been gradually falling over the last 20 years, there's still a lot to do.

As Group Human Resources Director for Pennon, I, Adele Barker, can confirm that the information contained herein is accurate.

Adele Barker
Group Human Resource Director, Pennon



WHAT IS THE GENDER PAY GAP?

Simply put, the gender pay gap is **the difference in average hourly earnings between male and female employees.**

It is **not** dependant on the roles being similar, and **it is calculated in several ways.**

YOUR GENDER PAY GAP QUESTIONS ANSWERED

Q: Is gender pay the same as equal pay?

A: No, equal pay has been law for 47 years and requires that men and women doing a job that is the same, similar or equivalent are paid the same salary.

Q: So can a company meet equal pay laws and still have a gender pay gap?

A: Yes. If men and women doing the same or similar roles are paid an equal salary, but there are more men in senior leadership roles and more women lower down the pay scale, then there will be a pay gap.

Q: How is gender pay gap calculated?

A: There are two key measures. The first is 'mean pay gap', which is a comparison between the average female employee salary and the average male employee salary. The second is 'median pay gap'. In this calculation, the salaries of all female employees are listed from lowest to highest, and the middle one is compared to the equivalent middle salary on the male list.

Q: Are bonuses included?

A: No, but they do also need to be included in gender pay gap reporting. Mean and median bonus payments should be calculated over a 12 month period in the same way as basic salaries.

Q: Are there any other measures that need to be reported?

A: Yes, the final calculation required is 'pay quartiles', which list rates of pay for men and women from low to high, then divide each list into quarters and work out how many employees are in each one.

Q: Why do we have a gender pay gap?

A: Broadly speaking, the gender pay gap exists because there are more women than men in lower paid roles, and because there are more women in industries that traditionally pay less. The underlying causes and compounding factors, however, are much more complex.

OUR GENDER PAY GAP REPORT

At Pennon we believe in treating everyone fairly, regardless of gender, race or background.

Our gender pay gap is primarily driven by the industries in which we work, where men make up most of the workforce and senior positions.

However, as you'll see we're not just going to accept the status quo.

We're on a mission to make Pennon a more diverse company; more reflective of the communities in which we operate, and the customers we serve.

That's why our response isn't just about pay, it's about our broader ambition to close the gap by making Pennon Group a more diverse and inclusive place to work.

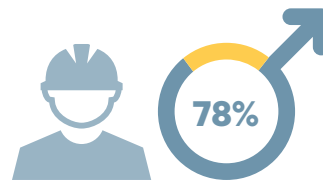
Gender pay gap reporting might be mandatory, but we welcome the opportunity to be open not only about where we are today but where we're heading in the future.

This report is more than just an outline of key statistics. It's a glimpse at some of the plans we have which will create a more diverse future, not just for people of different genders but also different races and ethnicities.

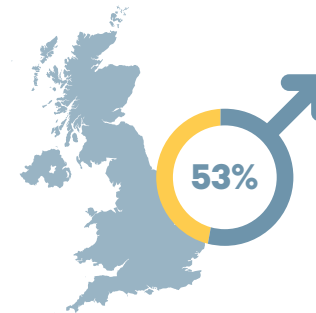
Because we know that diverse businesses benefit everyone – employees, customers and stakeholders alike. And we believe that the closer we get to a diverse workforce, the more successful Pennon will become together.

THE INDUSTRY CONTEXT

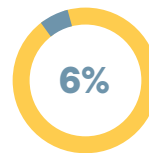
Pennon operates within traditionally non-diverse industries.



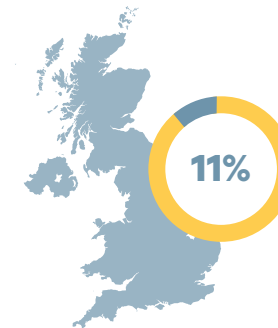
Men account for 78% of the sector's employee base...



...compared to an average of 53% for the UK workforce as a whole



Black, Asian and minority ethnic **(BAME)** workers only account for 6% in the waste and water industry...



...compared to 11% in the total UK workforce



Employees working in elementary, operative and skilled trade occupations are male

Men also account for:

 **73%** of technician roles

 **81%** of engineering roles

 **84%** of management roles

These trends are reflected in our own figures

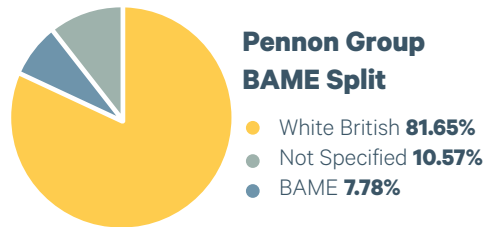
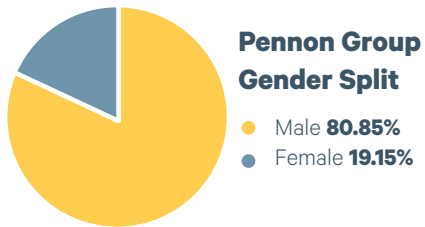
WHERE WE ARE TODAY

It's positive that our diversity statistics are either ahead of, or in line with, industry averages. But we know there's more to be done. That's why these figures are so important – they give us a base from which to measure our improvements in the future.

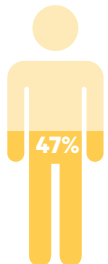
Employment – gender



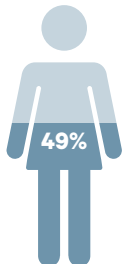
Employment – black, Asian and minority ethnic



A higher percentage of women than men were paid a bonus last year

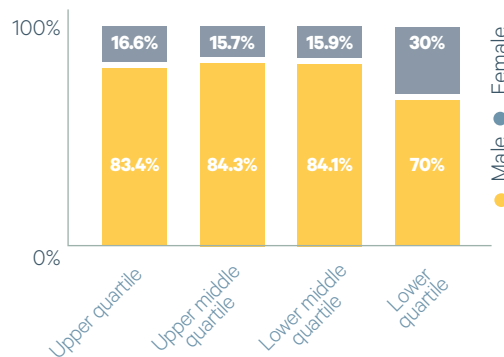


47% of men at Pennon received a bonus...

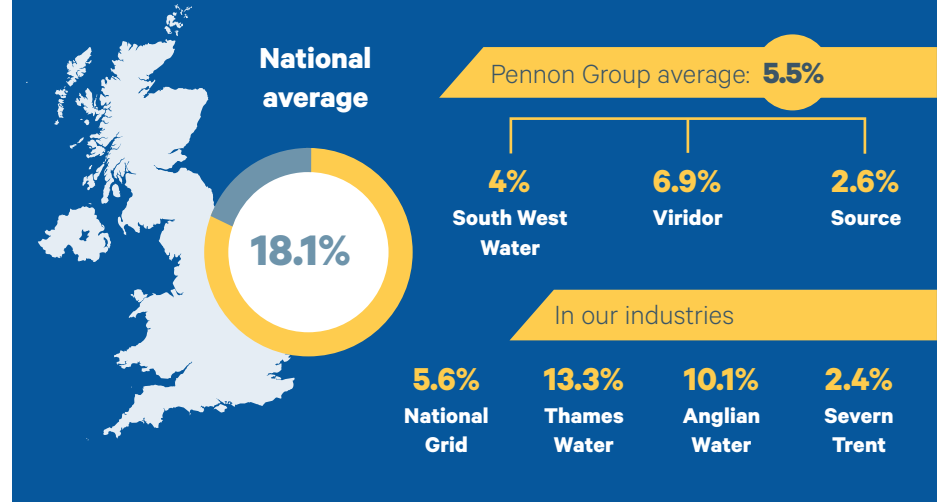


...compared to **49%** of women

We have more men in senior roles



CURRENT GENDER PAY GAP



WHY IS GENDER EQUALITY IMPORTANT?

Findings from a McKinsey report¹ on diversity have made the business benefits clear:



In the United Kingdom, on the senior exec team, for every 10% increase in gender diversity, EBIT (earnings before interest and tax) rose by 3.5%.



Companies in the top 25% for racial and ethnic diversity are 35% more likely to have financial returns above their national industry average.



Companies in the top 25% for gender diversity are 15% more likely to have financial returns above their national industry average.

¹ [Why diversity matters, by Vivian Hunt, Dennis Layton, and Sara Prince, January 2015, www.mckinsey.com]

OUR SUCCESSES SO FAR

We're already making progress towards a more diverse future.



WAYS WE'VE ALREADY MADE PENNON MORE DIVERSE

1 GREAT PLACE TO WORK

This year we partnered with a new supplier, Great Place to Work, to help bring a greater understanding of diversity in our employee engagement survey. As an organisation, we scored 12% above the national average for questions relating to diversity and inclusion.

Employee survey results



88%

of employees believe people here are treated fairly regardless of their race or ethnic origin



88%

of employees believe people here are treated fairly regardless of their sexual orientation



85%

of employees believe people here are treated fairly regardless of their sex



79%

of employees believe people here are treated fairly regardless of their age

2 HIGH SCORE IN FTSE 250 RANKING

We're proud to have come 40th in the FTSE 250 ratings of Women on Boards and in Leadership as part of the Hampton-Alexander Review of FTSE Women Leaders.



3 CLEARER, TRANSPARENT POLICIES

We have reviewed and updated our Diversity, Inclusion and Respect policy, making this consistent across the Group and strengthening our definitions of bullying and harassment.



4 CROSSING THE LANGUAGE BARRIER

In April 2017 we partnered with RWS Language Solutions to provide interpretation and translation services for Viridor's diverse workforce, which represents more than 30 different nationalities. This enables the translation of key documents such as our Code of Conduct, site operating procedures and health and safety policies into native languages. It also provides interpreters to ensure our workers understand what is expected of them and can work safely.



5 MEMBERS OF THE 30% CLUB

Research shows the more women you have in leadership roles, the more likely you are to have a more diverse workforce and a lower gender pay gap. This is why we're keen to champion initiatives such as the 30% club, a UK campaign with the goal of achieving a minimum of 30% women on company boards.

6 FEMALE APPRENTICES

Our apprentice population across the Group has a gender split of 70% male to 30% female, which gives us a promising base on which to build on in the future.



SOME OF OUR FUTURE PLANS

While we're proud of our achievements, we believe that both the waste and water industries as a whole must do more to access the wealth of talent available in the working population, and to attract people from more diverse backgrounds as they enter the workforce.

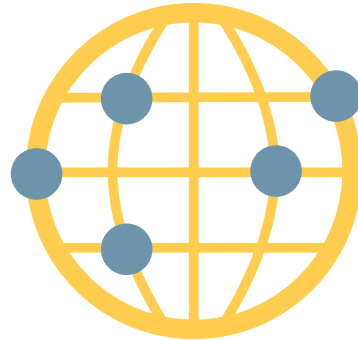
This is limiting the sector's ability to respond to talent replacement and growth pressures.

At Pennon, we have identified a number of actions that we can take to help us move towards a more equal and diverse future.

6 WAYS WE WILL MAKE PENNON A MORE DIVERSE PLACE TO WORK

1 AN EXECUTIVE LED DIVERSITY AND INCLUSION STEERING COMMITTEE

This committee will be chaired by a member of the Pennon Executive and will include representatives from all parts of the organisation. It will drive understanding of Diversity and Inclusion, and ultimately support the delivery of our strategy.



2 APPOINT A HEAD OF DIVERSITY AND INCLUSION

As part of the Group HR structure, this person will be responsible for developing our Diversity and Inclusion strategy; representing us both internally and externally. The aim is to ensure we're actively taking part in, and driving equality conversations both inside and outside of Pennon.

3 FOCUSING ON THE NEXT GENERATION

We already have amazing education facilities and outreach programmes to inspire young people as to why they should choose Pennon and the sectors we work in for a career.

We aim to do more in the future through our work with STEM organisations to encourage more young people, with a particular focus on girls, to take up a career in science, technology, engineering and maths.



4 DEVELOPING FEMALE LEADERS AND ROLE MODELS



We're planning on offering mentoring to other organisations, as well as identifying females with high potential in our own organisation who would benefit from mentoring from outside the business.

5 SEEKING OUT THE BEST OF THE BEST

As well as our membership of the 30% Club, aim to create strong partnerships with other organisations in order to collaborate in other key areas of Diversity and Inclusion such as ethnicity, sexuality and age.

6 RECRUITING FOR DIVERSITY

We want to build on the current 70:30 gender split in our apprentice population by reviewing our approach to recruitment and apprentice / graduate intake with diversity in mind.



BREAKDOWN OF OUR GENDER PAY GAP

	Mean gender pay gap in hourly pay %	Median gender pay gap in hourly pay %	Proportion of males who received bonus in previous 12 months %	Proportion of females who received bonus in previous 12 months %	Mean bonus gender pay gap %	Median bonus gender pay gap %
Pennon plc.	41.3	57.4	70.4	82.9	60.5	83.2
Pennon Water Services	16.7	14.1	40.8	50.0	39.7	35.2
Source	2.6	-1.2	80.5	85.7	19.5	0.0
South West Water	4.0	10.1	94.0	89.9	-1.1	9.2
Viridor	6.9	3.6	27.0	11.6	55.0	-6.8
Pennon Group	5.5	9.7	47.3	48.5	16.4	24.7



	Upper quartile % of males	Upper quartile % of females	Upper middle quartile % of males	Upper middle quartile % of females	Lower middle quartile % of males	Lower middle quartile % of females	Lower quartile % of males	Lower quartile % of females
Pennon plc.	66.7	33.3	53.3	46.7	46.7	53.3	13.3	86.7
Pennon Water Services	83.3	16.7	68.4	31.6	63.2	36.8	47.4	52.6
Source	53.2	46.8	41.9	58.1	47.6	52.4	54.8	45.2
South West Water	79.9	20.1	86.7	13.3	85.3	14.7	65.2	34.8
Viridor	86.8	13.2	84.7	15.3	87.4	12.6	79.2	20.8
Pennon Group	83.4	16.6	84.3	15.7	84.1	15.9	70.0	30.0

Percentages rounded to 1 decimal place