



Sustainable Finance Impact Report

2024



from
Southern
Water® 

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Introduction by Stuart Ledger, CFO

Welcome to our Sustainable Finance Impact Report.

We're using sustainable finance to support vital areas that will build resilience into our business, long into the future.

We serve communities across Sussex, Hampshire, Kent and the Isle of Wight, providing essential water and wastewater services to 2.7 million water customers and 4.7 million wastewater customers. Ours is a water stressed region that suffers from the effects of climate change and an increasing population. That's why we need to invest in the key areas that our sustainable bonds cover: reducing pollution incidents, improving compliance and having less leakage.

Tackling the challenges we have in our region requires investment. The proceeds from our sustainable bonds are helping us give these areas the support they need, as we accelerate our improvements in performance. A wide range of projects have been supported by our sustainable bonds. The projects create positive impact across the business, ensuring that we are delivering for our customers now and in the future.

Whether we're building more resilience into our operations to reduce pollution incidents, improving our wastewater treatments works' compliance record or getting leaks fixed more quickly, we're moving further and faster towards our goals. It's what our customers want, and what we want to see too. Our Turnaround Plan – the plan for 2023–25 to deliver a step-change in our performance over two years – has been tracking progress made, as we come to the end of our current Business Plan 2020–25 and look forward to the next five-year plan.

Pollution reduction is being targeted through actions under our Pollution Incident Reduction Plan. This includes placing thousands of sewer level monitors in our networks, linked to machine learning tools that can predict and avoid bursts and blockages. It's just one of the innovative ways that we're reducing pollution. As our pumping stations and rising mains become more robust during wet weather, there has been a significant reduction in pollution incidents from these assets.



Stuart Ledger
Chief Financial Officer

Compliance improvements are shown by how we have taken our wastewater sites from Amber status to Green, based on the EPA (Environmental Performance Assessment) criteria – a status where there are three or less failed works, reducing risks to improve wastewater compliance. It's all part of how we're making sure customers have a supply of high-quality water.

Improving leakage is not just about efficiency, it's about protecting the environment and local communities. Our find-and-fix teams continue to work 24/7 and the work to better manage leakage using satellite technology as part of our Leakage Recovery Plan, has enabled more complex network issues to be put right more quickly. In the financial year to 31 March 2024, we have reduced leakage for the first time since the start of the pandemic.

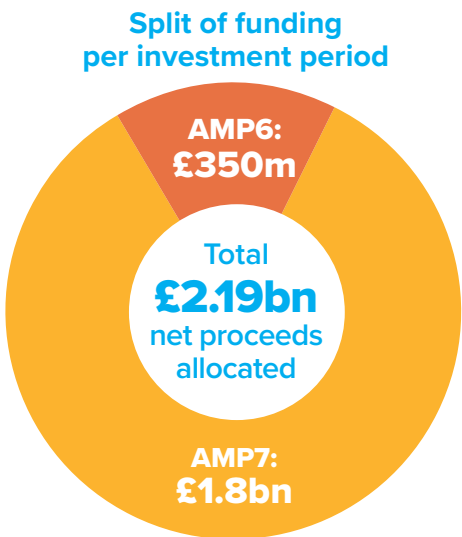
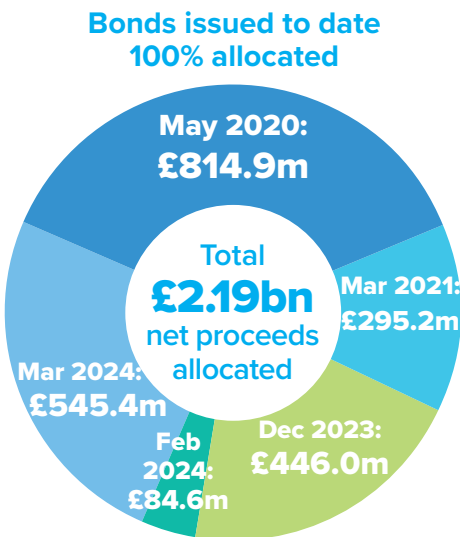
Four new Sustainable Bonds with a notional value of £1.1 billion were issued in the financial year ended 31 March 2024. Scheme expenditure has been slightly higher than 31 March 2022 in the years ended 31 March 2023 and 31 March 2024, and the last three years of the Business Plan 2020–25 have been materially higher than the first two. The full £1.1 billion of bond proceeds were allocated against scheme expenditure in the two years ending 31 March 2024, partly refinancing projects delivered in the year to 31 March 2023 and also financing new project spend delivered in 31 March 2024.

Looking forward, we received the Final Determination for the Business Plan 2025–30, issued on 19 December 2024, elements of which Southern Water is currently appealing. Regardless, this will mean a significant increase in capex scheme expenditure under the Business Plan 2025–30 compared to the previous five years.

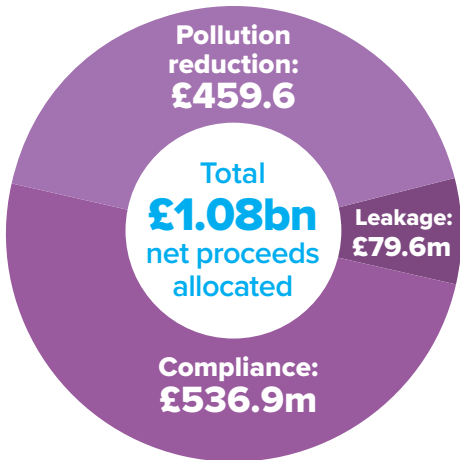
Key highlights

All the sustainable bonds are public issuances and have original tenors ranging from 7 to 19 years.

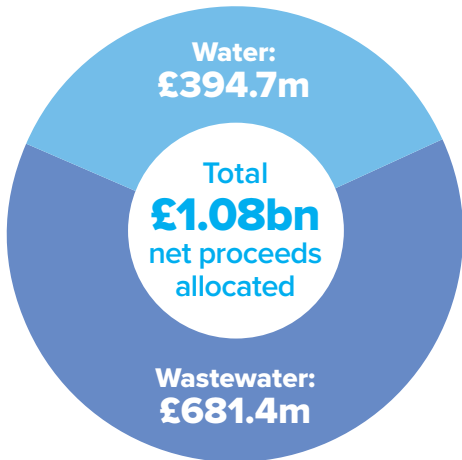
Sustainable Bonds issued to date



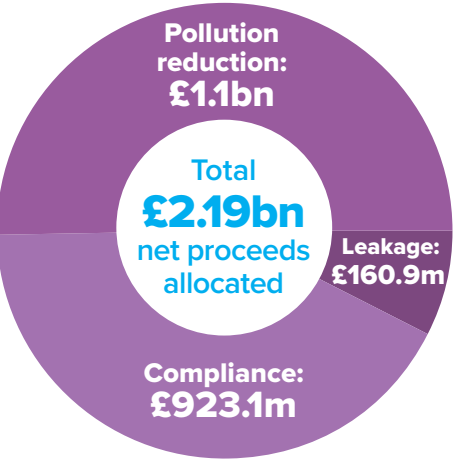
Areas of impact 2023–24



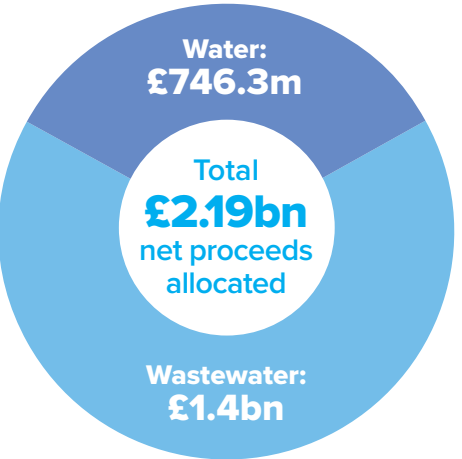
Split of water/wastewater 2023–24



Areas of impact to date



Split of water/wastewater to date



Progress in allocation of sustainable bonds

Our sustainable bonds support a wide variety of allocated projects for improvements in pollution reduction, compliance and leakage.

The impact from these allocated projects shown on page 8, is covered for the period up to and including 31 March 2024.

A total of 60 new projects were allocated in the year to 31 March 2024, covering expenditure incurred in both the year ended 31 March 2023 and 31 March 2024. Expenditure was also previously applied to projects beginning in the earlier years of the Business Plan 2025–30 and in the previous business plan. In total since our framework began, 259 projects have now been allocated, 243 from the Business Plan 2020–25 and 16 from the previous Business Plan 2015–20.

Our performance for each of the areas supported by allocated projects – pollution reduction, compliance and leakage – is shown on page 7. This performance is measured against our regulators' Operational Delivery Incentives (ODIs). Further information about the ODIs can be found on this page: [PR19 Final Determinations – Southern Water Outcomes performance commitment appendix](#)

Pollution

In the area of pollution reduction, funded projects include logger maintenance, sewer rehabilitation and operational asset management. Specific examples of pollution projects that have been allocated which cross a number of years, include:

- Event Duration Monitors
- Sewer rehabilitation schemes
- Wastewater pumping station improvements.

Compliance

Funded projects supporting improved compliance include capital maintenance and effluent re-use. Some examples of compliance projects that have been allocated are:

- Testwood UV enhancements
- Further compliance investment at Otterbourne
- Continued nitrate removal schemes.

Leakage

Projects covering distribution networks and domestic meter replacement, for example, are supporting improvements in leakage reduction. Specific projects that were allocated in this period include:

- Continued digitalisation of the water network
- Communication pipe replacements
- Stop tap replacement.



Our use of the proceeds received to the year 31 March 2024 is covered in this report.

The report outlines how the investments in these capital projects have contributed to our overall performance across three major targeted areas of our business: pollution reduction, compliance and leakage.

Eligible projects have been allocated net proceeds according to our Sustainable Finance Framework and in alignment with the principles of the International Capital Market Association (ICMA) as follows:

- **Green Bond Principles**
- **Social Bond Principles**
- **Sustainability Bond Principles.**

The projects also align to the Loan Market's Principles, these are:

- **Green Loan Principles**
- **Sustainability Linked Loan Principles**
- **KPIs** – here we are reporting at a portfolio level given the large number of projects being financed.

Four key components are covered under the bond principles, these are: use of proceeds; process for project evaluation and selection; management of proceeds; and reporting.

The individual capex projects – the sustainable investments as they are referred to – have met the criteria for allocation to our sub portfolio. This portfolio contains the Social and Green categories. The projects fall within one or several of the Social categories and one or several Green categories.

Green bond definition

Green bonds are any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects (and which are aligned with the four core components of the Bond principles).

Social bond definition

Social bonds are any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Social Projects and which are aligned with the four core components of the Bond principles.

Sustainability bond definition

Sustainability bonds are bonds where the proceeds will be exclusively applied to finance or re-finance a combination of both Green and Social Projects.

The coupons on the sustainable bonds issued in the period are as follows: 7.375% on the £450 million 18-year bonds issued in December 2023; 3.315% and 4.123% respectively on the £72 million and £20 million 19-year bonds issued in February 2024; and 7.0% on the £550 million 16-year bonds issued in March 2024.

We engaged DNV to provide independent limited assurance over selected impact indicators and the claims and assertions related to the allocation of proceeds for the year to 31 March 2024, as disclosed in this report. DNV's Independent Limited Assurance Report is available at: southernwater.co.uk/dnv-opinion.

Matrix category	Sustainability criteria
Social	Affordable Basic Infrastructure
	Access to Essential Services
	Food Security
	Socioeconomic advancement and empowerment
Green	Renewable Energy
	Energy Efficiency
	Pollution Prevention and Control
	Sustainable Water and Wastewater Management
	Environmentally Sustainable Management of living natural resources and land use
	Climate Change Adaptation
	Eco-efficient and/or circular economy, adapted productions, production technologies and processes

Key deliverables

Pollution prevention

We want to prevent pollution incidents happening, so that we can protect our customers and the environment from any harm these may cause.

For the year to 31 December 2023, there were 234 category 1-3 pollution incidents – that's a 35% reduction compared to the year before when there were 358 incidents (this year's 234 incidents is equivalent to 58.90 incidents per 10,000km of network). In fact, this represents a reduction of 46% since 2019. This level of performance is outside our Ofwat target, however the trend shows how efforts to make our network more resilient are bringing down the number of incidents. The work being done to improve this area of performance is bringing us closer to our goal of zero pollution incidents caused by network failures or our own sites.

Our continued commitment to driving down pollution incidents, requires planning and actions that will have an impact both now and in the future. Our 2024 Pollution Incident Reduction Plan – our annual pollution reduction plan – set out ways to prevent, detect and respond to incidents. The plan used the root cause analysis of 2023 pollutions when preparing our 2024 improvement plans to drive benefits from key projects including:

Prevention

- Wastewater Pumping Station resilience and back-up control
- Samotics (Wastewater Pumping Station and Wastewater Treatment Works)
- Outstation Replacement
- Wastewater Treatment Works Flow Compliance.

Detection

- CBM (Sentrix) models for telemetered assets including a final effluent early warning tool
- Rising Main burst detection
- SLM Data Frequency Optimisation.

Incident Response and human factors

- Control pollution awareness and playbooks
- Incident management improvement plan
- Field rapid response teams.

Regulatory compliance

Regulatory compliance includes both the compliance of treatment works and drinking water quality, and both these measures are calendar year measures to 31 December 2023.

The 2023 score of 3.07 for the Compliance Risk Index (CRI) was our best score since the measure was introduced in 2017. This compared to the previous year's score of 6.38, an improvement of 52%. The CRI score is however a volatile measure that can be affected by just one site failure.

Our performance in the critical area of treatment works compliance has significantly improved, reflecting improvements made to processes and procedures on site with a resulting metric of 99.36% for 2023 measured out of 100%. During the past year we started to see the impact of the Turnaround Plan on our operational performance through significant improvements in a number of our performance commitments. For example, in wastewater treatment works compliance, where the number of works not meeting their discharge permit requirements reduced from six to two, as well as improvement to the CRI mentioned above.

Leakage reduction

Leakage is measured on a financial year basis, making the latest scores the measure of our 12 months to 31 March 2024 performance.

In 2024, our in-year leakage figure was 107.5 MI/d – the first time that leakage had reduced since the start of the pandemic.

Our three-year rolling average – taking the average score over the current and previous two years – was 104.3 MI/d. This was above our 87.9 MI/d Ofwat target.



Sewer level monitor

Impact of schemes supported by our sustainable bond investment

Pollution reduction

We continue work to reduce pollution incidents, protecting customers and the environment.

Investing in our assets – sites and equipment – and using proactive control to spot issues before they happen, are the main reasons for the reduction seen in pollution incidents.

The Turnaround Plan has been tracking progress made through substantial investment to improve our pumping stations to reduce pollution incidents. Blockages and electrical or mechanical issues can all cause pollution incidents.

Reducing bursts is another key element and under the plan, the aim is to clean over 700km of sewers a year, as well as installing monitoring devices.

Increased network resilience during wet weather meant there was a significant reduction in incidents from pumping stations and rising mains. By feeding data and analytics into our Control Centre, we can spot a pollution risk more effectively at our pumping stations. A large number of pumping station resilience surveys were carried out, reducing this type of pollution incident from 31 incidents in 2022 to one in 2023.

Our industry-leading deployment of more than 23,000 sewer level monitors using bespoke AI predictive technology, has enabled us to avoid pollution incidents before they even happen.

A pollution risk model is being developed. The model will look at foul sewers – where most pollution incidents come from, due to too much fat, oil and grease – and focus on the fact that 92% of incidents in foul sewers were sites that polluted for the first time in 2023.

In 2024, we continued the focus on serious pollution incidents – category 1 and 2. In 2022 we had five incidents and in 2023 the number was 13. A root cause analysis of each incident is always carried out and informs work under our annual Pollution Incident Reduction Plan.



Compliance

We continue work to reduce pollution incidents, protecting customers and the environment.

The improvement shown in our water quality measure follows:

- on-going work to upgrade four of our major surface supply works, supported by enhanced maintenance and operational checks
- completion of a total of 75 supply works audits to reduce water quality risks
- cleaning and inspecting service reservoirs – 70 in total
- holding team training programmes.

We've also been carrying out holistic checks at our top 30 sites, as part of our Go-To-Green programme. The programme has reduced risks to improve compliance, taking our sites from an Amber RAG (Red Amber Green) status to Green. The checks included risk assessments and an analysis of root causes, forming part of a desktop study, which led to site improvements.



Service reservoir

Leakage

Improvements in leakage continue to be driven by our Leakage Recovery Plan.

The plan focuses on:

- find-and-fix leakage teams
- smart networks – there is an increased number of acoustic sensors on the network, with 3,000 added bringing the total to 12,000, as well as a new GIS satellite location system to map and pinpoint network problems
- advanced pressure management.

Using innovative technology, we have been able to reduce both water loss and customer disruption more effectively, with:

- machine learning applications, helping us to better identify where leaks – including larger leaks – are most likely to occur
- new products such as the LeakBot smart alarm device we have been trialling with 1,000 customers, alerting them to any leaks on the mains water supply or if taps have been left running.

Leakage repair



Investment and the governance process

The sustainable bond allocation process is supported by strong governance built on a rigorous review and approval process.

Both Social and Green bonds can be included in the majority of our asset expenditure and operational expenditure – capex and opex.

Following Southern Water’s Sustainable Financing framework, funds from our sustainable bonds are primarily allocated to our capex portfolio, under the projects and programmes of work in that portfolio.

When allocating funding, the process we use includes identifying risks, selecting solutions and analysing costs and benefits as follows:

- review of all projects meeting a certain value threshold
- presentation of business cases for approval by boards or gateways – these include details of each investment’s costs and benefits
- approval of projects by our Investment Committee
- final approval by the Board.

The plans for the next five-year Business Plan and the annual capex budgets are approved by the Board. All capital expenditure is approved by the relevant Steering Group, together with the project value and our schedule of delegated authority. This schedule determines the level of management approval.

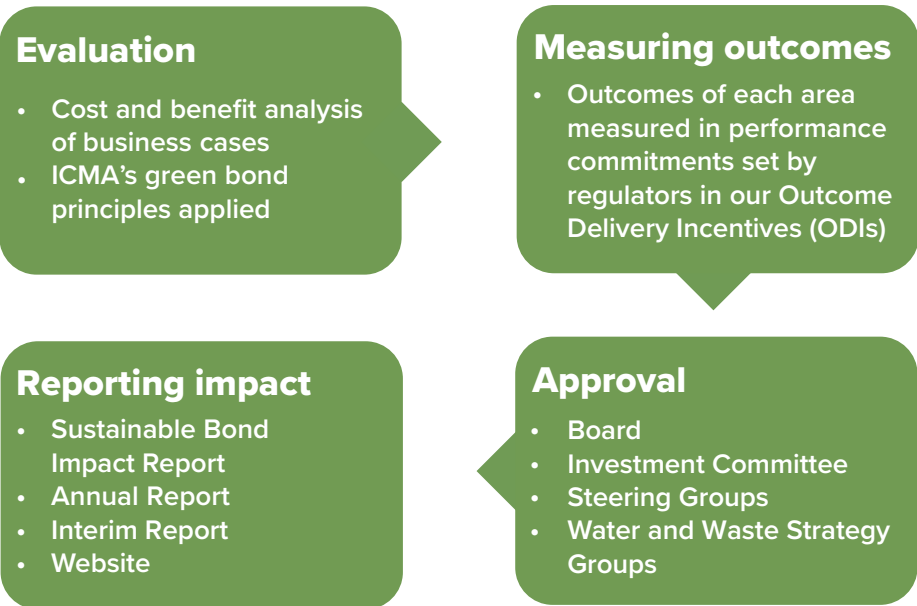
The whole capital programme is overseen by our water and wastewater strategy groups. Projects are monitored at each gateway. Monitoring continues throughout the whole project life cycle until completion of each project, ensuring that the best customer outcomes are delivered by the projects.

Most of our capital expenditure qualifies for inclusion under the ICMA criteria, with the exclusion of:

- certain types of expenditure including personal costs, fines and legal costs
- fines and legal costs associated with pollution incidents
- financing costs including costs associated with raising finance.

The Eligible Sustainable Portfolio’s assets are financed and refinanced by Southern Water. This is done by using the debt raised from our Sustainable Finance Framework. A second party opinion has been issued following a review of this framework by DNV.

Our sustainable bond impact process



Project selection and allocation

Projects are assessed for their eligibility before inclusion in the project portfolio.

A committee of members of the Treasury, Strategy and ESG teams carries out the assessment of projects by:

- checking the eligibility criteria and looking at information which shows the project's likely impact
- giving a score to each project once an assessment has been made of the project's purpose, type, alignment to ICMA Social and Green principles and its contribution to our environmental and social ambitions.

Projects meeting the minimum social and environmental criteria according to the assessment, are allocated to the bonds. The project's value is also considered, as the project must have a capex addition value of above £1 million in the year; this value includes an allocation of corporate overheads but does not include capitalised interest.

A further 60 projects were allocated to the sustainable bond issues during the year ended 31 March 2024. As part of the process to make sure there is no duplication of use of proceeds, allocated projects are shown in the capex portfolio reporting system and unique project identifiers, and a second party review ensures there is no duplication.

The amounts raised from each Bond and the allocated amounts as at the reporting period of 31 March 2024 are shown in the table on page 12. The three main areas of impact are also indicated in the table.

How the proceeds are managed

Eligible projects will be financed or refinanced by the proceeds, with funds initially being placed as deposits with money market funds or bank counterparties in accordance with our Treasury Policy. We will make sure that funds are not used for any projects that are contrary to our sustainable financing framework.

The table on page 12 shows that we have allocated all of the £1.08 billion of sustainable bond proceeds received in respect of the four new bond issues during the year ended 31 March 2024. These were allocated to refinancing of projects in the year to 31 March 2023 for £0.53 billion and the remaining for financing of £0.55 billion of projects in the year to 31 March 2024. Since the framework's inception, the bond proceeds from all seven sustainable bond issues from May 2020 to March 2024 totalling £2.19 billion have been allocated to schemes.

Sustainability Bond issues May 2020 – March 2024

– allocation of proceeds

Issued	May 2020	May 2020	March 2021	December 2023	February 2024	February 2024	March 2024	
Reference	A12	A13	A14	A15	A16	A17	A18	
ISIN	XS2180916525	XS2180916871	XS2325617939	XS2731297235	XS2771442980	XS2772125790	XS2793261301	
Nominal O/S	375m	450m	300m	450m	72m	20m	550m	
Loan type	Sustainable Bond	Sustainable Bond	Sustainable Bond	Sustainable Bond	Sustainable Bond	Sustainable Bond	Sustainable Bond	
Coupon	2.375%	3.000%	1.625%	7.375%	3.315%	4.123%	7.000%	
Maturity	May 2028	May 2037	March 2027	December 2041	February 2043	February 2043	April 2040	
	£m	£m	£m	£m	£m	£m	£m	Total £m
Net proceeds	370.6	444.3	295.2	446.0	64.6	20.0	545.4	2,186.2
Refinancing of capex projects from AMP6	350.0	–	–	–	–	–	–	350.0
New capex projects AMP7	20.6	444.3	295.2	–	–	–	545.4	1,305.5
Refinancing of capex projects AMP7	–	–	–	446.0	64.6	20.0	–	530.7
Total as at 31 March 2024	370.6	444.3	295.2	446.0	64.6	20.0	545.4	2,186.2
Total allocated as at 31 March 2022	370.6	444.3	295.2	–	–	–	–	1,110.1
Allocated in the year to 31 March 2024	–	–	–	446.0	64.6	20.0	545.4	1,076.1
Total allocated as at 31 March 2024	370.6	444.3	295.2	446.0	64.6	20.0	545.4	2,186.2
Allocated %	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Allocations by Area of Impact								
Allocated by Impact b/f at 31 March 2022								
Pollution reduction	258.7	246.4	137.4	–	–	–	–	642.5
Regulatory Compliance	74.6	167.8	143.8	–	–	–	–	386.3
Leakage	37.3	30.1	13.9	–	–	–	–	81.3
Total allocated b/f as at 31 March 2022	370.6	444.3	295.2	–	–	–	–	1,110.1
Allocated by Impact in the year to 31 March 2024								
Pollution reduction	–	–	–	199.0	28.8	8.9	222.8	459.6
Regulatory Compliance	–	–	–	215.5	31.2	9.7	280.5	536.9
Leakage	–	–	–	31.5	4.6	1.4	42.1	79.6
Total allocated in the year to 31 March 2024	–	–	–	446.0	64.6	20.0	545.4	1,076.1
Allocated by Impact as at 31 March 2024								
Pollution reduction	258.7	246.4	137.4	199.0	28.8	8.9	222.8	1,102.1
Regulatory Compliance	74.6	167.8	143.8	215.5	31.2	9.7	280.5	923.1
Leakage	37.3	30.1	13.9	31.5	4.6	1.4	42.1	160.9
Total allocated as at 31 March 2024	370.6	444.3	295.2	446.0	64.6	20.0	545.4	2,186.2
Allocations by Portfolio								
Allocated by Portfolio b/f at 31 March 2022								
Water	82.4	166.8	102.4	–	–	–	–	351.6
Waste	288.2	277.5	192.8	–	–	–	–	758.5
Total Allocated b/f as at 31 March 2022	370.6	444.3	295.2	–	–	–	–	1,110.1
Allocated by Portfolio in the year to 31 March 2024								
Water	–	–	–	165.8	24.0	7.4	197.4	394.7
Waste	–	–	–	280.2	40.6	12.6	348.0	681.4
Total Allocated in the year to 31 March 2024	–	–	–	446.0	64.6	20.0	545.4	1,076.1
Allocated by Portfolio as at 31 March 2024								
Water	82.4	166.8	102.4	165.8	24.0	7.4	197.4	746.3
Waste	288.2	277.5	192.8	280.2	40.6	12.6	348.0	1,439.8
Total allocated as at 31 March 2024	370.6	444.3	295.2	446.0	64.6	20.0	545.4	2,186.16



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