



from
**Southern
Water**

Unique opportunities, resolute focus

Improving the resilience
of services for customers
and the environment

Annual Report and Financial Statements
For the year ended 31 March 2025



Welcome to our Annual Report and Financial Statements 2024–25

We're committed to making sure our customers have access to high-quality, affordable and efficient water and wastewater services, while we protect and enhance our communities and the environment.

We provide water services to 2.7 million customers and wastewater services to around 4.8 million customers across Kent, Sussex, Hampshire and the Isle of Wight.

Benchmarking our performance

We supply information to independent ratings and indices on a range of environmental, social and governance (ESG) matters.

Our environmental performance is monitored by the Environment Agency's Environmental Performance Assessment (EPA) annually. We expect to maintain our two-star rating for 2024.

We performed well in the 2024 Global Real Estate Sustainability Benchmark (GRESB), which assesses the ESG performance of infrastructure assets. We were awarded a Green Star rating, achieving the highest possible five stars, and a score of 96 out of a possible 100 (2023: Green Star, five stars).

We also improved our position in the 2023–24 Inclusive Top 50 UK Employers, moving to 19th from 29th the previous year and from 49th place in 2020.

Overview

Financial highlights	02
Our business at a glance	03

Strategic Report

Chair's statement	08
Our unique operating context	10
Strategic roadmap	11
Looking ahead to 2030	12
A year in review with Lawrence Gosden, CEO	13
Turnaround performance — a quick overview	19
Trends and challenges	21
Business model	23
Focus areas	31
Operational performance	
– Protect and improve the environment	32
– Enhance health and wellbeing	44
– Sustain the economy	63
– Climate-related Financial Disclosures	66
Streamlined Energy and Carbon Report (SECR)	86
s172 Statement	89
Non-Financial and Sustainability Information Statement	92

Chief Financial Officer's review	94
Financial performance	97
Capital structure	106
Risk management approach	112
Risk oversight and governance	114
Emerging risks, high impact low likelihood (HILL) events and risk overview	116
Principal risks and uncertainties	117
Viability statement	131

Governance

Chair's overview	136
Governance at a glance	138
Overview of Corporate Governance	140
Board of directors	142
Corporate Governance Report	147
Directors' Remuneration Report	181
Directors' Report	196

Financial statements

Income statement	204
Statement of other comprehensive income	204
Statement of financial position	205
Statement of changes in equity	206
Statement of cash flows	207
Notes to the financial statements	208
Independent Auditor's report	247
Glossary	257

Registered Office

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Registered no: 02366670

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Financial highlights

Revenue¹ (£m)

(before amortisation of regulatory settlement provision)



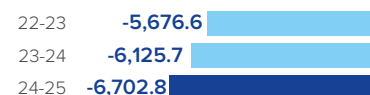
Loss before interest and tax¹ (£m)



Capital investment⁵ (£m) (Restated)⁶



Net debt⁷ (£m)



Regulatory Capital Value (RCV)² (£m)



Net debt/RCV³ (%)



Wholesale totex⁴ (£m)



Average water and wastewater customer bill (£)



Dividends and equity

No dividends have been paid to shareholders of the group since 2017–18. A total of £1.6 billion in equity was injected during 2020–25, with £655 million committed and up to a further £545 million intended to be committed by December 2025 for 2025–30.

¹ Following its investigation into our wastewater treatment works compliance reporting, Ofwat imposed a penalty under Section 22A of the Water Industry Act. We provided in full for this proposed regulatory settlement in the financial statements for 2018–19, reducing profit in that year. We've made rebates to customers, through revenue, over the period from 2020–25 and these are offset in the income statement by the amortisation of the provision made in 2018–19. See note 5 to the financial statements.

² Regulatory Capital Value (RCV) is a measure of the value of our regulatory capital asset base as published by Ofwat.

³ The net debt to RCV ratio is calculated as the ratio of net debt (short- and long-term senior borrowings, less cash and short-term deposits) to the RCV (all values taken from our Regulatory Accounts and note 32 to the financial statements).

⁴ Wholesale totex (opex + capex) reflects the actual totex expenditure incurred as per Table 4C of our published regulatory financial statements and presented in out-turn prices.

⁵ Capital investment in the sum of intangible and property, plant and equipment additions from notes 12 and 13 of the financial statements.

⁶ The prior years have been restated to reflect a correction to the methodology for calculating the interest capitalisation rate. Please refer to note 1 to the financial statements for further information.

⁷ Net debt, as per note 32 of the financial statements.



Our business at a glance



Regional highlights

Investing to improve water quality in Kent

Over the past five years we've invested millions in Kent to improve wastewater treatment and water quality. These projects have extended our sewer network; enabling new development, improved treatment processes and storage at our sites, increasing the amount of waste that they can treat and reducing the use of storm overflows during heavy rain. This work has removed phosphorus and nitrates, helping to protect local shellfish beds. We've also installed a new long-sea outfall at Swalecliffe, further improving the quality of local bathing waters.

→ Read more about **our work at Swalecliffe** on page 40.

Reducing flooding in the Lavant Valley

We've now finished £4.4 million worth of work to seal sewers and manhole covers in the Lavant Valley, reducing flash flooding and storm overflows into Chichester Harbour. Heavy rain and high volumes of groundwater can overload the sewer network. That's why we're looking at other long-term solutions to manage excess groundwater, such as wetlands; and new technology, like Tubogel, that plugs holes in pipes, stopping the water from getting in.

→ Read more about **groundwater management** on pages 17 and 39.

Reducing storm overflow releases on the Isle of Wight

Our Appley wastewater pumping station on the Isle of Wight was struggling to cope from heavy rain, which was causing regular storm overflow releases into the Solent. By changing our Environment Agency permit, we've increased the amount of storm water that can be managed on-site, reducing releases and helping the local shellfish bed achieve a Class A water quality rating.

→ Read more about our **Clean Rivers and Seas Task Force** on pages 17 to 18 and 37.

Incentivising local businesses to save water

Our Business Partnership Fund initiative, launched in 2023, has helped to save 118,793 litres of water per day, with more than £300,000 so far awarded. The fund is advertised to businesses in our region and encourages them to think of alternative water supplies. To date we've funded 19 water-saving projects at schools, garden centres, caravan parks and prisons. We've even worked with an animal sanctuary.

→ Read more about **the Business Partnership Fund** on page 57.

Our business at a glance continued

**Our purpose
is to provide
water for
life to...**



**Protect and improve
the environment**



**Enhance health
and wellbeing**



**Sustain the
economy**

**Our vision
means we're
committed to...**

**We're working together to provide sustainable water and
protect the environment today and for future generations.**

**Our long-term
priorities are
linked to ESG**

Environment

Protecting and improving the environment.



Society

Understanding and supporting our
customers and communities.



Ensuring a supply of high-quality water
for the future.



Governance

Enabling and empowering our people.



**These are
underpinned
by our culture
and values**

**We're committed to enabling our teams to do their best every day,
improving services for our customers and the environment.**

→ Read about **Enabling
and empowering our
people** on page 63.



**Succeeding
together**



**Doing the
right thing**



**Always
improving**



**Working
with care**

Our business at a glance continued

We continue to focus on the things that really matter to our customers and stakeholders

Customers and stakeholders expect reliable water and wastewater services that don't impact the environment.

That's why we work with local partners to put community needs at the heart of everything we do.

→ Read more about **our principal risks** on pages 118 to 130.

Trends

Climate change and rising environmental concern

- The impacts of climate change are already having an adverse effect on our operations, and we must adapt.
- Public demand to protect the environment is shifting government priorities.
- We need to drive the policy agenda.

Advanced technology and changing customer expectations

- Our customers expect better access to information.
- Big data, artificial intelligence (AI) and machine learning are all now the norm.
- We must update our processes and systems.

Growing population and changing communities

- Population growth is putting pressure on limited resources across our region.
- Our communities are changing.
- Our plans must respond to their needs.

Challenges and how we are responding

Protecting our unique habitats

Relining and relocating sewers; installing sustainable drainage solutions; improving infrastructure (larger storm tanks and efficient networks); and making plans that consider entire river-basin catchments.

Decarbonisation

Carbon sequestration through nature-based solutions. Alignment with the government's 2050 net zero target and Ofwat's focus on location-based Scope 1, 2 and 3 emissions.

→ Link to **SECR Report** on page 86.

Meeting customer expectations

Creating quick and easy services for customers; improving digital experiences; providing faster resolution of queries; improved incident response; and increased access to Priority Services.

Reputation

Distributing regional customer newsletters; focusing on face-to-face engagement and customer drop-ins; increasing stakeholder engagement and proactive news updates.

→ Link to **Understanding and Supporting our customers and communities** on page 51.

Water for all

Reducing leakage; offering water-saving audits and support; creating new water sources; reducing abstraction; putting in place water transfers and regional planning initiatives to ensure future supplies.

Affordability

Offering a minimum of 45% discount on water bills for those needing financial support; increasing our customer Hardship Fund and access to community grants.

→ Link to **Understanding and Supporting our customers and communities** on page 51.



Our business at a glance continued

Delivering on our purpose for all

We measure our success by achieving outcomes that our customers have told us are most important to them.

We work hard every day to improve our services, adapting to challenges. We don't always get it right, but we learn from our mistakes. We're focused on delivering the right solutions for communities across the South East.

Delivering for our unique environment

277

The number of internal flooding incidents has been reduced.*

(2024: 527)

80%

Pollution incidents were self-reported to the Environment Agency by the company, ahead of any other party making a report.

(2024: 69%)

85%

Planned preventative maintenance was completed on time on our wastewater treatment sites and networks.

(2024: 65%)

269

Total pollutions have increased by 15% year on year, due to exceptionally high rainfall. However, since 2020 total pollutions have reduced by 41%.

(2023: 234)

45

Members of different teams across Southern Water are now part of the Environmental Champions Network.

[→ Read more on pages 32 to 41.](#)

Delivering for a changing society

8%

Reduction in customers contacting us about drinking water appearance.

144,045

Customers accessing social tariffs (financial assistance).

98,706

Students engaged through our community education programme, which visited 813 schools, colleges and youth groups.

(2024: 80,000)

600+

Customers attended our Your Water Matters community engagement events during 2024–25.

-0.03%

Our median pay gap, in favour of women.

(2023: -7.18%)

[→ Read more on pages 44 to 65.](#)

Delivering for our people

84%

Colleagues completed 'Stop, Think, Safe!' leadership training, which forms part of our Health, Safety, Security and Wellbeing Transformation Plan.

106

Apprentices have now been recruited across 23 different standards from 13 providers.

0.19

The lost time injury frequency rate for employees and suppliers this year (2023–24: 0.27) against a target of 0.22. Our target for 2025–26 is 0.20.

7

Employee groups offer extra support to colleagues, providing an open but confidential space to discuss key concerns and celebrate successes.

19th

In the Inclusive Top 50 UK Employers List (IT50UK) – up from 29th place last year.

[→ Read more on pages 63 to 65.](#)

* This is our best performance to date.

Our business at a glance continued

Delivering on our purpose for all

Providing help and support if a customer gets flooded

We know it can be extremely upsetting for customers if their homes or gardens are flooded. To provide individual support, we've issued all our teams with best-practice guidance so we can be sure that we're always offering our customers the right support when they need it most.

➔ Read more in our **case study** on page 60.

Expanding our education programme for future customers

Our Education Ambassadors are now hosting assemblies for primary and secondary school audiences, helping us reach more than 30,000 students over the course of this year.

➔ Read more about **education** on page 61.

We're offering more financial support to customers than ever before

Over the past year we've set up several new data sharing agreements with local authorities, to auto-enrol customers in vulnerable circumstances onto our Essentials tariff. So far 3,500 additional customers have been added and are now receiving a minimum discount of 45% on their water bills.

➔ Read more **about support** on page 62.

Targeting the largest customer leaks to save water

Although a leak on a customer property is usually the owner's responsibility, we're offering a free fix to some homeowners, where a significant amount of water was being lost. The scheme has saved about 4.86 million litres of water, per day, so far.

➔ Read more in our **case study** on page 49.

Supporting our customers when things go wrong

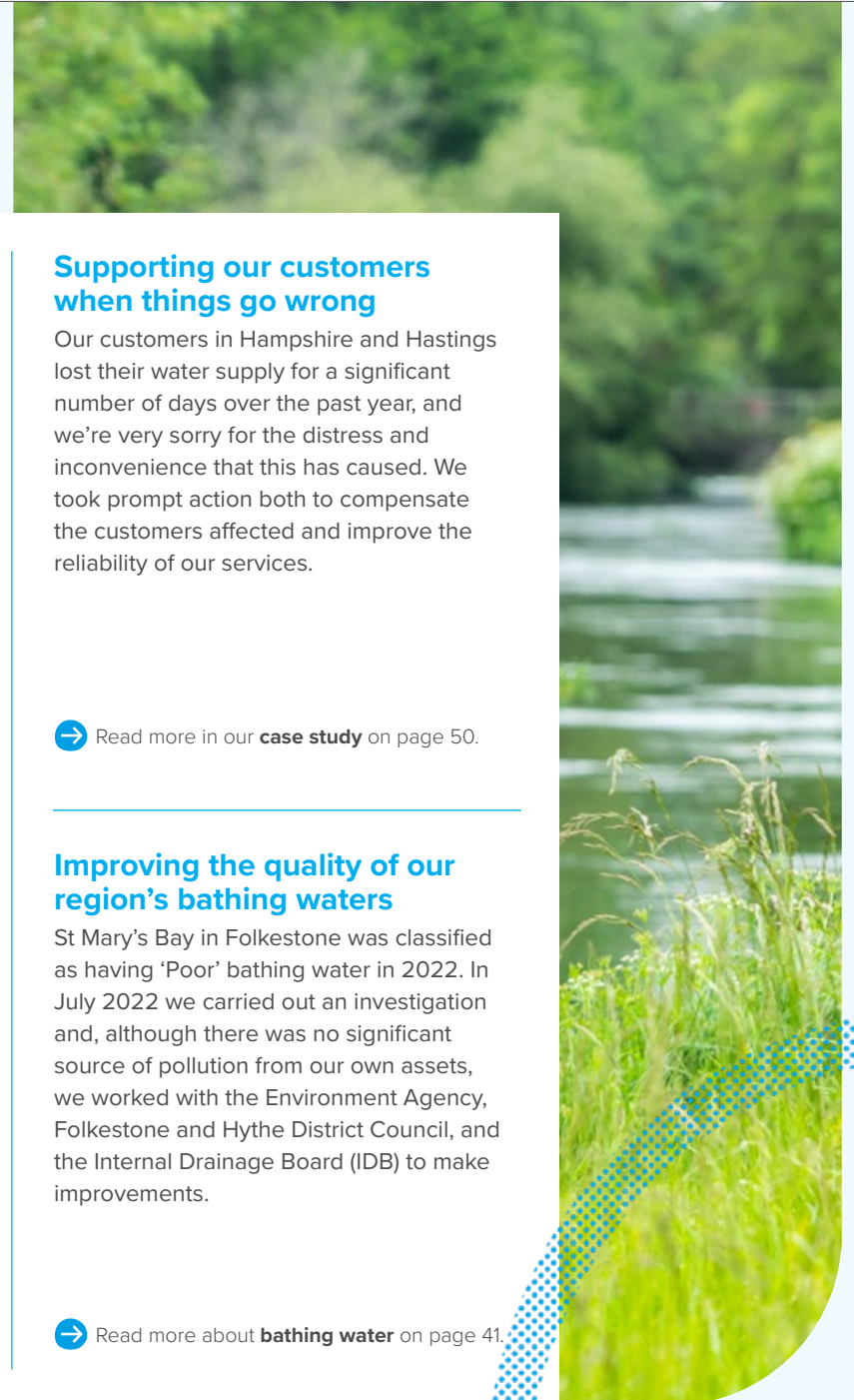
Our customers in Hampshire and Hastings lost their water supply for a significant number of days over the past year, and we're very sorry for the distress and inconvenience that this has caused. We took prompt action both to compensate the customers affected and improve the reliability of our services.

➔ Read more in our **case study** on page 50.

Improving the quality of our region's bathing waters

St Mary's Bay in Folkestone was classified as having 'Poor' bathing water in 2022. In July 2022 we carried out an investigation and, although there was no significant source of pollution from our own assets, we worked with the Environment Agency, Folkestone and Hythe District Council, and the Internal Drainage Board (IDB) to make improvements.

➔ Read more about **bathing water** on page 41.



Chair's statement



Keith Lough
Non-executive Chair

“

Collaboration with our community partners is an essential... in terms of work we're doing now to improve the networks, but also in terms of finding solutions to long-term challenges such as water scarcity, sustainable drainage and water quality.”

Welcome to our Annual Report and Financial Statements for 2024–25

We're at a pivotal point in Southern Water's transformation, as one five-year investment period ends, and we embark on our largest delivery programme yet.

The company that the Board and I oversee today has changed fundamentally over the past five years, both culturally and operationally. Areas of performance that stakeholders have highlighted as being vitally important, such as leakage, water quality, flooding and pollutions, are materially improved thanks to the focus applied by the Executive's turnaround strategy. These turnaround commitments continue into the next five-year investment period.

This step-change in improvement – both in absolute terms and relative to peers – is thanks in no small part to the support of our shareholders, funds managed by Macquarie Asset Management. They continue to make substantial investments in the business, significantly over and above levels set by regulators. Since 2021 they've injected £1.6 billion into the Southern Water group, while receiving no dividends. Additional equity of £655 million has recently been committed, and up to a further £545 million is intended to be committed by December 2025, to support the current investment period to 2030. See page 199 for further information regarding this funding and its effect on going concern, including the related material uncertainty.

This improvement is also thanks to the determination and hard work of Southern Water colleagues and our partners in driving through rapid and lasting change to assets, processes and systems. Their focus, alongside the collaborative efforts in local communities, is delivering real results in terms of reductions in the use of storm overflows, water demand and improvements to water quality. We know there's still more to do, and that we need to continue to improve in these areas and address lagging performance in areas such as customer satisfaction.

However, I wholeheartedly thank our people and our partners for their commitment and energy.

Working together to protect our environment

Collaboration with community partners is an essential part of getting this right, both in terms of work we're doing now to improve the networks, but also in terms of finding solutions to long-term challenges such as water scarcity, sustainable drainage and water quality. We know that trust and transparency are key drivers of this collaborative approach. This is why great efforts have been made over the course of this year to engage with MPs, local authority partners and campaign groups from across the region, to explain the changes and improvements we're making as a company in support of the environment, communities and economy of our region.

There are, of course, still challenges to overcome, and this has meant tackling some thorny issues head on. Water supply resilience is still a problem in some areas, where ageing infrastructure and years of under investment mean that customers have experienced further significant water outages, both in Hastings and Hampshire. As a result, we've worked closely with those communities to provide not only enhanced levels of compensation for those affected but also further support.

Chair's statement continued

Our plans are ambitious

A particular focus for the Board over the past year has been our submission to the latest price review, and ongoing discussions with our regulators about the deliverability of our plan, given its size and complexity. We've challenged Ofwat's Final Determination and taken our appeal to the Competition and Markets Authority (CMA) because we feel strongly that it left us short of the investment our customers said they wanted to see, and that our unique environment needs, and threatens our ability to deliver the changes needed at pace. We'll receive the outcome of our appeal later this year.

The water sector currently has four key economic, environmental and water quality regulators, and many more playing a supporting role, which define appropriate licensing, guidance and scrutiny for the sector. Ofwat must take into consideration how customer bills and investor equity can support the increased risks that come with delivering infrastructure programmes at such scale. The changes that our industry is being asked to make to the way it manages water are fundamental, so we must work with our communities, our partners, our regulators and our colleagues to deliver for our environment and current and future customers.

We welcomed the launch of the government's Independent Water Commission in October 2024, which could deliver the largest overhaul of the industry since privatisation. Its recommendations will form the basis of further legislation which is expected to attract long-term investment, address water scarcity, and clean up our rivers and seas.

We've taken every opportunity to engage with the commission as it's carried out its review, and we hope its investigations will deliver a clearer set of strategic priorities, alongside a more holistic approach to regulation of the whole water cycle.

Changes to our Board

I'd like to take this opportunity to thank Mike Putnam, Gillian Guy and Phil Swift for their contribution to the Southern Water Board as they stepped down during 2024–25. You can read more about their contribution, and specific roles and responsibilities on pages 153 to 154 of this report.

The Board sits in the position of continually balancing the interests of our customers, public authorities, our colleagues, our investors and our many other stakeholders. We look both to the short term, not least our delivery plans, and to the long term, including the major environmental investments needed to access and treat water. The Board remains steadfast in its resolve to provide services at costs that represent good value, while allowing Southern Water to invest for the longer term in wider environmental protections. It also must ensure the financial resilience of the company. Balancing these critical trade-offs is at the heart of Board governance work.

£1.6bn
Macquarie-led
shareholder
investment has
supported rapid
turnaround

→ Read more about **our business plans** on pages 11 and 12.

Our commitment

As we end the current investment period, we need to acknowledge that Southern Water has faced significant challenges over the course of the past five years, with this year being no exception. Weather extremes, changing attitudes and increased public scrutiny, alongside rapid policy and regulatory change, have required the company to take a pragmatic approach to delivery. Work still needs to be done to bring performance in line with our targets, but Southern Water has seen a significant improvement in several key metrics, including improvement against our peers. At all times, the commitment of our people to improve services for customers and the environment is clear. We're working to continue this momentum and to improve across a broader set of key metrics. My fellow Board members and I see this as we interact with the teams on the ground, doing the right things for customers and the environment.

Keith Lough,
Non-executive Chair

15 July 2025

Our unique operating context

The way we operate as a business is impacted by many external factors.

The South of England is water-stressed and at risk of experiencing drought. The impacts of climate change mean that our weather is more unpredictable, which places additional strain on water supplies. At the same time, larger volumes of water and localised flooding are challenging the capacity of our sewer networks. Demand for water and wastewater services is also growing – by 2050, the population in the South East is predicted to grow by another 25%.

Separate supply areas

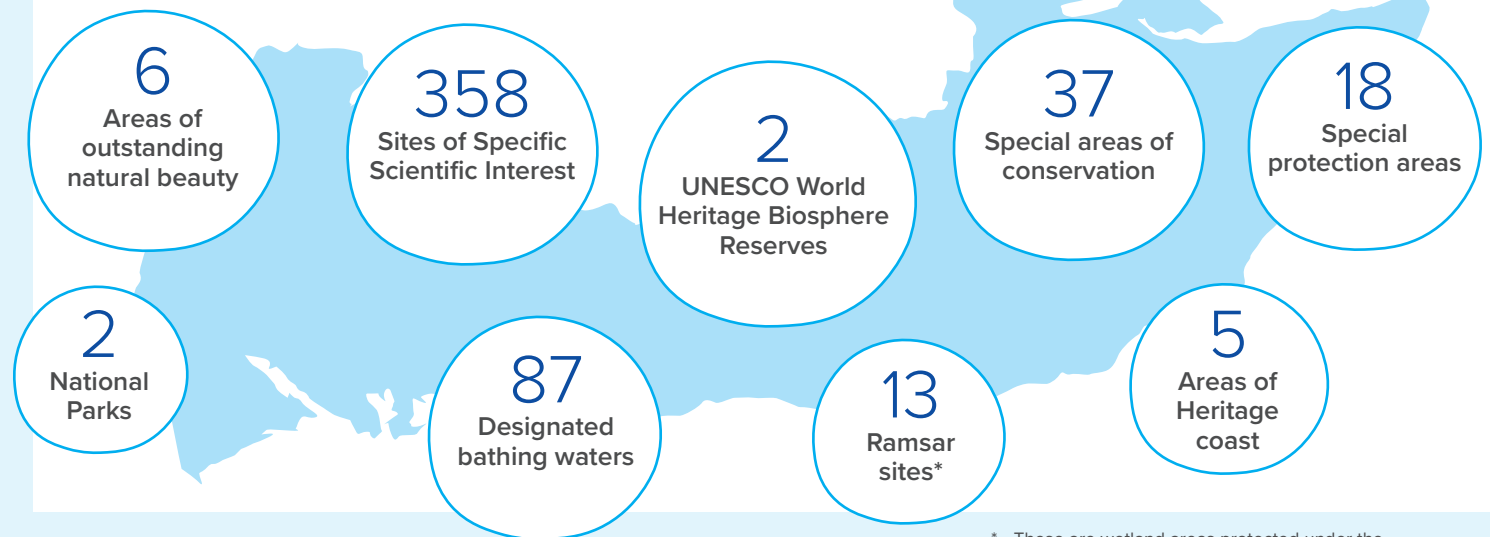
We operate across five separate regions, each with its own networks, that are not linked to each other. This increases operational, resource and logistical costs and means that we need to build new supply solutions in each individual water resource zone or coordinate with neighbouring water companies.

Shellfish waters

We have a large number of shellfish waters along our coastline, next to many densely populated urban areas in places like Southampton and Portsmouth. We also have the largest number of storm overflows discharging into designated shellfish waters, making up almost 40% of all those in England.

Environmental standards are stricter in relation to shellfish waters, and even a short emergency discharge may be considered impactful by the Environment Agency (EA).

Our region and challenges



* These are wetland areas protected under the UNESCO Ramsar Convention, 1971

Bathing waters

Many of our customers live in coastal communities, a higher proportion than other wastewater companies. Having such a high concentration of customers in coastal areas presents significant challenges for our sites and networks. These are protected areas of water that, because of their use by the public, are subject to stricter standards and more regular testing by the EA.

Chalk streams

Recognised as internationally important habitats, chalk streams, like the Test and Itchen in Hampshire, currently provide much of our customers' water supply. We have a legal duty to replace 30% of our water sources in the county over the next five to six years to reduce what we take from these streams. The last time new water resources were developed on this scale in the UK, was to support the fast-growing industrial cities of Liverpool and Birmingham in the late 1800s.

Our strategic roadmap

The nature of our business means we must think in long-term planning and investment cycles, we're working together to provide sustainable water and protect the environment, today and for future generations.

Purpose	Long-term strategic priorities	Proposed investment 2025–30
 Protect and improve the environment	Protecting and improving the environment We recognise the important role we play in protecting the environment. We also know how important it is to go beyond compliance and look to improve and enhance ecosystems, where we can. We must be responsible when we take water from our rivers and streams and keep them free from pollution. We also need to reduce our use of storm overflows to protect and improve water quality.	- Reducing our use of storm overflows by a further 12% across 179 priority sites. - Reducing overall pollution incidents by more than 50% and eliminating serious pollution incidents. - Improving water quality in over 1,000km of rivers. - Building two new advanced bioresources treatment centres, increasing power generation.
 Enhance health and wellbeing	Ensuring a reliable supply of high-quality water for the future Our customers expect to turn on the tap and get a high-quality, reliable supply of drinking water, all day, every day – whatever the weather, whatever the challenge. The look, taste and smell of the water is also important. Understanding and supporting our customers and communities We need to provide great service – whatever happens. As our household customers can't choose their water and wastewater supplier this is even more important. From billing queries, to responding to burst mains and blocked drains and sewers, our service should be easy, quick, seamless and sympathetic. We know that many of our customers need extra support, and we have a dedicated team on hand to help.	189 million litres per day of new sources and capacity – a further 82 million litres per day by 2035. - Installing more than one million smart meters, improving awareness of water use and accuracy of billing. - Trialling new tariffs to encourage water saving, while increasing our social tariffs and access to priority services. - Redesigning our customer services processes, offering automated updates via text and email.
 Sustain the economy	Enabling and empowering our people Our customers are clear that they want us to make sure our business is future-proof. This means investing in our people and systems, as well as our water and wastewater networks. It's about keeping everything working as it should, from looking after the health and wellbeing of our teams, and the technology we use to monitor our operations, to the equipment that we use to operate and maintain our sites and networks.	- Supporting 4,253+ jobs, directly and across our supply chain - Driving efficiency through innovation, optimisation, robust cost challenge and efficient use of markets. - Improving supply resilience at our four largest water sites, serving 62% of our customers, and reducing the likelihood of a hosepipe ban. - Accommodating over 86,000 new homes by building a new treatment works at Whitfield, near Dover.

Our planning cycle



Looking ahead to 2030

We're committed to working together to provide sustainable water and protect the environment today and for future generations.

Our plan for 2025–30 marks the next stage in the company's transformation. It's bold, and it needs to be as we start to change our systems and the way we will capture, treat and use water in the future, making once-in-a-generation levels of investment.



Protect and improve the environment



Enhance health and wellbeing



Sustain the economy



County	Content
Hampshire and the Isle of Wight	- Upgrades to another 116 storm overflows to improve the quality of water released to the environment and reduce the number of releases overall. - Major improvement schemes on the River Itchen and at our Testwood Water Supply Works, to enable it to treat new sources of water and increase the reliability of supplies, reducing the risk of customers experiencing a water outage. - Provide new sources of water in Hampshire through two new water recycling plants and new transfer pipelines to move water throughout the area. This includes the new reservoir at Havant Thicket being built by Portsmouth Water and funded by us, which will reduce our reliance on local rivers for water supplies and protect precious chalk streams for future generations. 174km of river improvements along the rivers Test and Itchen and in the New Forest and East Hampshire.
Sussex	- Upgrades to another 98 storm overflows. - Major improvements at our Hardham Water Supply Works. - A water recycling scheme near Littlehampton and pipeline transfer to supplement river flows and provide a sustainable source of up to 15 million litres per day. - Water transfers from our neighbouring water companies, SES Water and South East Water, that together can provide up to 20 million litres per day. 447km of river improvements across the county. - Further improvement to treatment processes and storage at our wastewater sites. This will increase the amount of waste treated, and allow us to remove more nutrients, like phosphorus, from the water we put back into the environment, helping to protect local bathing waters and shellfish beds.
Kent	- Upgrades on another 57 storm overflows. - Major improvement schemes at our Burham Water Supply Works. - New sources of water in Kent through the construction of a new water recycling plant at Aylesford. It will produce up to 14 million litres of extra water for the region, leaving more water in the River Medway, thereby protecting this water source for future generations. - Further improvements to treatment processes and storage at our wastewater sites, continuing to reduce the use of storm overflows in Kent and better control nutrient levels in local rivers and seas, while improving water quality. - Sustainable drainage schemes, run in partnership with local authorities. This includes installing rain gardens and water butts and fixing illegal sewer connections, which all help to reduce local flooding and the use of storm overflows along the Kent coastline.

A year in review with Lawrence Gosden, CEO



Lawrence Gosden
CEO

“
Change has been rapid, guided by our Turnaround Plan, which since 2023 has delivered significant improvements in some critical performance areas.”

We're committed to working with our communities

Our strategy is clear and has four phases, which have so far delivered a complete reset of Southern Water's leadership, culture, systems, processes and people, as well as a step change in investment levels. Change has been rapid, guided by our Turnaround Plan, which since 2023 has delivered significant improvements in some critical performance areas, like leakage, total pollutions, flooding and storm overflow release reductions. We expect to see further improvements realised for 2025–26 in other performance areas where turnaround actions have now been completed.

Our shareholders have supported these changes, injecting more than £1.6 billion into the Southern Water Group during 2020–25. Their support has been vital, and it continues, with them committing a further £655 million in equity for the next five-year period to 2030, and up to a further £545 million intended to be committed by December 2025. Shareholders have not taken any dividends and will not be taking any in the period to 2030.

While we've made very strong progress in certain areas, both in absolute terms and relative to our peers, we know there's further to go, particularly in terms of customer satisfaction as well as responding to new legislation, climate change, and new demands being placed on the network.

I'm confident that we can maintain the momentum from the past two years and the improvements we're starting to see will continue.

As we enter a new investment period, our committed teams of scientists, engineers, operatives and support professionals are getting ready to deliver our largest programme of work to date. We'll be investing billions over the next five years on the things that our customers and stakeholders have told us are most important to them, with more than a third of that total spent on projects to protect and enhance the environment.

Our customers and the environment rely on water for life, and this purpose sits at the heart of our new plan as we look to improve services but also develop new ways to source, capture, treat and supply water.

23%
reduction on weekly leakage levels

£655
million in new equity already committed during 2025–30

0
dividends for 2024–25

➔ Read **an overview of our turnaround performance** on page 19

A year in review with Lawrence Gosden, CEO *continued*

However, we've delivered real improvement as part of our turnaround

I'm particularly proud of the work that we've done to reduce flooding across our region. That includes internal and external incidents experienced on our customers' properties but also flooding caused by excess surface and groundwater (see infographic on pages 17 and 18). This is a result of work across multiple teams, enabled by new digital technology, alignment of projects, collaborative working between our teams, the Highways department and local authorities, as well as some good old fashioned hard work.

In terms of harnessing new technology, we've installed a further 8,000 sewer level monitors – bringing the total to around 32,000 added to our networks since 2023, all feeding data into our new Control Centre. Here, our teams are using AI to proactively manage maintenance and repair, reducing incidents of customer flooding despite an exceptionally wet autumn and winter, with rainfall well above the long-term averages. Alongside this, we've used data to inform a new sewer flushing programme in key areas where we've seen repeat pollution incidents.

Our Clean Rivers and Seas Task Force has continued to expand its Pathfinder projects across the South East, working with local partners to install sustainable drainage solutions (SuDs), capturing surface water run-off and preventing flooding and storm overflow releases. This early investment saw us exceed our 2024 storm overflow reduction target. We know we still have a lot of work to do, and we aren't slowing down. From April 2025 we'll be investing at least £700 million to expand these projects. You can see our plans for each individual storm overflow along our rivers and coastline on an easy-to-use interactive map: [Clean Rivers and Seas Plan](#).

One task force project in Hampshire has really made a difference to communities that had been badly affected

by groundwater flooding in and around Andover. Excess water had been forcing its way into both public and private sewers – causing wastewater flooding when levels became high. We had been using a large fleet of tankers to remove the excess water, but thanks to a sewer sealing programme – which included 300 private pipes and 2km of our own network – we've been able to reduce tankers in the area by 86%. By reducing pressure on our network, we're also protecting the local environment. The cost saving we're making on the tankers also means we can divert future funds to more urgent projects.

I also want to highlight the amazing work of our leakage team, achieving a 10% reduction (annual measure) over the past two years. This is a result of a targeted proactive programme of work, led by our new Leakage Strategy Manager, detailed in our Leakage Recovery Plan. It includes pressure management schemes, compliance checks, customer engagement, root-cause analysis and new detection modelling surveys and tools. We're currently on track to reduce the weekly recorded leakage level by 20MI/d from April 2024 – that's an improvement of nearly 23%. We're confident that this plan is bringing us back in line with our peers in terms of leakage reduction performance and we now have the capability to go further.

In terms of our plans to build several water recycling plants across our region in the coming years, we've also made some real progress, with public consultations held for projects in Hampshire and the Isle of Wight, highlighting the construction and operational impacts in the immediate area around the projects. On the island, the new water recycling plant and pipeline will transport water to the Eastern River Yar. While in Hampshire, this new source of water will help supply more than 700,000 homes and businesses, so we'll need to take less from the precious chalk streams of the rivers Test and Itchen. Up to 60 million litres a day of purified recycled water would be pumped into Havant

Thicket Reservoir, which we're building in partnership with Portsmouth Water. It will be the first reservoir to be constructed in the UK for more than 30 years.

We've also continued to drive down customer complaints, reducing them by 25% in year, bringing the reduction to a total of 80% over the investment period 2020–25. We're now assigning dedicated agents to speak directly to our customers that have contacted us where we can, responding to billing complaints within four days, on average. We're also now industry-leading on escalated complaints, with 0.5 complaints per 10,000 connections. This has been achieved through a root cause review and a change in the way we approach responses, using best practice behavioural science techniques.

We know there's still work to be done in some critical areas

We did not meet some of the stretching targets we set for the current investment period (2020–25), and we'll be transparent in this report about where we've had issues, and where we have more work to do.

The level of pollution incidents we're reporting as a company is still too high. No pollution incident is acceptable – to me or any of my colleagues at Southern Water. Although total pollution incidents have reduced significantly over the past five years, we know our serious pollutions are still above target, and we accept that this is an area where we have recorded consistently poor performance.

In 2024 our pollution rate increased as we experienced the wettest winter on record. We accelerated our plans and invested an extra £10 million to improve the reliability of our pumping stations, carry out rising-main calming to minimise bursts, and reviewed our sewer level monitors to increase their efficiency. We've also been monitoring our sites proactively, using innovative machine-learning tools, which

A year in review with Lawrence Gosden, CEO continued

help us spot any issues early on. In total the investment in reducing pollutions was £23.3 million over the past five years (2020–25), reducing total pollutions by 38%.

While we monitor our sites and our network, our customers also play an important role when they see a potential pollution incident and report it directly to us. Over the past year, we ran a targeted campaign in our pollution ‘hotspot’ areas, asking customers to report any issues to us. This has been a real success and our ‘self-reporting’ of pollution incidents increased by 12%.

While treatment works compliance has improved as part of our turnaround, we still have further to go. We’re forecasting six failed works out of 357 (2023–24: two) because of issues with final effluent sampling, plant availability and our sludge digesters at several smaller sites. We have a detailed action plan in place to prevent any further failures, with work started on 10 initiatives at a further three treatment works to bring them to a standard where they’re reliably meeting all permits – a total of 45 sites have been reviewed since the start of 2023.

We’re disappointed that our C-MeX, customer satisfaction, score did not improve. However, as previously mentioned, we’ve continued to significantly reduce customer complaints.

We’re getting ready to deliver our largest programme of work yet

The whole company is committed to building on the progress made over the past two years and the focus on turnaround will continue into the next investment period. The plans approved by Ofwat, and that we have since taken forward to the CMA, will see us spend £8.5 billion, which includes £6.1 billion of capital investment to maintain and improve our assets and services; increasing capacity, making our water and wastewater sites and networks more

resilient to population growth and climate change, further reducing bursts, flooding and pollutions.

We’ll also invest £3.3 billion into environmental projects, balancing improvements to infrastructure with natural engineering solutions, such as wetlands, to continue to improve river and bathing water quality. We’ll continue to cut leakage and demand, harnessing new technology and data from a smart metering programme to reduce pressure on water sources. This is change at scale. Together with our partners in the community, we’re rethinking our relationship with water and creating new ways of capturing, storing, treating, supplying and recycling it.

We’ll do all of this while limiting our impact on customers and communities. We know that investment of this scale will mean bill increases, so we’re offering more support for customers who need it. From talking to our customers at our community events, I know that cost-of-living increases and the rise in our own charges is having an impact, and it weighs heavily on me that we’ve added to the burden that many of them are feeling.

We’ve already increased the financial support available, with our customers having access to a minimum discount of 45% on their bills on our Essentials tariff. We have also increased the additional community support we offer, alongside promoting our debt relief schemes and priority services. Whether this means increasing our Hardship Fund, which helps customers buy critical essentials such as white goods, beds and other furniture; our Community Grants, which offer local charities the chance to apply for much-needed funding; or even hosting our annual community Christmas dinners as part of our Winter Energy Grant scheme, we’re always looking for ways we can do more to help those that need it most.

This is a bold plan and we’ve been transparent about how we’ll fund it

The Board and I are focused on the financing required to deliver our plans and we have the backing of our shareholders. More information is provided in the Going Concern statement on page 199.

We recently confirmed that we’d made an appeal to the CMA over Ofwat’s Final Determination (FD) for 2025–30, published on 19 December 2024. In it, Ofwat determined how much water companies could invest in their networks over the next five years – and it specified the level of customer charges we could impose to support that work. The level of investment and charges that Ofwat set out would not allow us to deliver the environmental and performance improvements and new infrastructure that our customers and communities have asked for.

The equity raise that I’ve already mentioned with our shareholders is not conditional on the outcome of the CMA process and will allow us to continue with our bold plans for this investment period (2025–30), maintaining urgency in terms of making improvements to our performance, while also allowing us to make the change at scale that is needed to deliver some of the major infrastructure schemes in our plan. This includes new transfer pipelines, water recycling plants and upgrades to our treatment sites.

Our CMA appeal will also not affect customer bills for this financial year, and we’ll be working with our regulators to spread the cost of any further increases that may follow the appeal process.

A year in review with Lawrence Gosden, CEO continued

Engagement with our stakeholders continues to inform our strategy

Since the General Election in 2024, I've been working, alongside our Corporate Affairs team, to get to know the new MPs in our area. We've seen a shift from a Conservative majority to a mix of Labour and Liberal Democrats, so some regional priorities have changed. As both Labour and the Lib Dems campaigned on pledges to change the water industry, we've made a point of explaining the challenges we have at a local level, while also explaining the changes we're making to rapidly improve performance. We've done this through a series of quarterly county-based updates over the past year, and we're finding this approach is having a real impact, bringing some of our most vocal critics towards support and endorsement for the work we're doing in their communities.

Of course, we've had to deal with some difficult issues. The supply interruptions we experienced in Hastings and Testwood this year were significant and had a huge impact on these communities. We've worked closely and quickly with local authorities and community groups to provide customers and businesses with much needed compensation, while also offering support to several local charities. We've also put in place immediate changes, both committing extra funds to improve the reliability of our sites in the area and making fundamental changes to the way we supply bottled water to those on our Priority Services Register.

In Hampshire, I've also been spending a lot of time developing relationships with the Catchment Partnerships and local interest groups along the rivers Test and Itchen. What started out as a potential pollution incident from our Fullerton Wastewater Treatment Works, now resolved, developed into an opportunity for us to act as catalyst in galvanising a wider environmental enhancement initiative. Over the past year, I've worked with my peers in the area to set up a steering group of infrastructure budget holders, run

by local wildlife and rivers trusts, that brings together interest groups with a shared goal to protect wild salmon in these precious chalk streams. Southern Water has committed to fund an audit of salmon habitats and constraints on the rivers, as one small part of our wider environmental enhancement programme over the next five years.

In West Sussex we've continued to make progress on a project in and around the three harbours of Langstone, Chichester and Pagham. Working with almost 30 organisations, we're focused on improving water quality, biodiversity, and carbon capture in the area. We've started by improving the integrity of private sewers in the area, together with treating excess groundwater with a Wetland at Lavant. We've completed 1,400 metres of sewer sealing work in Singleton and East Dean in July 2024, as well as Charlton and Bosham. Over the next five years we hope to construct wetlands to reduce the impact of storm overflows at our Bosham and Chichester Treatment Works. We're also planning to deliver improvements at Pagham this year to reduce the amount of nitrogen entering the harbour.

In terms of engagement with our customers, we've continued to host 'Your Water Matters' drop-in sessions throughout the year. This is an opportunity for customers to talk to us directly about issues in their community, with every session attended by a member of my Executive team, so I have a direct line into the conversations that were had on the day. From these conversations, we've already been able to act on feedback, for example, creating a dedicated monthly newsletter for our wastewater-only customers in Sussex and Kent (billed through our neighbouring provider, South East Water).

Investing in our people

Making sure that everyone who works for us, or works on our behalf, goes home safe and well is a top priority. That's why we've been focused on improving the equipment,

training and policies we use to deliver a safe system of work. We've now updated 90% of our documented health and safety procedures. A total of 84% of our colleagues have now been through our 'Stop, Think, Safe!' safety leadership training, which empowers everyone to raise a challenge if they spot dangerous or inappropriate behaviour.

We've also focused on reinvigorating our Operational Graduate Programme, resulting in 18 graduates progressing into permanent roles over the past three years. This is in addition to the 106 apprentices we now have in the business, getting training in 23 different standards from 13 providers.

Where we are now

At the close of our Turnaround Plan, I'd like to celebrate two years' worth of fantastic effort and hard work from everyone here at Southern Water, our supply chain colleagues and our community partners. We've delivered a major improvement in terms of safety, a reduction in our customer complaints, we've halved overall pollutions since 2020, and we've made improvements in terms of our leakage performance. I'd like to thank everyone for their hard work and commitment. We've had our challenges, but we've worked to overcome them. As we pivot into the next five-year investment period, we've launched our new vision – to work with the communities we serve to provide sustainable water and protect the environment today and for future generations.

This renewed ambition is driving a huge amount of work going on behind the scenes as we onboard new partners, hire new teams and prepare to deliver our biggest investment plan to date, more than double the size of the previous five-year period, and beyond anything we've done before.

Lawrence Gosden
CEO

15 July 2025

Working together to reduce flooding and maintain water quality across the South East

1 Rainfall

England had its eighth-wettest year on record, with 7% more rainfall than average – with the eighth-wettest winter and sixth-wettest spring.

This is following on from the winter season of 2023–24 where we'd already seen rainfall increase by 20% on average due to the impacts of climate change.

Improving our sites and networks

Swalecliffe: We updated Environment Agency permits to free up 1,800m³ of extra storage, reducing storm overflow releases from the nearby outfall by 39%.

2 Groundwater

We've recorded another year of above-average groundwater levels, with some of our sites reaching record-breaking levels. Reservoir stocks across England were 79% full by the end of August.

Using wetlands to treat storm overflow releases

Our Lavant wetland treated 158 storm overflow releases in 2024, to equal or higher standards as traditional treatment processes. The wetland at our treatment site has put an end to untreated releases from the site.

3 Water-resistant surfaces

Rainfall (surface water) causes 64% of storm overflow releases – of this, roof run-off makes up around 40%, road run-off is about 30%.

300,000+m² of water-resistant surfaces are managed across our region, the equivalent of over 50 football pitches.

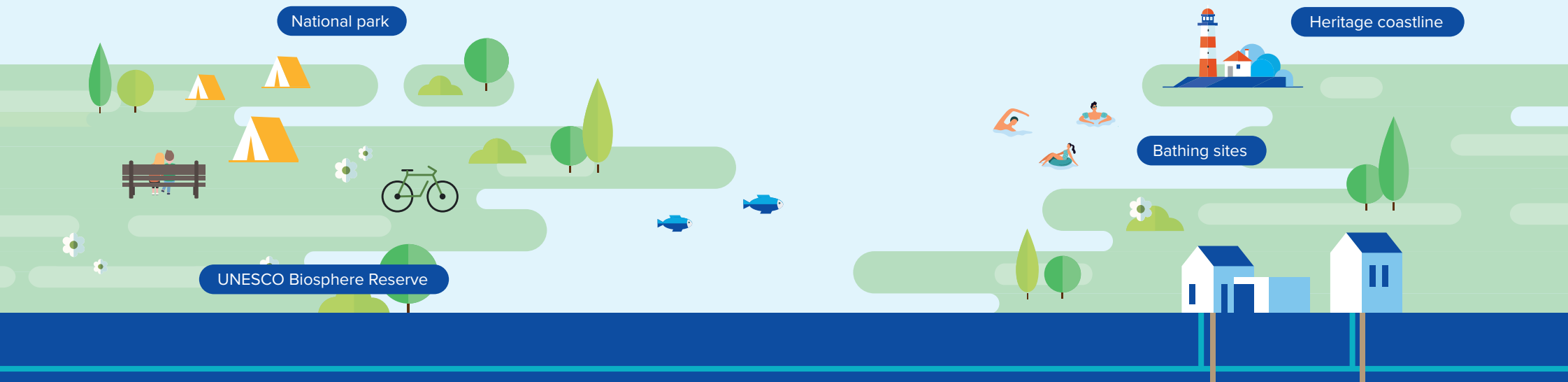
Thousands of water butts and planters were installed to manage roof run-off.

For example: **Swalecliffe and Fairlight:** We've installed nearly 1,000 slow-drain water butts, capturing 100,000 litres of rainwater each time it rains.

We've installed sustainable drainage in **nearly 100 schools**, in partnership with the Department for Education, managing over 117 million litres of rainwater so far (2021–25).

We worked with **local businesses** to reduce rainwater run-off from their roofs with water butts, swales and beautiful raingarden planters.

We've launched a community fund to create sustainable drainage systems that reduce rainwater water run-off, storm overflow releases and flooding.



Working together to reduce flooding and maintain water quality across the South East continued

4 Groundwater infiltration

Up to 31 litres of groundwater per second can seep through pipework and manholes into our sewer networks, quickly overwhelming them.

Sealing pipework to manage groundwater: In villages near Andover, we have used new no-dig methods to seal over 300 private pipes, 15km of public and private networks and 68 manholes. Previously, 30 tankers per day were needed, 24/7, to manage the excess groundwater, causing disturbance to residents, road closures, air pollution and other issues. Now, despite exceptional groundwater levels, there are no tankers used here.

We've also saved around £22 million in tanker costs which has been spent on other improvement projects.

5 Hydraulic overload

Hydraulic overload basically means the sewer system is entirely full. It's at this point that storm overflows act as pressure release valves to protect homes and businesses from flooding.

First of its kind, smart sewer gates:

We're using new technology to harness the power of artificial intelligence to manage storm water in real-time. This allows pipes to double up as extra storage capacity.

We've already installed a smart sewer gate at Terminus Road in Cowes, and two further gates in Kent. They are some of the first locations in the UK to benefit from this technology.

6 Surface water

Roof run-off accounts for over 40% of overall surface water.

Where we can, we're disconnecting gutters and pipes from combined sewers and reconnecting them to surface water drains, creating more capacity to reduce storm overflows.

We've updated our Surface Water Management Policy to stop new developers connecting surface water drains into our sewer network. Surface water connections to combined sewers will only be allowed under exceptional circumstances to help protect the environment, improve water quality, and reduce flood risk.

7 Storm overflows

623 storm overflow releases prevented in 2024.

We know that we need to continue to improve our performance, and we're spending at least £1.5 billion over the next 10 years to reduce storm overflow releases.

We've looked at each individual storm overflow in our region, why it activates, and what we need to do to stop it.

We've put all this information on an interactive map, our [Clean Rivers and Seas Plan](#).



Our turnaround performance — a quick overview

Launched in 2023, our turnaround has focused our attention on improving 13 specific performance commitments, aligned to four key priorities:

Our identified priority areas



Protect and improve the environment

1 Healthy rivers and seas

Protecting and improving the environment, working transparently to enhance inland and coastal habitats.



Enhance health and wellbeing

2 A reliable supply of water for our customers

Safeguarding resources and making sure our customers have access to a supply of high-quality water now and into the future.

3 Trusted and easy customer service

Supporting our customers with easy service and transparent communications that show we care for our communities.



Sustain the economy

4 Empowered and supported colleagues

Enabling our people to work in a safe, collaborative and inclusive workplace that offers rewarding careers at the heart of our communities.

Key

Ofwat end of AMP target met
 Performance static
 Ofwat end of AMP target not met
 AMP – Asset management period or investment period (five years)
 Improved
 Decreased
 Static

Trusted and easy customer service

Customer experience	Turnaround performance (-5%)	Ofwat target	More info
Measure: Customer satisfaction.	20-21		page 55
	21-22		
	22-23		
	23-24		
	24-25		
Developer experience	Turnaround performance (+4%)	Ofwat target	More info
Measure: Developer satisfaction.	20-21		page 58
	21-22		
	22-23		
	23-24		
	24-25		
Water usage (in year)	Turnaround performance (+1%)	Ofwat target	More info
Measure: Average volume of water used per individual customer, per day.	20-21		page 56
	21-22		
	22-23		
	23-24		
	24-25		



Our turnaround performance — a quick overview continued

A reliable supply of water for our customers

Supply interruptions Measure: Average time customers have no water during the year.	Turnaround performance (-61%) 20-21 12 min 43 sec 21-22 9 min 22 sec 22-23 1 hour 28 min 00 sec 23-24 1 hour 21 min 33 sec 24-25 2 hour 21 min 50 sec (V)	Ofwat target 	More info page 46
Water quality (CRI) Measure: Compliance with standards for drinking water quality.	Turnaround performance (+40%) 20-21 4.53 21-22 6.69 22-23 6.38 23-24 3.07 24-25 3.82 (A)	Ofwat target 	More info page 46
Leakage Measure: Volume of water lost on our network.	Turnaround performance (+10%) 20-21 93.8 21-22 96.8 22-23 108.5 23-24 107.5 24-25 97.7 (A)	Ofwat target 	More info page 47
Unplanned outage Measure: The percentage of water production capacity lost due to unplanned maintenance work.	Turnaround performance (+50%) 20-21 9.21 21-22 7.19 22-23 6.44 23-24 5.68 24-25 3.18 (A)	Ofwat target 	More info page 47
Mains repairs Measure: Repairs per 1,000 kilometres of our water network.	Turnaround performance (+20%) 20-21 150 21-22 101.5 22-23 152.8 23-24 121.1 24-25 122.9 (A)	Ofwat target 	More info page 47

Key

 Ofwat end of AMP target met
  Performance static
  Ofwat end of AMP target not met
 AMP – Asset management period or investment period (five years)
  Improved
  Decreased
  Static

Healthy rivers and seas

External flooding Measure: Number of times customer gardens, driveways or paths were flooded with wastewater.	Turnaround performance (+19%) 20-21 4,409 21-22 3,944 22-23 3,748 23-24 3,245 24-25 3,047 (A)	Ofwat target 	More info page 36
Internal flooding Measure: Number of times customer properties were flooded internally with wastewater.	Turnaround performance (+40%) 20-21 393 21-22 614 22-23 496 23-24 527 24-25 277 (A)	Ofwat target 	More info page 55
Pollution incidents Measure: Number of times polluting material has escaped/spilled from our pipes, treatment works or pumping stations.	Turnaround performance (+25%) 20-21 402 21-22 372 22-23 358 23-24 234 24-25 269 (V)	Ofwat target 	More info page 36
Treatment works compliance Measure: Percentage compliance with discharge permits from our treatment works.	Turnaround performance (-1%) 20-21 97.06 21-22 97.94 22-23 98.22 23-24 99.36 24-25 98.23 (V)	Ofwat target 	More info page 37
Sewer collapses Measure: Number of sewer collapses, including mains bursts.	Turnaround performance (static) 20-21 315 21-22 314 22-23 247 23-24 234 24-25 248 (A)	Ofwat target 	More info page 39

Trends and challenges

We've identified the main factors that affect our business now and will continue to do so in the future.

A growing population

Population growth will place more pressure on limited resources.

- The UK's population has grown by 8.7 million people in 20 years.
- By 2050, the population in the South East is predicted to grow by another 19%-25%.
- Increased housing development and reduced open spaces will require new water solutions.
- Greater demand for agricultural production.

Material issues:

Climate change; public health; biodiversity and natural capital; responsible supply chain; water use; political and regulatory environment; local economies; energy use; stakeholder engagement and networks.

How we're responding:

Our water and wastewater plans will help us meet future demand out to 2050.

Read more: southernwater.co.uk/dwmp or southernwater.co.uk/our-story/water-resources-management-plan

→ Read more about our **business plans** on pages 11 to 12.

Changing communities

Communities are adapting due to demographics and societal changes.

- People are increasingly focused on health and wellbeing.
- More people are living alone.
- The average age of the population is predicted to be over 65 by 2050.
- Nearly three million households move each year, as mobility increases.
- Hybrid working increases demand for local services.

Material issues:

Health, safety, security and wellbeing; public health; affordability and vulnerability; trust, transparency and legitimacy; water use.

How we're responding:

We're constantly talking to our customers and stakeholders, running regular research programmes and engagement events. This insight informs our plans and the resources we create for our communities.

→ Read more about **our regional customer drop-in events** on page 58.

Evolving customer expectations

Customer expectations are evolving with technology and greater access to information.

- Increasing expectations on speed of service from other sectors.
- Increasing demand for real-time data that improves their lifestyle and finances.
- An expectation of 100% availability from their utility providers with lower tolerance of failure.
- A desire for personalised services tailored to customers' needs.

Material issues:

Customer service; affordability and vulnerability; data protection; energy and water use.

How we are responding:

We're offering a video triage service for operational customer call-outs. Our website is constantly updated with interactive features, such as a live incident map, an AI-powered FAQ service for customers, a near-real-time spill reporting service and post-code search functionality. We also regularly publish myth-busting and 'how-to' content on our social channels, which answer questions we receive from customers.

→ Read more about **how we've improved our service to customers** on page 55.

Trends and challenges continued

Increasing use of technology

Big data, artificial intelligence (AI) and machine learning are all becoming increasingly common.

- Growing ability to unlock valuable insights from data.
- Data becoming increasingly open to all – customers, stakeholders and government.
- Increasing automation to simplify and speed up processes.
- Using AI to learn and adapt to changing environments.

Material issues:

Water use; compliance; customer service; community engagement; trust, transparency and legitimacy.

How we're responding:

We've developed our Open Data services, while also putting in place a new Data Platform to make sure we can effectively use big data, artificial intelligence and machine learning to simplify and speed up processes and services for our customers. We've digitalised our incident management processes allowing us to keep customers better informed and updated. We've upgraded our sampling systems, allowing us to carry out quicker water quality testing.

➔ Read more about **our improved incident response** on page 50.

Rising concerns about the environment

Public demand to protect the environment is driving change in government priorities.

- Social media highlighting environmental issues.
- Zero tolerance of pollutions.
- Shared desire to invest to protect rare and fragile chalk streams.
- Storm overflow system design is no longer acceptable to a public who demand a reduction in releases.
- Open-water swimming increasing in popularity.

Material issues:

Compliance; health, safety, security and wellbeing; public health; trust, transparency and legitimacy; company structure, ownership; political and regulatory environment; stakeholder engagement and networks.

How we're responding:

Our Clean Rivers and Seas Task Force continues its focus on reducing surface and groundwater entering our sewers, limiting the use of storm overflows. Read our [Clean Rivers and Seas Plan](#).

We've also relaunched our Rivers and Seas Watch storm overflow release monitoring service with more features, improving accuracy and spill area mapping of both inland and coastal bathing waters.

We continue to be transparent about our environmental performance, publishing all our data: southernwater.co.uk/about-us/environmental-performance.

➔ Read more about **our environmental performance** on pages 32 to 43.

Climate change

Climate change is impacting our environment and the way we operate our water and wastewater services.

- More frequent extreme weather events, increasing in intensity and hyper-locality, causing pressure on networks.
- Need to reduce carbon emissions/intensity.
- Biodiversity reducing/under threat.
- Forecasts for more extreme weather; warmer land, air and sea; polar ice melting; changes in ocean currents.

Material issues:

Compliance; climate change; public health; energy use; biodiversity and natural capital; responsible supply chain; water use; materials and solid waste.

How we're responding:

Our fourth Climate Change Adaptation Report (December 2024) detailed the impacts we need to adapt to and mitigate for across our region. The learning from this document has informed the development of a new Environment Strategy.

➔ Read more about **our approach to climate change** on pages 66 to 85.

Business model

Building a better future by delivering value for our stakeholders and the environment

01 Our inputs

The external environment

Our operations are influenced by external factors that we must manage the impact of:



Environmental factors

Covering 700+ miles of coastline, marine habitats, chalk block aquifers, rare chalk streams and clay rivers; our region is diverse and precious. We continue to help protect areas of critical environmental significance.



Economic environment

We monitor changes in the markets, interest rates, inflation and other commodity prices to reduce financial risk.



Regulatory environment

We must meet constantly changing requirements, while working with our regulators to prepare for future challenges.



Social environment

Our services have a direct impact on our local communities so we constantly talk to customers to make sure that the improvements we're making meet their needs.



Innovation and technology

We're always trialling new technology and solutions to improve performance, make things easier for our customers and reduce the impact of our operations on the environment.



Political environment

We look to influence decisions made by politicians and policymakers, adhere to government directives and adapt to policy developments.

02 Our key resources

Our plans go beyond compliance to consider the impacts and dependencies on both social and environmental resources, and how they can affect our ability to create value over time.



Nature

The natural resources that we rely on, such as aquifers and rivers.



Our people

The skills, capabilities and wellbeing of our colleagues and partners.



Financial health

Including equity and debt.



Infrastructure

Our sites, equipment, networks and IT systems.



Social

Engagement with our stakeholders to improve our reputation and the value we create for our communities.



Knowledge

The information, systems, processes, procedures and data that we hold and share.

Business model continued

03 Enable us to deliver on our strategic priorities



While addressing our priority material issues

Having a thorough understanding of what matters most to our stakeholders is critical and we consider these material issues alongside our own priorities and their ability to create value.

→ Read more on page 31

04 To create lasting value for our stakeholders



Customers and communities

We talk to our customers when developing our plans so we know what's important to them.



Our people and partners

A diverse range of views and experience informs our decision-making and how we operate.



Our environment

We work with our regulators, non-governmental organisations, campaigners and local communities to protect and improve the environment.



Investors

We provide regular updates on our performance and progress – environmental, social and governance (ESG) updates, alongside financial and performance data.



Regulators

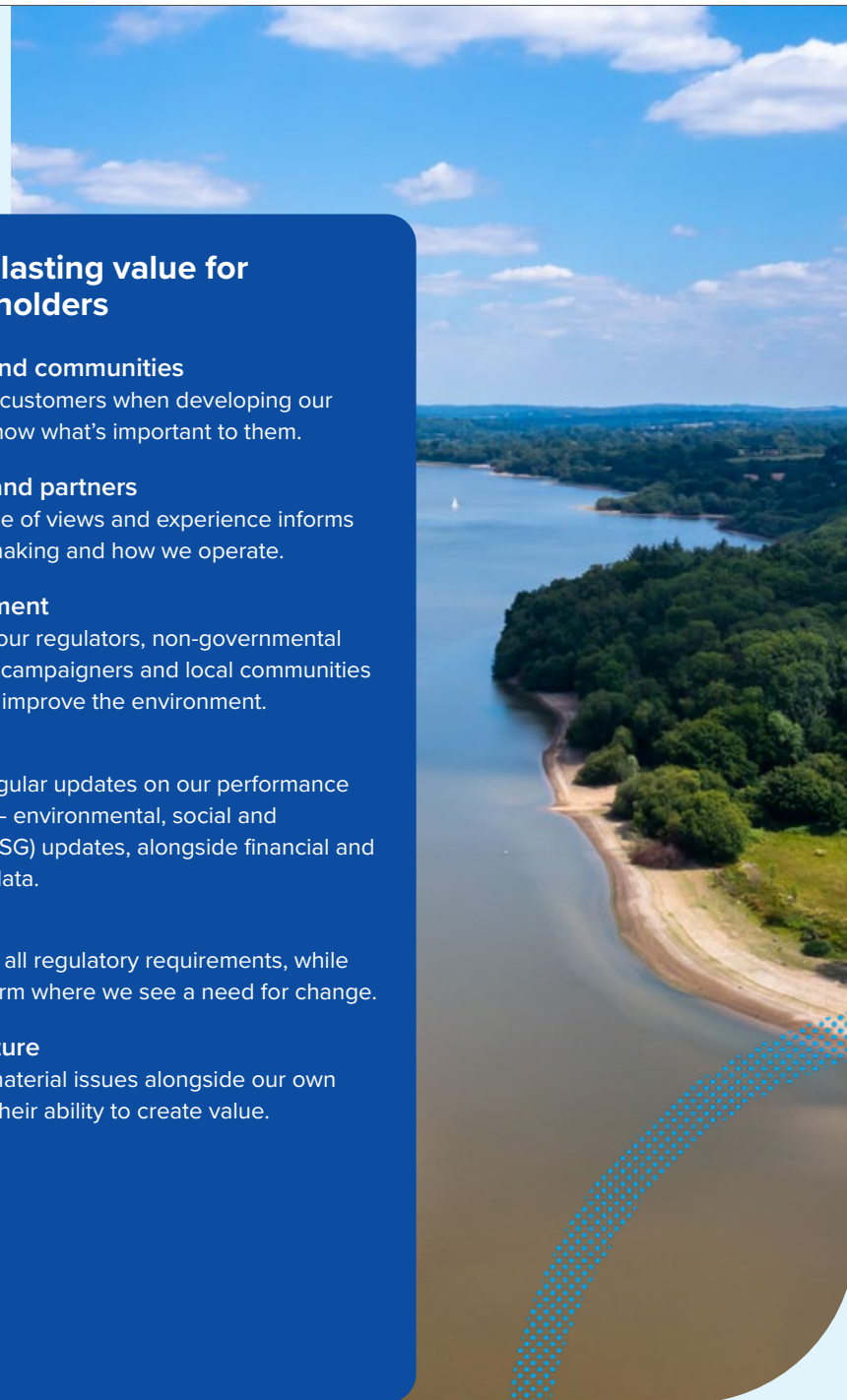
We must meet all regulatory requirements, while calling for reform where we see a need for change.



Fit for the future

We consider material issues alongside our own priorities and their ability to create value.

→ Read more on page 29.



Business model continued

How we operate

Our use of water and its return to the environment is a continuous cycle. Managing our impact at every stage is critical to protecting future resources.



Water is collected

About 67.8% of the water we supply comes from groundwater (stored in underground reservoirs/aquifers), 28.1% is taken from rivers and 4.1% comes from reservoirs.

Relevant material issues

- E** – Compliance; climate change; water use; land management and access;
- S** – Public health; local economies;
- G** – Trust, transparency.

Associated risk

In the densely populated and water-stressed South East, we need to balance demand from our customers with the need to protect our environment.

Water is cleaned

Our 72 water supply works treat raw water to the highest standards, making it safe to drink.

Relevant material issues

- E** – Compliance; climate change; water use; materials and solid waste; energy use;
- S** – Public health; health, safety, security and wellbeing;
- G** – Trust, transparency; political and regulatory environments; responsible supply chain.

Associated risk

Failures at our sites and on our network could pose a risk to public health because of reduced water quality and/or supplies being cut off. We use chemicals to treat water which, if not handled correctly, could cause injury. Area-specific risk assessments inform our monitoring programme, so we can take the right samples.

Clean water is put into supply

Our 14,000-kilometre network, 212 service reservoirs and 637 pumping stations deliver a continuous supply of clean water to customers at required pressure levels.

Relevant material issues

- E** – Compliance; climate change; water use;
- S** – Public health; health, safety, security and wellbeing;
- G** – Trust, transparency; political and regulatory environments; responsible supply chain.

Associated risk

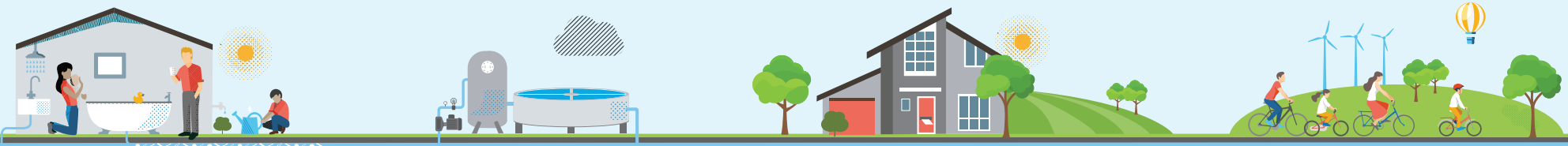
We regularly test water in customers' homes and businesses to protect public health. Our teams offer support and advice on private pipework and let customers know when we find any issues. Our data includes leaks found on our network and those from customers' homes and businesses.

Maintenance and development

We constantly monitor our sites and networks, repairing and updating them to meet standards set by our regulators. If we didn't do this, it would pose a risk to public health and water supplies could be cut off. In extreme cases, we could cause injury to our employees or customers, and damage to property.

Business model continued

How we operate



Customers enjoy our water

In 2024–25, we put 560 million litres per day into supply.

Relevant material issues

- E** – Water use; energy use; compliance;
- S** – Public health: health, safety, security and wellbeing; customer service; local economies;
- G** – Trust, transparency.

Associated risk

We must continuously improve and maintain high levels of service and quality for our customers and the environment.

Wastewater is collected and treated

Our 40,097 kilometres of sewers and 3,522 pumping stations collect wastewater from our customers' homes and businesses, and from the drains outside. Each day, 1,556 million litres of wastewater is received at our 357 treatment works, treated to strict environmental standards before being returned to the environment.

Relevant material issues

- E** – Energy use; compliance; materials and solid waste; climate change; land management and access;
- S** – Public health: health, safety, security and wellbeing; customer service; local economies;
- G** – Trust, transparency; political and regulatory environments; responsible supply chain.

Associated risk

If we fail to remove wastewater effectively and manage our network, we may cause sewer flooding, environmental pollution and unnecessary distress to our customers. Potentially hazardous substances and processes are used that could cause injury. Varying rainfall patterns, extreme weather events and rising sea levels all contribute to an increased risk of flooding if our sites and networks are overwhelmed. This could also lead to contamination of water supplies and flooding of our sewers and sites.

Customers are billed

Our customer teams calculate and send out customers' bills, handle payments and manage any related account queries.

Relevant material issues

- E** – Water use; energy use; compliance;
- S** – Customer service; local economies; affordability and vulnerability;
- G** – Trust, transparency; data protection; political and regulatory environments.

Associated risk

Errors in our billing calculations or customer information could lead to poor levels of customer satisfaction, and a rise in contact and complaints, which could damage the company's reputation and increase our operating costs. Failure to properly protect customer data could also lead to significant fines under Data Protection (GDPR) and Networks and Information Systems (NIS) directives.

Ensuring future supply

Climate change and population growth in the South East present very real challenges. Our Water Resources Management Plan and programmes like Water for Life – Hampshire look to secure future supplies through bulk water transfers with neighbouring water companies, water recycling projects and a host of other initiatives. We're also reducing the amount of water lost through leaks on our network and supporting our customers to use less water through education initiatives and campaigns.

Associated risk

At each stage of the cycle, we seek to maximise opportunities and mitigate any risks. Penalties and rewards are applied by our regulator Ofwat for any poor performance.

Business model continued

Our external drivers

We consider and manage the impact of our external environment.

Environmental factors



Population growth, urbanisation and climate change pose very real threats to the environment. Our plans are created to adapt and prepare for every possible scenario in the future. They mitigate the impacts of climate change and our operations. We continue to work with partners in our communities to reduce our collective impact on the water environment.

Economic environment



We're impacted by changes in investor markets, interest rates, inflation and other market rate movements, and we monitor and manage these to reduce risks to our financial stability and protect our investors' interests.

Regulatory environment



Our relationships with our regulators – economic, drinking water quality and environmental – are vital to ensure the resilience of our business. We work closely with them through consultations and regular meetings, to share our latest performance and thinking on our plans, as well as influencing market reform where we see opportunities.

Social environment



As a provider of essential services, we have a direct impact on our local communities. We know that there are areas across the South East experiencing high levels of deprivation, particularly because of recent increases in the cost of living. We make it a priority to offer support and advice to our customers who might find themselves in vulnerable circumstances.

Innovation and technology



We're always improving our services, taking advantage of new technologies and innovations, wherever they come from. 'Always Improving' is one of our core values. New technology can increase risk, particularly in terms of cyber security, so we have measures in place to mitigate this.

Political environment



Decisions made by politicians have the potential to significantly impact the way we operate. We respond quickly to follow directives set by government and work closely with regional and national organisations to understand and influence the development of any new policies.

Business model continued

Regulatory environment

The water sector

Eleven licensed companies currently provide essential water and wastewater services to more than 25 million households and commercial customers in England and Wales. There are also some smaller licensed companies who provide water-only services to customers.

When the industry was privatised in 1989, a framework of regulators was put in place to hold these companies to account and make sure that customers receive high standards of service at a fair price. An industry regulator, Ofwat, was also appointed.

Billions of pounds have been invested by these private companies to maintain and improve sites, technology and services; which have significantly enhanced the environments in which they operate. Bathing water quality in the South East is one example of the success of this investment. In 1990 only 28% of bathing waters met the Environment Agency's (EA's) minimum standards; today that figure is 90%.

The South East is water-stressed. By 2050, within Southern Water's region, we're anticipating losing a third of our water sources because of the impacts of climate change. There'll also be a reduction in the amount of water we're allowed to take from rivers and underground sources, and our population will have grown by 15%. Without action, we predict a supply deficit by 2030, equivalent to around 50% of our current supply.

The policy landscape is also changing. The 25-Year Environment Plan, Environment Bill, review of the Water Industry National Environment Programme, the government's Independent Water Commission and Water (Special Measures) Act 2025 are just some of the key drivers for change in the water sector and beyond.

We're working with our peers, regulators, local authorities, community organisations and the government on workable solutions to the shared challenges of climate change, rapid urbanisation and population growth. Reducing our use of storm overflows and protecting our chalk streams are two areas of particular focus.

We're already implementing a range of natural drainage solutions, such as wetlands, alongside wider natural capital enhancements like river restoration projects and tree planting. In fact, we'll be delivering around £3.3 billion of environmental enhancement projects during the next five years. We also support a sector-wide commitment to deliver net zero water and waste services, and we're aiming to bring our services in line with these targets by 2050.

Working with our regulators

Our regulators set our price controls and performance targets. Below is a list of the key regulators we work with, but there are many more – around 23 different regulatory, environmental, legal and financial bodies in total.



The Department for Environment, Food and Rural Affairs (Defra) determines the overall water and sewerage policy framework in England, setting standards, drafting legislation and creating special permits, such as drought orders. [defra.org.uk](https://www.defra.gov.uk)



Ofwat is the economic regulator of the water and sewerage sectors. It protects the interests of consumers by promoting appropriate competition, making sure water companies properly carry out their functions and they have the adequate finance in place. [ofwat.gov.uk](https://www.ofwat.gov.uk)



The Environment Agency is the environmental regulator of the water and wastewater sector in England. It's the principal adviser to the government on the environment, and the leading public body improving and protecting the environment of England. It works with a range of organisations to reduce flood risk, promote sustainable development, and secure environmental and social benefits. [gov.uk/government/organisations/environment-agency](https://www.gov.uk/government/organisations/environment-agency)



The Drinking Water Inspectorate is the drinking water quality regulator and enforces the Water Quality Regulations set by the government. To do this, it checks the tests carried out on drinking water by water companies, along with carrying out company inspections. [dwi.gov.uk](https://www.dwi.gov.uk)



The Consumer Council for Water represents water and wastewater consumers. It also investigates consumer complaints that have not been satisfactorily resolved by water companies. [ccwater.org.uk](https://www.ccwater.org.uk)



Natural England advises the government by providing practical guidance, grounded in science, on how to best safeguard England's natural wealth. Its purpose is to protect and improve England's natural environment and encourage people to enjoy and get involved with their surroundings. [gov.uk/government/organisations/natural-england](https://www.gov.uk/government/organisations/natural-england)

Business model continued

Delivering value to our stakeholders

We all rely on water for everything we do, so it's our responsibility as a provider of essential services to meet the needs of a range of stakeholders.



Customers and communities

Our customers expect us to provide them with a reliable supply of wholesome water and effectively remove their wastewater. They want sustainable services that have limited impact on our environment, at affordable prices. They also expect us to provide extra support for those in vulnerable circumstances.

Maintaining our access to wholesome water is a shared responsibility, which means we must work with our communities to find solutions to common challenges like urbanisation and population growth. Our customer engagement, education and employee volunteering programmes help us to connect with our communities.

How we measure value

Customer experience (C-MeX); value for money; community engagement; developer experience (D-MeX); complaints, vulnerability support and financial assistance.



The environment

Our natural environment is rich and diverse and includes reservoirs, river catchments, bathing waters and many other areas of environmental or scientific significance. It includes spaces for wildlife and recreation, which create significant value in terms of tourism and social wellbeing.

Our customers and stakeholders expect us to limit the impact of our operations, so we work hard to protect and improve the environment while delivering our essential services.

How we measure value

The Environment Agency's Environmental Performance Assessment (EPA); leakage; greenhouse gas emissions and natural capital value.



Our people and partners

We want to attract, develop and nurture an inclusive and diverse workforce, making sure we look after the health, safety and wellbeing of every colleague and partner.

We invest in the region's infrastructure, generating local jobs, improving skills and helping to sustain the regional economy through our capital construction programme.

We work in partnership with our suppliers, ensuring transparency and fair treatment.

How we measure value

Colleague engagement (CultureAmp); Voice of the Supply Chain (survey) engagement; diversity and inclusion; learning and development; injuries and near misses.



Investors

We manage risk and provide an appropriate return in line with our performance. We use money invested into our business to fund long-term construction schemes, improving the reliability of our services and catering to growth.

How we measure value

Operational delivery incentives; EPA; GRESB.



Regulators

Our regulators are there to make sure that we're delivering value for both our customers and the environment.

Regulatory price controls are there to help to align shareholder value with customer and environmental priorities.

How we measure value

Operational delivery incentives (ODIs); EPA; Drinking Water Standards.



Business model continued

Independent panels and partnerships

Direct feedback from our customers informs our strategy

Our insight work allows us to have a deep understanding of what our customers want and helps to drive improvements in what we deliver. In 2024–25 we engaged with over 50,000 customers over 10,000 hours, receiving direct feedback on our service and plans. We've also analysed millions of data points including social listening, complaints, demographic data and externally produced reports.

Our Water Futures 2030 Panel (household customers) comes together each month to help with day-to-day insight (e.g. improving a blockages campaign or reviewing improved website pages) or more strategic work (e.g. our business plan or water resource planning). The group is managed by an independent research partner. Their feedback over the past year has helped us develop clearer bill increase communications and informed changes to the process for customers to report a pollution.

We also use the insight from Water Futures 2030 with a Customer Committee, made of up of six to eight members from the panel. We meet regularly with them to get feedback. A diverse group of community leaders also review the feedback to make sure that views from harder-to-reach communities are represented.

Our Customer and Communities Challenge Group, made up of experts, helped review, challenge and improve our plans.

Our Rivers and Seas Watch User Research Panel is a growing mailing list of users of the service (primarily open water enthusiasts: from experts to casual sea dippers) who help validate changes we make and uncover new user needs and behaviours. We also host a working group made up of recreational water leaders, environmental activists and local councillors. Members feedback on and ask questions about upcoming changes to the service, including those called for by an independent expert review.

All of these groups follow best practice guidance, as set out by the Consumer Council for Water (CCW), to provide a continuous dialogue on both our current delivery and future planning.

Independent scrutiny of our environmental performance

The Independent Climate and Environment Group (ICEG) is an expert forum that was set up to advise Southern Water at the start of 2022. ICEG helps to hold us to account on our environmental performance, as well as scrutinising and advising on our environment strategy and plans to mitigate and adapt to the impacts of climate change. The group is made up of local and national NGOs, government regulators, CCW, local authorities (including their delivery partnerships) and national parks, a climate expert and an independent expert from Portsmouth University. Martin Hurst, Chair of the Southern Regional Flood and Coastal Committee, chairs the group.

Protecting water quality

To help protect and improve the quality and resilience of the water environment in the Brighton and Hove urban and rural area, we're co-funding the TAP, Aquifer Project. As most of the area's water supply comes from groundwater in chalk aquifers, this project is vital to protect this natural resource. Its work also has wider environmental benefits, promoting sustainable interventions, and collaborating on wastewater and surface water plans and systems to protect and improve the local aquifer. It also helps to raise community awareness of the importance of the aquifer and sustainable drainage solutions with local schools and businesses.

We've agreed a new partnership with Isle of Wight Council to create natural drainage solutions across the island to cut storm overflows and flood risk. A memorandum of understanding has been signed, which will see swales, raingardens and tree pits introduced along roadsides to reduce water run-off.

In Kent, we're working with Folkestone and Hythe Council, the Environment Agency and internal drainage board (IDB) to track the progress of investigations and identify issues that could impact bathing water quality. We also host a community steering group locally to update on investigations and hear local concerns, which inform our projects.

Focus areas

Understanding what matters most to our stakeholders

Our approach to materiality

Understanding our stakeholders' priorities allows us to create value for them. The materiality matrix below represents the output of our assessment for this year.

→ Read about **how we create value for our stakeholders** on page 29.

Step one

Defining our issues

Our stakeholder engagement activities inform the selection of material issues. We also considered our corporate strategy, vision and values, and external trends and challenges. We reviewed these in the context of the UN Sustainable Development Goals, assessing risks and reviewing best practice, including ESG frameworks such as the Global Real Estate Sustainability Benchmark (GRESB).

Step two

Prioritising

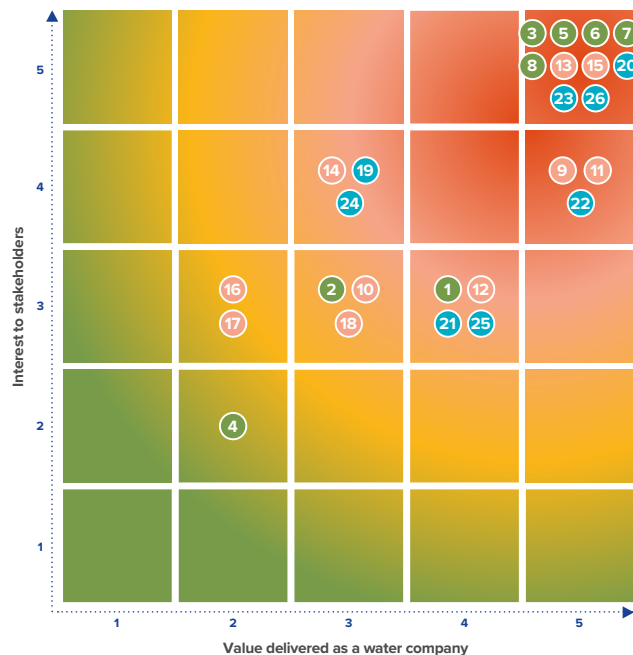
We assessed each issue, scoring them on two scales: the importance of the issue to stakeholders, and the significance for us to create value. Each received a score from one to five, reflecting our existing risk management process. One, indicating no impact/negligible ability to influence and very infrequent stakeholder interest. Five, indicating critical impact for all functions/high levels of control, and significant interest of many stakeholders.

A total of 26 material issues were identified for 2024–25, and these are plotted on the matrix below.

Step three

Test and review

We tested the prioritisation scores to validate the process and ranking. Executive team members were included in this process, as well as senior managers and subject matter experts in the business.



Our material issues

Environmental

- 1 Biosolids
- 2 Energy use
- 3 Compliance
- 4 Land management and access
- 5 Nature-based solutions
- 6 Protection from climate change
- 7 Storm overflows
- 8 Water supplies

Link to principal risks

Water – see page 119
Wastewater – see page 120
Compliance – see page 123
Climate change – see page 124
Delivery – see page 125
Resources – see page 127

Social

- 9 Affordability and vulnerability
- 10 Community engagement
- 11 Customer service
- 12 Diversity and inclusion
- 13 Drinking water quality
- 14 Fair and equal pay and working
- 15 Health, safety, security, and wellbeing
- 16 Human rights
- 17 Local economies
- 18 Skills and employment

Link to principal risks

Water – see page 119
Customer – see page 121
Resources – see page 127
Health and safety – see page 128
People – see page 130

Governance dimension

- 19 Company structure, ownership
- 20 Cyber security and data protection
- 21 Employee engagement
- 22 Financial stability and risk management
- 23 Political and regulatory environments
- 24 Responsible supply chain
- 25 Stakeholder engagement and networks
- 26 Trust, transparency, and legitimacy

Link to principal risks

Customer – see page 121
Financial – see page 122
Compliance – see page 123
Delivery – see page 125
Digital – see page 126
Resources – see page 127
Corporate affairs – see page 129
People – see page 130

Our operational performance

Our Water for Life Business Plan 2020–25 was broad and ambitious and included 47 clear customer commitments.

The Turnaround Plan launched in 2023 aimed to explicitly target improvements across 13 of these commitments, focusing on health and safety, capability, systems and technology, reliability of our assets, digitalisation, logistics and compliance for the benefit of our customers and the environment.



Protect and improve the environment

Protecting and improving the environment

Key



Ofwat end of AMP target met



Ofwat end of AMP target not met

AMP – Asset management period or investment period (five years)

	Outcome and why it's important	Associated outcome delivery incentive (ODI)	Performance	Ofwat target	Link to remuneration
Deliver great service	Sewer flooding prevention It's essential that our network stops homes being flooded with waste from sewers. There's strong support for us to continue to improve sewer flooding prevention.	External sewer flooding Measure: Number of flooding incidents with wastewater.	20-21 4,409 21-22 3,944 22-23 3,748 23-24 3,245 24-25 3,047	✓	Indirect
	Pollution Customers want us to treat and dispose of wastewater in a way that does not harm the environment. They rightly believe that we have a duty to protect and improve the environment in which we operate. Making sure that we do no harm through pollution incidents is the minimum they expect.	Pollution incidents Measure: Number of pollution incidents with wastewater.	20-21 402 21-22 372 22-23 358 23-24 234 24-25 269	✗	Direct
Protect and improve the environment	High-quality river and bathing waters Customers want to see us do more to deliver excellent river water quality. They want us to recognise the importance of this to tourism.	Thanet sewers Measure: Capital delivery scheme delays (months).	20-21 0 21-22 0 22-23 0 23-24 0 24-25 0	✓	Indirect
		Delivery of Water Industry National Environment Programme (WINEP) requirements ¹	20-21 Not met 21-22 Not met 22-23 Not met 23-24 Not met 24-25 Not met	✗	Direct and indirect
	High-quality river and bathing waters Customers want to see us do more to deliver excellent river water quality. They want us to recognise the importance of this to tourism.	River water quality Measure: Cumulative length of river improved under WINEP.	20-21 0 21-22 82.5km 22-23 102.7km 23-24 102.7km 24-25 182.3km	✗	

¹ We delivered 583 Water Industry National Environment Programme (WINEP) schemes and investigations during 2024–25, with 574 of these schemes and investigations receiving full sign off by the Environment Agency. In addition, due to their complexity and cost, we were not able to deliver nine schemes on time. We're in the process of agreeing delivery timetables for these schemes to be completed over the next five years.

Our operational performance continued



Protect and improve the environment

Protecting and improving the environment

Key



Ofwat end of AMP target met



Ofwat end of AMP target not met

AMP – Asset management period or investment period (five years)

	Outcome and why it's important	Associated outcome delivery incentive (ODI)	Performance	Ofwat target	Link to remuneration
Protect and improve the environment	High-quality river and bathing waters Customers want to see us do more to deliver excellent bathing water quality. They want us to recognise the importance of this to tourism.	Maintaining bathing waters at 'excellent'	20-21 0 21-22  60 22-23  57 23-24  48 24-25  49		Direct and indirect
		Measure: Number of bathing waters.			
		Improve the number of bathing waters at 'good'	20-21 N/A 21-22 N/A 22-23 N/A 23-24  4 24-25  3		
		Measure: Number of bathing waters.			
		Improve the number of bathing waters to 'excellent'	20-21 N/A 21-22 N/A 22-23 N/A 23-24  4 24-25  2		
		Measure: Number of bathing waters.			
		Treatment works compliance	20-21  97.06% 21-22  97.94% 22-23  98.22% 23-24  99.36% 24-25  98.23%		
		Measure Percentage compliance with discharge permits from our treatment works.			
		Combined sewer overflow monitoring	20-21  84.77% 21-22  87.80% 22-23  87.93% 23-24  87.93% 24-25  87.62%		
		Measure: Percentage of CSOs with effective spill monitoring.			

Our operational performance continued



Protect and improve the environment

Protecting and improving the environment

Key



Ofwat end of AMP target met



Ofwat end of AMP target not met

AMP – Asset management period or investment period (five years)

	Outcome and why it's important	Associated outcome delivery incentive (ODI)	Performance	Ofwat target	Link to remuneration
Protect and improve the environment	Water resource abstraction Customers want us to use a range of sources to provide reliable services in the future and expect removal of water from the environment to be done in a sustainable way.	Distribution input Measure: volume potable water entering supply, megalitres per day (MI/d).	20-21 563MI/d 21-22 556MI/d 22-23 566MI/d 23-24 565MI/d 24-25 560MI/d	✗	
		Abstraction incentive mechanism Measure: Average daily rate below the limit in September at Otterbourne and Twyford.	-15MI/d 20-21 -16MI/d 21-22 -14MI/d 22-23 -19MI/d 23-24 -11MI/d 24-25	✗	Indirect
		Effluent re-use Measure: Amount available for direct reuse.	20-21 273m³ 21-22 127m³ 22-23 82m³ 23-24 79m³ 24-25 50m³	✓	
	Renewables We should be increasing the amount of renewable energy we use in our operations. There is a growing expectation that we should be using our own wastewater services to generate more energy as well.	Renewable generation Measure: Total generated as a percentage of electricity consumption.	20-21 16.42% 21-22 15.85% 22-23 13.30% 23-24 13.32% 24-25 14.79%	✗	
		Natural capital Measure: Number of river catchments monitored.	20-21 0 21-22 0 22-23 3 23-24 11 24-25 11	✓	Indirect
		Satisfactory bioresources recycling Measure: Amount of sludge used or disposed of.	20-21 100% 21-22 100% 22-23 100% 23-24 100% 24-25 100%	✓	

Our operational performance continued



Protect and improve the environment

Protecting and improving the environment

Key



Ofwat end of AMP target met



Ofwat end of AMP target not met

AMP – Asset management period or investment period (five years)

	Outcome and why it's important	Associated outcome delivery incentive (ODI)	Performance	Ofwat target	Link to remuneration
Fit for the future	Asset health It's essential we invest in our sewer networks, pipes and drains. Our customers want us to upgrade where we can and use innovative and sustainable solutions.	Risk of sewer flooding	20-21 11.68% 21-22 11.50% 22-23 11.55% 23-24 10.87% 24-25 10.61%		Indirect
		Sewer collapses	20-21 315 21-22 314 22-23 247 23-24 234 24-25 248		
	Growth Businesses believe it's important to work with councils and developers on infrastructure. Customers recognise the challenge of new homes drawing on our network and expect us to make sure it's fit for the future.	Surface water management ¹ Measure: Reduction in volume entering the network.	20-21 0		Direct
			21-22 0		
			22-23 0		
			23-24 0		
			24-25 0		

¹ Refer to commentary in the [Annual Performance Report](#) – technical appendices.

Our operational performance continued



Protect and improve the environment

Protecting and improving the environment

Reducing environmental impact from external flooding and pollutions

We've seen a decrease in external sewer flooding incidents over the past year, with a total of 3,047 (2023–24: 3,245), outperforming our target of 3,525 and earning a reward of £1.70 million.

Over the past year we installed a further 8,000 sewer level monitors – bringing the total to around 32,000 added to our network since 2023. Feeding data into our Control Centre, these monitors have helped to reduce the number of both external and internal flooding incidents experienced by our customers, with teams now able to proactively manage maintenance and repair. This performance has been maintained despite an exceptionally wet autumn and winter, with rainfall well above the long-term averages.

In terms of pollutions (category 1-3) we recorded 269 category 1-3 pollution incidents in 2024 – this was a 15% increase in pollution incidents compared to 2023 (2023: 234), which means we incurred a penalty of £9.296 million. A total of 34% of the incidents happened during the first quarter, when sites and networks were impacted by high groundwater levels and heavy rainfall. Out of the total number of incidents, there were 14 at category 2 and one at category 1. A total of 60% of pollution incidents came from sites polluting for the first time.

Overall, this represents an improvement in total pollutions of 38% since 2020. Blockages, caused by a build-up of non-flushable items and fat, oil and grease, continue to be the primary cause of pollutions. Electrical failures and mechanical issues at our sites and pumping stations are the other major root cause.

We continue to review each individual incident with a view to avoiding a repeat event. Our annual Pollution Incident Reduction Plan (PIRP) details our approach to reducing pollution incidents, with serious pollution incidents (category 1) as a key focus. Under last year's plan, we carried out actions to:

- increase resilience at wastewater pumping stations;
- put in place the next phase of rising-main calming, minimising bursts;
- review our sewer level monitors to increase their efficiency; and
- monitor our sites proactively using intelligent systems, such as condition-based monitoring.

As the main cause of pollution incidents is blockages we carry out community engagement offering information to customers about how to avoid them. Over the year, the team engaged face-to-face with 7,336 customers while delivering 79 presentations and attending 19 community events. They knocked on 12,972 doors in blockage hotspot areas, and by being proactive and checking the drains while out and about, the team cleared a total of 147 blockages – this prevented seven internal and 20 external flooding incidents.

Reducing the environmental impact of a pollution incident, by reacting quickly to stop it, is vital and customers play an important role by helping us to spot them. This self-reporting of pollution incidents has increased by 12% over the past year. This is largely thanks to a targeted social media advertising campaign and refreshed signage in several pollution hotspots, encouraging customers to contact us.

Our Thanet sewer enhancement scheme has now been completed, which will protect groundwater sources in the area from pollution by making the century-old sewers more resilient. The project, which started in 2010, represents an investment of £78.7 million over a phased programme across three investment periods. It was achieved within the regulatory time frame ending in March 2025.

Improving river and bathing water quality

We delivered 583 Water Industry National Environment Programme (WINEP) schemes and investigations during 2024–25, with 574 of these schemes and investigations receiving full sign off by the Environment Agency. In addition, due to their complexity and cost, we were not able to deliver nine schemes on time. We're in the process of agreeing delivery timetables for these schemes to be completed over the next five years. These were schemes associated with the transfer pipeline from Bewl Reservoir to Darwell Reservoir and enhancement schemes to be delivered at eight of our wastewater treatment works.

Our performance commitment for river water quality improvements was met with a total of 182.3km (2023–24: 102.7 km) improved over the 2020–25 period.



For more information, see the [Annual Performance Report](#) for 2024–25.

Our operational performance continued



Protect and improve the environment

Protecting and improving the environment

“

The Whitstable Fishermen's Association acknowledges the progress made in our engagement with Southern Water. Communication has improved, and we appreciate that some consideration is now being given to the concerns of the fishing industry. We also welcome the local efforts to reduce the use of storm overflows, as improving water quality is paramount to the future of our industry. While challenges remain, we value the opportunity to work together and ensure that our industry's voice is heard.”

Esther Gilson

Secretary of the Whitstable Fishermen's Association

Whitstable is an area of focus for our Clean Rivers and Seas Task Force. Over the past two years we've trialled innovative solutions at our sites and in the community to reduce the use of storm overflows. Collaboration with the community has been a key part of this work.

The Environment Agency's classifications for bathing water as 'Excellent', 'Good', 'Sufficient' or 'Poor' are awarded based on the results taken from the previous four years of water quality testing, from May to September. In 2024 we maintained the number of bathing waters rated 'Excellent' at 49, below our target of 57.

Our multi-million-pound Bathing Water Enhancement Programme has improved the classifications for six bathing waters bringing two up to the 'Excellent' classification and four up to 'Good'. We saw improvements at Margate, the Bay, Hastings, Pelham Beach and Hillhead, however, water quality dropped in Deal Castle and Dymchurch.

We had three new bathing waters classified in 2024; these were Worthing Beach House and Goring in West Sussex, and Rottingdean in East Sussex, taking us to a total of 87 bathing waters.

There are many different environmental and human factors that can contribute to reduced bathing water quality, so working together with our local authority partners, regulators and communities is important. Our strategy includes making additional health checks for sewers, wastewater pumping stations, treatment works and storm overflows. We also continue to focus on identifying any illegal connections from properties. Over the past year we've:

- Surveyed almost 700 metres of sewer at Broadstairs Viking Bay, and lined sewers in key locations;
- Discovered 32 illegal connections in Folkestone;
- Surveyed and relined over 500 metres of sewer in Littlestone;
- Fixed a leaking sewer and five illegal connections in Bognor Aldwick; and
- Relined over one kilometre of sewer in Ramsgate Sands.

Our Clean Rivers and Seas Task Force has continued to reduce storm overflow releases and work with partners to address other sources of water pollution. Our pilot projects (that we call 'Pathfinders') have helped us find the most effective ways to tackle storm overflows and we're now applying our learning to projects within our next investment cycle (2025–30).

This early investment saw us exceed our 2024 storm overflow reduction target, preventing or treating 623 releases against a target of 356. One project, in Cowes, involved reconfiguring the pipework and installing a smart sewer gate. The gate, which uses sensors to divert surface water where there's capacity in the network, has significantly reduced storm overflow releases. Another project, at Swalecliffe wastewater treatment works, involved making an additional 1.8 million litres of storage capacity available, without building a new storm tank.



See more in our **case study** on page 40.

We relaunched our near real-time storm overflow reporting service under a new name: 'Rivers and Seas Watch', replacing our Beachbuoy platform. It now features all storm overflows in our region, both coastal and inland. Bathing waters now show the whole area impacted by the nearby overflow, and advanced tidal modelling has increased the accuracy of this information.

We also continue to work with local communities via the Citizen Science trial programme. We provide them with equipment and independent training to conduct regular bathing water sampling, as well as facilitating a working group to share learnings. Using testing technology in this way, means that together we're understanding more about water quality in our coastal regions.

Our operational performance continued



Protect and improve the environment

Protecting and improving the environment

Our target for treatment works compliance is 100%. Over the past year we achieved 98.23% (2023–24: 99.36%), with six failed works (2023–24: two), receiving a penalty of £7.7 million. This is largely a result of sampling frequency changes associated with new permits at a large number of treatment works and plant availability at several smaller sites.

A detailed action plan is in place, as part of our ‘Go-to-Green’ programme, aimed at preventing any further failures. Work has started on 10 initiatives at a further three treatment works to bring them to a standard where they’re reliably meeting all permits – a total of 45 sites have been reviewed since the start of 2023.

The percentage of combined sewer overflows (or storm overflows) with effective spill monitoring is 87.62%. We’ve met the performance commitment of installing Event Duration Monitors (EDMs) on all storm overflows, providing 100% coverage. This gives us greater visibility of our asset health. These EDMs are monitored daily by our Control Centre, so we can respond quickly to any problems on our network.

Looking after our water sources

The amount of clean water we put into our network – distribution input – is 560 ML/d (2023–24: 565 ML/d), above our Ofwat target of 506 ML/d. Distribution input in 2024–25 has followed a broadly similar trend to the previous year.

Although there are some significant differences between our water zones across the region, the overall amount of water put into supply was only slightly less than 2023–24 (0.9% less). The lack of any significant cold weather periods (apart from brief spells in January and February) and any resulting thaw effects have helped keep leakage and, therefore, demand on the network lower than previous years. As the main driver of demand is the weather, the fact that both the

summers of 2023 and 2024 did not feature any prolonged periods of hot weather has kept it at a slightly lower level than in previous years.

At the start of this five-year period, an Abstraction Incentive Mechanism (AIM) scheme was put in place when our new River Itchen site was being tested. This year we didn’t achieve the set target for water removed from the Rivers Test and Itchen in September 2024, incurring a penalty of £0.634 million. The AIM scheme is not in place for 2025–30, as the River Itchen abstraction licences are all being renewed, in collaboration with the Environment Agency.

River levels this summer did not fall below levels where a Temporary Use Ban (TUB) would need to be put in place, as in 2023. A TUB had to be put in place in 2022 to reduce pressure on the Test and Itchen.

Over the past year, we’ve made 50m³ of effluent available for customers (2023–24: 79m³). This helps to reduce the overall demand for fresh water from local authorities, businesses and farmers.

Renewable energy and bioresources

We need to have a reliable supply of clean energy to move water and sewage around our region and power our treatment processes. We know that as a significant consumer of energy, we have an important part to play in reducing the UK’s greenhouse gas emissions and reliance on fossil fuels. We also know that our customers and stakeholders expect us to do this.

In 2024–25 we produced 14.79% of the electricity we need to run our operations via on site renewable generation, driven predominantly by biogas-fuelled combined heat and power (CHP), and to a lesser extent solar. This is an improvement on last year’s 13.32% but is below the commitment we made in our plan for 2020–25, which means we’ve received a penalty of £1.33 million.

We completed our natural capital accounts for 11 catchments in March 2024, ahead of the Ofwat target of 2025. The accounts help us understand the condition of the environment that we own or can influence. This helps us to prioritise actions which improve the environment and informs our investment and planning decisions.

We maintained our Biosolids Assurance Scheme certification for a further 12-month period in July 2024. We were able to recycle 100% of our BAS, certified biosolids to agriculture. Our first advanced anaerobic digestion plant is now operational, which is helping us to produce a higher quality product for farmers in Sussex.

Catering for growth

We use flood modelling to predict the percentage of the region’s population that would be at risk following a one-in-50-year storm. It analyses internal hydraulic data to assess network flooding. We predicted the same level of risk as last year, at 10.61% (2024: 10.87%). This outperforms our target of 12.42%.

We continue to rehabilitate and calm rising mains as the primary way to drive down sewer collapses. This includes replacing and maintaining air valves, introducing variable speed drives and rehabilitating sections of rising mains using lining techniques to prevent repeat sewer collapses. This approach has a cumulative improvement over time. We’ll continue this work throughout the next five years.

We saw an increase in sewer collapses compared to the previous year, with 248 collapses. This means we’ve met our Turnaround Plan target performance of no more than 250 sewer collapses by 2025, but missed our Ofwat target of 222 (2023–24: 234), incurring a penalty of £1.3 million.

Our operational performance continued



Protect and improve the environment

Protecting and improving the environment

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I would like to extend our sincere gratitude to the team, led by Wastewater Managing Director John Penicud, for their dedication in delivering a long-term solution. As we enter the second year of improvement works, I am confident that this project will continue to bring lasting benefits to the Parish and its residents. I am also pleased to acknowledge Southern Water's splendid contribution to the new children's play area, multi-use games area and expanded parking facilities in the village centre.”

The Rt Hon Kit Malthouse MP
Member of Parliament for North West Hampshire

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We've been working closely with Kit Malthouse MP and the St Mary Bourne Parish Council's Flood Emergency Group in North West Hampshire to reduce local flood risk. We've now sealed 370 metres of sewer and 24 manholes, which has resulted in a 75% reduction in tankers (from eight in 2024, to two in 2025).

Managing surface water and groundwater across the South East

Under the specific criteria of our performance commitment for surface water management, we have – as in previous years – recorded an outcome of zero. This is because our focus has been in areas of higher impact driven by our Clean Rivers and Seas Task Force. It continues to work with local landowners, businesses and local authorities across our region to improve management of excess surface water, using innovative and nature-based sustainable drainage systems (SuDS) where possible. This builds on the work of our pilot 'Pathfinder' projects and includes managing over 300,000m² of impermeable area.

Limiting the amount of surface water entering our sewer network means we can prevent flooding and reduce the use of storm overflows. These overflows, which act as release valves on our wastewater network, stop homes and businesses from being flooded when our network is overwhelmed by heavy rain or high groundwater.

The task force has projects running across all four counties:

- An upgrade at our Appley pumping station has prevented 87 storm overflow releases by increasing storm water storage capacity and doubling the wastewater treatment rate on site. This is a 63% reduction in releases following the project.
- Our new wetland at Lavant Wastewater Treatment Works has naturally and sustainably held and treated over 287 storm overflow releases that would have previously discharged into River Lavant.
- Sustainable drainage systems have been installed at nearly 100 schools across the south in partnership with the Department of Education, preventing over 117 million litres of rainwater from contributing to flooding and storm overflows in 2024. The impact the scheme has had on flooding was recognised by winning Alliance or Partnership of the Year at the Water Industry Awards 2024.
- In the Pan Parishes, we found that private pipework was allowing groundwater to force its way into the sewer network, resulting in a significant amount of tanker activity in the area. A sewer sealing project has reduced both this activity and the number of storm overflow releases into Chichester Harbour. As well as pollution and disruption reduction, it will save up to £22 million per year in costs which can be spent on other improvement projects.

Our operational performance continued



Protect and improve the environment

Protecting and improving the environment

A look ahead

We're improving river health and bathing waters, while making our network more resilient:

- In East Sussex we're investing in groundwater catchment schemes in Brighton and Hove and improving our Peacehaven site, as well as reducing the amount of phosphorous being released into rivers in Hastings and Rye by improving wastewater treatment.
- We're upgrading our Goddards Green and Scaynes Hill wastewater treatment sites in West Sussex, where we're reducing spills and improving screening as well as improving site resilience with an upgrade to East Worthing wastewater treatment works.
- At Faversham wastewater treatment works in Kent, we're increasing the site's capacity to reduce nearby spills and improve the quality of the water leaving the works and removing phosphorous from outflows in Tonbridge.
- Our Clean Rivers and Seas Task Force is busy surveying sewers across Portsmouth city, Gosport and Fareham for improvements. Over the next five years, we'll be investing at least £700 million to reduce storm overflows and improve water quality in the South East: [Clean Rivers and Seas Plan](#).

We'll also run programmes under the WINEP to monitor and tackle Invasive Non-Native Species (INNS) across our regions, in particular where they cause direct impact on our operational systems. INNS are a growing problem, as exemplified by key 'problem species' such as the Asian hornet, which threatens native honeybee populations. Our programme includes significant monitoring programmes for a range of INNS species including plants and animals, with catchment-wide investigations.

We continue to expand and diversify our renewable energy generation capacity to improve our energy self-sufficiency and security:

- We committed to achieve net zero carbon emissions by 2050 and to deliver significant reductions in our operational carbon emissions by 2035, so over the past year we revised our Energy Policy so that we're ready to start the next five-year period with a clear strategy.
- Our plan for the next five years includes investments in new Combined Heat and Power (CHP) capacity, and steps to reduce our overall energy demand.
- We'll be setting up a dedicated Energy Efficiency function, tasked with auditing the energy performance of our pumps, motors, blowers, and compressors, and driving energy opportunities from 'discovery to delivery'.

Case study

Reducing the impact of stormwater at Swalecliffe

We worked with the Environment Agency to overhaul the way Swalecliffe wastewater treatment works. The site had too much incoming stormwater to treat or store, so the storm overflow on site automatically activated around 100 times a year to protect local residents from sewer flooding.

An extra 1.8 million litres of stormwater storage was created, costing a total of £750,000, as opposed to the millions of pounds that would be needed to build a new storm tank. As a result, storm overflows from the site have reduced by 39%.

To minimise the impact of any remaining storm overflows, we also lengthened the outfall pipe, so stormwater is released much further out to sea, helping to improve the quality of local bathing waters.

More investment is planned in the local area to reduce and slow the amount of surface water entering the system in the longer term, using mainly nature-based solutions with a strong focus on maintaining and boosting community green spaces and local biodiversity.

Our operational performance continued



Protect and improve the environment

Protecting and improving the environment

Case study

We've improved bathing water quality in Kent

We've been working in partnership with the Environment Agency (EA), Folkestone and Hythe District Council, and the Internal Drainage Board (IDB) in Kent to tackle pollution in St Mary's Bay. Although our own assets were not the single cause, and there were multiple sources of pollution to blame for the poor bathing water classification – including sea bird waste – we've taken a collaborative approach to improve the water quality.

Members of our Clean Rivers and Seas Task Force meet with the group regularly to pool resources and share information, to help us work quickly and effectively. We've already found and resolved several illegal connections, and identified other sources of pollution which our partners can influence and resolve.

Samples taken at St Mary's Bay in 2024 have been consistently positive, so much so that we've collectively achieved a change in classification, known as a 'Step Change', which was applied for. A Step Change changes the classification of a bathing water sooner than the four-year regulatory cycle used for bathing water classifications would normally allow, benefiting the community and local economy.

The bay will no longer be classified as a 'Poor' bathing water, and the advice against swimming was lifted by the EA for the 2025 bathing water season. This case study serves as an excellent example of what can be achieved through collaborative working.

We're looking forward to continuing our work with the group, supporting water quality improvement along the local coastline.

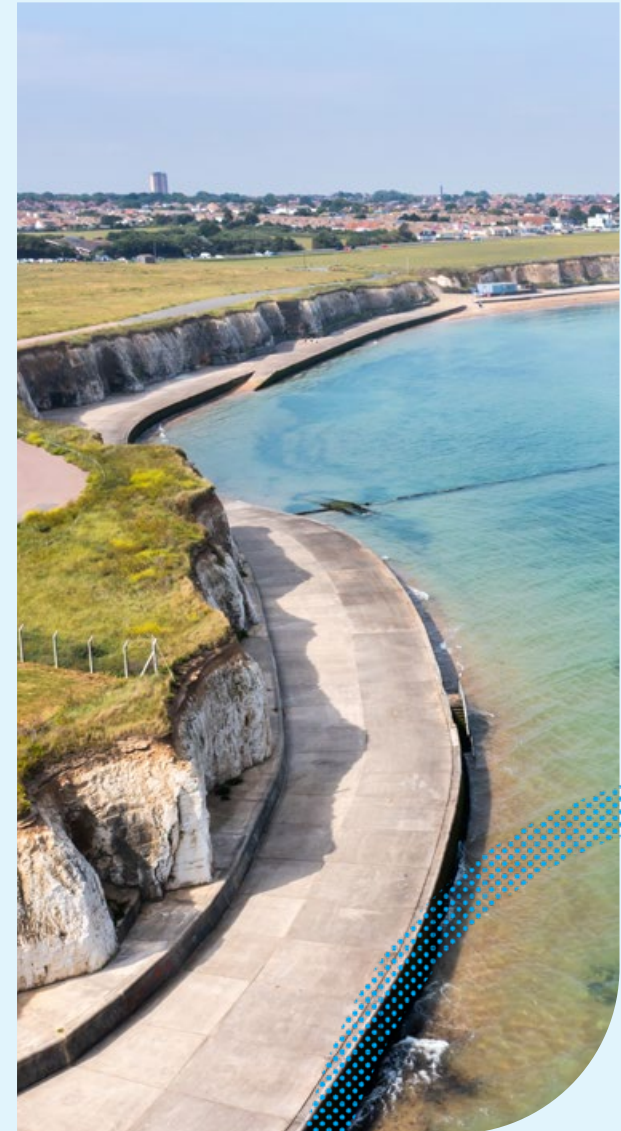
→ Read more about **bathing water quality** on page 37.

'Poor'

classification removed for 2025

Step change

in water quality



Our operational performance continued



Protect and improve the environment

Protecting and improving the environment

Environmental disclosures

Increasing our focus on compliance

Our Environmental Management System (EMS) is a key tool for enhancing operational efficiency and driving continuous improvement within the organisation. It continues to be certified to the ISO14001:2015 standard through an annual external surveillance audit. We were also recertified in 2023 by the British Standards Institute (BSI) for a further three years, demonstrating our commitment to environmental improvement and performance.

The EMS covers nine environmental aspects: amenity, biodiversity, climate change, consumables, customers, pollution and discharges, waste management, water quality and water resources. Our environmental policy reflects our ambitions and commitment to continuous improvement.

In 2024, we introduced a competency management system (CMS), which was awarded certification by BSI in March 2025. This allows us to evidence Waste Activity and Waste Installation Environmental Permit competency condition requirements to the Environment Agency.

MCERTS is the Environment Agency's Monitoring Certification Scheme for equipment, people and organisations, and provides guidance on the standards we need to meet to monitor emissions affecting the environment. The MCERTS standard applies to multiple sites under the Environmental Permitting Regulations (EPR) and makes sure that we monitor liquid flow and collect and record results to proven international and European standards. This process is certified through annual external surveillance audits and was recertified for a further five years in 2024; clearly demonstrating our accurate and transparent reporting of data.

Our Environment Strategy

We're in the process of finalising our new Environment Strategy, created with our Independent Climate and Environment Group (ICEG), which will help to highlight commitments we've already made for improving our environment and help define our long-term ambition up to 2050. This will help us build efficiency and meet the expectations of all our stakeholders in terms of the management of our environmental impact. It's aligned to our Long-Term Delivery Strategy target of 2050, reflecting our commitments towards nature recovery and becoming nature-positive. Over the next few months, we'll be defining key strategic goals and enabling principles as we bring to life the environmental commitments in our business plan, helping us set clear long-term targets.

Improving biodiversity

During 2025–30, we'll be focusing on how we can positively influence biodiversity, in line with a new Ofwat performance commitment. This will create significant change in how we monitor for and deliver against biodiversity alongside Biodiversity Net Gain.

We'll build on the fantastic work we have delivered with our partners during 2020–25, working with farmers, landowners, and NGO partners across our region. We'll also be surveying our estate, creating a biodiversity baseline that we can monitor change against over time, and select and nominate sites where we will improve biodiversity. This will be done through a range of methods from habitat management, changes to grounds maintenance or even habitat creation in line with BNG legislation. Any development that we undertake on our capital programme that requires planning permission, is mandated to uplift biodiversity by at least 10% from pre-development baselines.



In the delivery of our extensive capital programme for the next investment period, we anticipate a significant requirement to deliver statutory biodiversity net gain, as we develop projects on and off our estate.

This year we've completed a number of detailed 'ground truth' habitat surveys on several of our larger sites by building on our desktop review of our own estate undertaken in 2022. As well as helping us meet our performance commitments, this also means we can make sure we identify opportunities for biodiversity restoration and habitat creation projects, which we hope will also increase the capture of carbon on our sites. This forms the first stage of delivering our performance commitment, where we'll seek to find opportunities to enhance biodiversity across our estate, following the completion of the baseline surveys.

During the autumn in 2025, the emerging Local Nature Recovery Strategies (LNRS) will be published. We've taken part in multiple workshops during the development of the county-wide LNRS, which aim to create regional priorities for nature recovery.

Our operational performance continued



Protect and improve the environment

Protecting and improving the environment

Focusing on improving the health of our rivers and groundwater

Our Catchment teams have been busy undertaking a wide range of projects to enhance the water environment, working across our region. For example, working with our Catchment Partnerships and delivering workshops to collaboratively design project activities on the Upper Arun Catchments and the Arun and Western Streams. Our Business Plan 2025–30 contains proposals to significantly scale up our Catchment Partnership engagement to include The Isle of Wight, The Test and Itchen Chalk Stream, the River Medway and Beult, as well as the Arun and Western Rother. This work enables the creation and delivery of wetlands to help improve biodiversity and connectivity within our landscape, and to tackle water quality issues including nutrients, pesticide and sediment pollution.

Looking after land, soil and water

In 2020, 2022 and 2024, we completed reviews of the risks to our drinking water sources, covering both surface water and groundwater, based on land use, combined data from public sources and our own records. This has helped us to create a map of land use across our drinking water catchments. An initial screening process compared monitoring data from over 700,000 laboratory analyses against drinking water standards, which helped us to pull out six contaminants for further investigation: pesticides, nutrients, microbiology, sediment, metals, and organic compounds, such as Polycyclic Aromatic Hydrocarbons (PAHs – produced from the burning of coal, oil, gas and wood).

Our 2020 risk assessment focused on mapping pollutant sources, which helped quantify relative risks across drinking water sources and informed our water safety plans. Since 2020, we've continued to refine these assessments, in 2022 and in 2024. This included a review of pesticide risk management, looking at changes in crop distribution and pesticide use.

Several risk assessments were also expanded, and the risk from other contaminants like nutrients and sediment was continually monitored and adjusted. These assessments have given us a solid data-driven foundation for decision-making, enabling us to target hotspot areas where pollution risks posed the greatest threat to water quality so we're better able to collaborate with farmers, agronomists, and other partners to put preventative measures in place that improve soil health and water quality in the environment.

Case study

Let's Talk Soil and Water

Our Catchment team launched its dedicated 'Let's Talk Soil and Water' LinkedIn page a little over a year ago. It now has 1,051 followers organically, and over the past year it's reached 47,552 farmers, land managers, and farm advisors. Through this page, we highlight the vital connection between soil health, farming practices, and water quality, helping people understand why we're committed to supporting farmers and promoting sustainable land management.



Our operational performance



Enhance health and wellbeing Ensuring a supply of high-quality water for the future

Key



Ofwat end of AMP target met



Ofwat end of AMP target not met

AMP – Asset management period or investment period (five years)

Outcome and why it is important	Associated outcome delivery incentive (ODI)	Performance	Ofwat target	Link to remuneration
Deliver great service	Water quality It's essential to always provide clean, safe drinking water. This is seen as the most important and basic service from a water company. Our customers' preference is for water to be as natural as possible.	DWI compliance risk index (CRI) Measure: Compliance with standards for drinking water quality. 20-21 4.53 21-22 6.69 22-23 6.38 23-24 3.07 24-25 3.82	X	Indirect
	Drinking water appearance Measure: Number of contacts due to water not being clear – per 1,000 population. 20-21 0.89 21-22 0.87 22-23 0.93 23-24 1.00 24-25 0.92			
	Drinking water taste and odour Measure: Number of contacts due to taste and odour – per 1,000 population. 20-21 0.26 21-22 0.23 22-23 0.24 23-24 0.24 24-25 0.32			
	Replace lead pipes Measure: Number of properties receiving grants to remove pipes in the home. 20-21 0 21-22 0 22-23 0 23-24 0 24-25 0			
	Water supply interruption Customers want us to be able to deal with problems, such as interruptions, quickly and efficiently. Any interruptions require clear communication, as they can cause disruption and distress to customers.	Water supply interruption Measure: Average time customers have no water during the year. 20-21 0:12:43 21-22 0:09:22 22-23 1:28:00 23-24 1:21:33 24-25 2:21:50		
	Water pressure Customers expect a standard of water pressure to be part of the basic service we provide.	Number of properties at risk of receiving water at low pressure 20-21 310 21-22 210 22-23 207 23-24 173 24-25 167	✓	Indirect

Our operational performance continued



Enhance health and wellbeing

Ensuring a supply of high-quality water for the future

Key



Ofwat end of AMP target met



Ofwat end of AMP target not met

AMP – Asset management period or investment period (five years)

	Outcome and why it is important	Associated outcome delivery incentive (ODI)	Performance	Ofwat target	Link to remuneration
Use water wisely	Leakage Customers say it's essential to reduce the amount of water lost through leaks from our network. They believe water is a precious, natural resource and expect us to look after it.	Leakage Measure: Volume of water lost on our network.	20-21 93.8MI/d 21-22 96.8MI/d 22-23 108.5MI/d 23-24 107.5MI/d 24-25 97.7MI/d	×	Indirect
	Asset health It's essential that we invest in our sites and networks. Our customers want us to upgrade where we can and use innovative and sustainable solutions.	Mains repairs Measure: Repairs per 1,000 kilometres of our water network. Unplanned outage Measure: The percentage of production capacity lost due to maintenance work.	20-21 150.0 21-22 101.5 22-23 152.8 23-24 121.1 24-25 122.9 20-21 9.21% 21-22 7.19% 22-23 6.44% 23-24 5.68% 24-25 3.18%	×	Indirect
Fit for the future	Water resilience Customers want us to make sure that future generations have access to water supplies. They're willing to invest now to make sure that there is no deterioration of services in the future.	Water supply resilience Measure: Properties (in Thanet, Brighton and IoW) at risk of long-term supply loss.	20-21 139,121 21-22 131,201 22-23 129,111 23-24 131,610 24-25 96,977	×	No link
		Long-term supply and demand schemes Measure: Delay in months.	20-21 0 21-22 23 22-23 50 23-24 51 24-25 50	×	
		Risk of severe restrictions in drought Measure: Percentage at risk 1-in-200 year drought.	20-21 0% 21-22 0% 22-23 0% 23-24 0% 24-25 28.7%	×	
		Impounding reservoirs Measure: % completion of schemes.	20-21 0 21-22 0 22-23 0 23-24 0 24-25 0	×	

Our operational performance continued



Enhance health and wellbeing

Ensuring a supply of high-quality water for the future

Your water

Our customers expect us to provide clean, safe drinking water. This is seen as the most important service we provide. We must follow strict guidelines in terms of the quality of water we provide, which are regulated by the Drinking Water Inspectorate (DWI) through a compliance risk index score (CRI score). We achieved 3.82 (2023–24: 3.07), which is a 40% improvement on our score of 6.38 in 2022–23. We're now achieving average performance in the UK, which is considered to have some of the best water quality in the world.

As part of our turnaround, we've invested £150 million since 2023 to make improvements at five of our largest water supply works; Otterbourne, Testwood, Hardham, Burham and Sandown; with 103 actions and 99% of projects now completed. This included a reservoir cleaning programme, which has helped us achieve 99.9% compliance with the coliform standard at these sites. Other areas of focus have included on-site audits, risk mitigation, a review of site processes and controls as well as training and supporting information to inform decision-making.

Our metric for measuring drinking water appearance is contacts per 1,000 customers who may have had issues with their water. We achieved 0.92 (2023–24: 1.00), higher than our Ofwat target of 0.46. In terms of taste and odour, we also saw an increased number of contacts, achieving 0.32 (2023–24: 0.24). We've received a combined penalty for both metrics of £2.63 million. These results were disappointing given that we have just completed our largest flushing programme to date, clearing debris and sediment from 552km of our water network.

This is a result of a high number of contacts in our Rownhams and Yew Hill water supply zones, where we've had several discolouration issues on our network. We also saw an increase in contacts in December in water zones

fed by our Testwood water supply works, as we recharged the network following a major loss of supply incident.

In order to improve, we have introduced new controls as part of our flushing programme, increasing the number of water quality checks completed as part of planned and reactive work on the network. We continue to roll out bespoke training to our network inspectors, including competence assessments.

Since July 2022, we have been working to replace old water mains containing lead to the boundary of customers' properties. As well as sending out information to those affected and creating a central information hub on our website, we have offered drop-in sessions to those worried about lead pipes in their homes. We've also offered to carry out sampling in customers' homes. Customers have shown a lack of interest in replacing lead pipes so no replacement work has been carried out. Over the next five years, we'll continue to engage with our customers on this issue.

We want to limit the time our customers are without water. If there's an incident, such as a burst pipe. We aim to act as quickly as possible to put the problem right, and to provide water to all our customers, including those in vulnerable circumstances. Any interruption to water supply is calculated to show the average time customers are without water – measured in the number of hours, minutes and seconds over three hours. Our score for interruption to water supply was significantly worse than last year at 02:21:50 (2024: 01:21:33) and well above our Ofwat target of five minutes.

This was mainly due to two major incidents that took place in May 2024 in Hastings, and December 2024 in the Southampton and New Forest area. Our poor performance in this area has meant we incurred a penalty of £4.33 million.

“

It has been an honour to Chair the panel of experienced, local people and help shape and focus this wonderful funding opportunity, which Southern Water has provided.”

David Hannam

Chair, Goodwill Fund for Hastings and St Leonards Community Panel

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The Hastings and St Leonards Community Panel was set up to help distribute the £1 million Goodwill Fund for Hastings, provided by us following the water supply outage in May 2024.

➔ Read our case study on page 50 for more on **these incidents, compensation paid and the steps we've taken to improve.**

Following the Hastings incident, where a burst meant customers lost their water supply for a significant number of days, we've taken steps to improve our response. As part of this work, we've identified 86 locations where water can be injected when needed. This will enable a quicker and more targeted response if there is an interruption to water supply, for example to support schools or care homes. We've also carried out work to reduce pressure, if required, and started proactive leak inspections. Further investment is planned over the next five years.

We also set up a £1 million Goodwill Fund to support local businesses, events and festivals in the Hastings area. A community panel has worked together alongside local

Our operational performance continued



Enhance health and wellbeing

Ensuring a supply of high-quality water for the future

youth groups to guide the independent grant-giving charity, Sussex Community Foundation, on where they would like this funding distributed.

We had our lowest number ever, 167, of properties on the register for being at risk of receiving low pressure (2023–24: 173), outperforming our Ofwat target for the year of 182 properties.

Managing leakage

Due to insufficient funding at our last price review, we've fallen behind where we need to be on leakage. However as part of our turnaround, and following an equity investment from our shareholders, we're now seeing a marked improvement in leakage reductions from our network.

Leakage has reduced for the second year in a row to 97.7 ML/d (2023–24: 107.5 ML/d). This is a result of our targeted leakage programme, launched in 2023, which has reduced leakage by 10%. We now have five proactive programmes of work under our Leakage Recovery Plan, including pressure management schemes to reduce bursts, compliance checks, customer-side engagement, root-cause analysis and new detection modelling surveys and tools.

We completed 20,820 repairs on our network, saving 170 ML/d of leakage. Of this, 12,862 repairs (102.7 ML/d) were due to proactive leak repairs, that is leaks that have to be actively detected. A total of 7,958 repairs (67.2 ML/d) were reactive leak repairs, which result from customer contact and in many cases are visible.

We also installed 70 advanced pressure management schemes and, combined with optimising existing schemes, saved a total of 13.2 ML/d of leakage. While pressure management doesn't fix leaks, it reduces the volume of water lost through existing leaks, as well as providing

resilience to the network by reducing the volume of bursts by stabilising pressures within the network.

Despite these reductions, our three-year rolling average was impacted by the high level of leakage recorded in 2022–23, with us achieving 104.6 ML/d (2024: 104 ML/d), above our target of 84.9 ML/d. This means we've incurred a penalty of £5.3 million.

Looking after our sites and networks

The number of mains repairs increased slightly on last year at 122.9 per 1,000km of our network (2023–24: 121.1). Although this met our turnaround target of coming under 150, we did not meet Ofwat's target of 97.4.

We improved our score for unplanned outage, 3.18% of production capacity lost due to unplanned maintenance work (2023–24: 5.68%), outperforming our Ofwat target of 3.25% for the fifth year in a row. Since 2020, we've reduced outage from a baseline of 18.59%; thanks to targeted investment, better operational resilience and management, and reporting improvements.

When we look at water supply resilience, our measure is the risk of loss of water supply. We recorded 97,977 properties at risk of long-term loss of water supply, a reduction on last year (2022–23: 131,610).

The delivery date for our long-term supply and demand schemes is 31 March 2027. As there have been changes in customer demand and scheme deliverability, since our Business Plan 2025–30 submission, we've made a request for Ofwat to amend the target for this. However, in its Final Determination we were given a penalty of £82.66 million to reflect the delayed delivery of these schemes.

The water industry measures the percentage of the customer population at risk of a 1-in-200-year drought using an average figure over a period of 25 years.

Case study

Improving your water quality

We're leading the way in understanding the micropollutants that are found in water so we can make sure that we have the best methodologies in place to deal with them. Working with our partners at Stantec, we're developing an extensive sampling and analysis programme to improve our treatment processes.

Using Chemcatcher® technology developed by the University of Portsmouth, all of the raw and final water we collect and produce will be profiled for emerging micropollutants, including personal care products, pharmaceuticals and the so called 'forever chemicals' (PFAS).

The data we receive will then be used to inform our next business plan, so that we continue to produce safe, clean drinking water that our customers can trust.

“

It's great that as we move into our new investment period, we're already looking ahead so we can ensure the best water quality for our customers.”

Simon Potter

Programme Sponsor – Water Supply and Demand

Our operational performance continued



Enhance health and wellbeing

Ensuring a supply of high-quality water for the future

Having maintained a 0% risk for the first four years of this investment period, three of our regions are now calculated to have a 1-in-200 year risk of drought restrictions. Our Weirwood, Ventnor, Chillerton and Three Crutches sites all saw period of being out of service this year, and the outage at our Testwood site during December meant that using the baseline set in our WRMP19, the 28.7% of our customers supplied by these works are at risk of drought restrictions if we experience a 1-in-200 year drought.

All the issues causing these sites to be out of service are being resolved, while our WRMP24 is still subject to approval, changes have been made to reduce the risk back to 0% between now and 2030.

Schemes enhancing the safety of four reservoirs have been delayed. These schemes are for impounding reservoirs. The scheme at Bewl is progressing; meanwhile Darwell, Powdermill and Weir Wood schemes will be delivered by 2030.

Our Major Projects team has continued making significant progress on a number of large water infrastructure projects.

- In June, construction began in earnest on the Southampton Link Main scheme – a total of 17km of new pipeline to improve resilience in the Hampshire network.
- Earlier in the year, a public consultation was held on the Isle of Wight Water Recycling Project, with a planning application expected to be submitted to Isle of Wight Council in the autumn.
- Meanwhile, the Hampshire Water Transfer and Water Recycling Project has progressed through RAPID's Gate 3 – a key checkpoint in the project's development – and has been the subject of a further consultation in Spring 2025. We expect to submit our Development Consent Order application

for planning consent for the project later this year or early in 2026.

- Other Major Projects schemes include water recycling plants in Ford and Aylesford, the Thames to Southern Transfer and the Andover Link Main – all of which continue to be developed alongside regulators, partners and key stakeholders.

A look ahead

- During 2025–26 we'll be increasing our capital investment programme to complete key upgrades to our River Test, Testwood, Burham and Sandown water treatment sites – key projects in our DWI enforcement programme.
- Our Major Projects team has now successfully secured approval to move on to the planning stage of our transfer scheme. We're the first company in the industry to achieve a 'satisfactory' rating for our 'Gate 3' plans.
- We'll continue to work with neighbouring water companies in the South East, as part of Water Resources South East, developing joined up plans to deliver future supplies.
- We'll deliver more than 189 million litres per day of new capacity by 2035, by investing in new sources, like water recycling plants and a new reservoir, which Portsmouth Water is building.
- We'll install more than one million smart meters to help customers have a better understanding of how much water they're using to help them save more.
- We'll safeguard our water resources by reducing the amount of water we take from the environment – 50 million litres a day by 2030, a 10% reduction compared with 2022.

Projects from across our region include:

- Groundwater catchment schemes in Brighton and Hove, to protect the quality of water.
- In the Dover and Deal area, we're investing in chalk groundwater projects, to protect the quality of drinking water at Martin Gorse, Martin Mill and Sutton Water.
- In West Sussex, we're improving the resilience of our Turners Hill water supply reservoir.
- To protect our customers' water supply and the environment, we're improving the power resilience at our water supply works in Woodnesborough and our coastal pumping stations in the area of the Isle of Thanet, Sandwich and Herne Bay.
- On the Isle of Wight, power resilience at our Carisbrook supply works is being enhanced, reducing the risk of outages, and we're replacing over 12,000 metres of mains on the island.



Our operational performance continued



Enhance health and wellbeing

Ensuring a supply of high-quality water for the future

Case study

Targeting the worst household leaks to help save water

We're always looking at ways to reduce leakage on our network, and over the past year we've been running a new scheme to support the fixing of leaks at customer properties.

If a pipe leaks, it's inconvenient and costly for customers and wastes water. Although a leak on a customer property is the owner's responsibility, we decided to fix any significant leaks. These might be large leaks, covering multiple properties. We then send out a specialist team to find and fix them.

This targeted response has helped save a lot of water. For each leak fixed, we calculate how much water we've saved and register the fix on a tracker. The tracker enables us to keep a record of the repairs and the water-saving benefits of the scheme. Our calculations tell us that the scheme has saved 4.86 MI/d of water so far.

This is one of five schemes under our Leakage Recovery Plan. It's a plan that's been running since 2020, that was scaled up as part of our turnaround strategy. The schemes include using acoustic loggers – sensors in the pipes that can listen for leaks – and these have been very successful.

In future, rather than digging up leaky pipes, we're looking at innovative techniques to repair the pipe that runs from the meter to the point of entry to a property without digging it up. This would avoid repeat fixes and the need to relay the pipe.

4.86 MI/d

litres of water saved
under the new scheme



Our operational performance continued



Enhance health and wellbeing

Ensuring a supply of high-quality water for the future

Case study

Supporting our customers when things go wrong

Our customers in Hampshire and Hastings lost their water supply for a significant number of days over the past year, and we're very sorry for the distress and inconvenience that this caused. We've taken immediate action to compensate customers and businesses affected and improve the reliability of our services.

At the time of the **May 2024 incident in Hastings**, we quickly provided a £1 million fund, providing grants for businesses, community groups, and charities, while continuing discussions with Hastings Borough Council, MP Helena Dollimore and other community leaders, over the question of compensation for individual customers.

In February, we agreed a compensation settlement, in line with new higher compensation rates set out by the government to start later this year. By mid-March we'd written to all customers impacted providing details of the compensation they'd automatically receive, without the need to contact us before they received the payment.

The sites and networks around Hastings are outdated and are part of an £80 million improvement plan to make water supplies to the town more reliable, and to reduce flood risk and storm overflow releases along the coast. The proposals include 25 kilometres of new water mains, upgrades to Rock A Nore and Galley Hill pumping stations and the refurbishment of 500 metres of sewers in the area.

Following **December 2024's loss of supply incident in the Southampton and New Forest area**, we [published a report](#) into what happened, alongside immediately compensating customers affected.

Working with our contractors, we now have more vehicles on standby to transport bottled water to customers in an incident. The locations for bottled water stations across the region have also been reviewed. We've increased the number of Priority Service register (PSR) checks we run, and we've invested in new technology to track the progress of deliveries in real time.

In terms of how we communicate with customers, we've allowed people to sign up to text alerts for local incidents and created a live incident map on our website. We've given our customer service advisers access to the PSR delivery schedule to provide better information to customers.

Over the next seven years, we're going to invest a quarter of a billion pounds on improving Testwood Water Treatment Works, with money spent on modern equipment to make the site far more efficient and reliable. We're also investing in the county's supporting water infrastructure, putting in place a new link main that will help support customer supplies in the area.



£1 million
Goodwill Fund for Hastings

£250 million
to make our Testwood site more reliable

Our operational performance continued

Key



Ofwat end of AMP target met



Ofwat end of AMP target not met

AMP – Asset management period or investment period (five years)



Enhance health and wellbeing

Understanding and supporting our customers and communities

	Outcome and why it is important	Associated outcome delivery incentive (ODI)	Performance	Ofwat target	Link to remuneration	
Deliver great service	Customer experience Customers want to see us improve our service performance. They want us to minimise the impact of issues and disruptions to their daily life. When shown comparative information, they expect us to do better.	C-MeX Measure Customer satisfaction.	20-21 74.64/16th 21-22 72.00/16th 22-23 69.77/16th 23-24 66.87/16th 24-25 65.13/16th		Direct	
		Void properties Measure: Number of empty properties as a % of total number of households served.	20-21 3.47% 21-22 3.12% 22-23 2.82% 23-24 2.97% 24-25 3.16%			
		Gap sites Measure: Number of households identified and brought into charge annually.	20-21 12 21-22 33 22-23 37 23-24 39 24-25 35			
	Sewer flooding prevention It's essential that our network prevents homes being flooded with waste. There's strong support to make sure we continue to improve our performance in this area.	Internal sewer flooding Measure Number of times customer properties were flooded internally with wastewater.	20-21 393 21-22 614 22-23 496 23-24 527 24-25 277		Indirect	

Our operational performance continued



Enhance health and wellbeing

Understanding and supporting our customers and communities

Key



Ofwat end of AMP target met



Ofwat end of AMP target not met

AMP – Asset management period or investment period (five years)

	Outcome and why it is important	Associated outcome delivery incentive (ODI)	Performance	Ofwat target	Link to remuneration
Deliver great service	Supporting the vulnerable Customers find the concept of the social tariff acceptable. They want us to protect the most vulnerable in society and are happy to support those in genuine need. They want us to partner with community organisations, understanding and acting on a customer's individual circumstances.	Customer satisfaction with vulnerability support Measure: % of customers who are satisfied with non-financial support.	20-21 70% 21-22 73% 22-23 73% 23-24 70% 24-25 66%		
		Effectiveness of financial assistance Measure: % of customers who pay bills in 12 months following receipt of assistance.	20-21 65% 21-22 67% 22-23 71% 23-24 76% 24-25 74%		
		Priority services for customers in vulnerable circumstances Measure: % of households registered on PSR.	20-21 1.9% 21-22 2.9% 22-23 8.3% 23-24 12.0% 24-25 15.4%		
		Value for money Measure: CCW survey.	20-21 71% 21-22 67% 22-23 67% 23-24 57% 24-25 60%		

Our operational performance continued



Enhance health and wellbeing

Understanding and supporting our customers and communities

Key



Ofwat end of AMP target met



Ofwat end of AMP target not met

AMP – Asset management period or investment period (five years)

	Outcome and why it is important	Associated outcome delivery incentive (ODI)	Performance	Ofwat target	Link to remuneration
Use water wisely	Water consumption Customers are interested in understanding more about their water use. They see saving water as a partnership issue and are looking for us to help them save more.	Per capita consumption (three year rolling average)	20-21 132.2lpd 21-22 133.6lpd 22-23 133.7lpd 23-24 129.6lpd 24-25 127.2lpd		
		Measure Average volume of water used per individual customer, per day.			
		Target 100			
		Measure: % of customers using 100 litres of water per person, per day or less.	20-21 34.1 21-22 35 22-23 37 23-24 39 24-25 38		
		Water saved from water efficiency visits	20-21 105m³/d 21-22 354m³/d 22-23 534m³/d 23-24 832m³/d 24-25 1,388m³/d		
		Measure: Cubic metres per day (m³/d)			
		Access to daily water consumption data*	20-21 0 21-22 0 22-23 0 23-24 0 24-25 0		
		* Not progressed due to other priorities.			

Our operational performance continued



Enhance health and wellbeing

Understanding and supporting our customers and communities

Key



Ofwat end of AMP target met



Ofwat end of AMP target not met

AMP – Asset management period or investment period (five years)

	Outcome and why it is important	Associated outcome delivery incentive (ODI)	Performance	Ofwat target	Link to remuneration
Fit for the future	Growth Businesses think it's important to work with councils and developers on infrastructure. Customers recognise the challenge of new homes drawing on our network and expect us to make sure it's fit for the future.	D-MeX Measure: Developer satisfaction.	20-21 73.77/15th 21-22 77.78/15th 22-23 80.56/15th 23-24 83.52/15th 24-25 83.75/14th		
	Community engagement Customers are keen for us to focus on our role in the community; they want us to collaborate with local groups on important issues, support community outreach programmes and educate the next generation in schools.	Community engagement Measure: This is a Business for Social Impact (B4Si) measure demonstrating corporate citizenship and the impact of community work.	20-21 50% 21-22 0% 22-23 0% 23-24 33% 24-25 67%		
		Schools visited and engagement with children Measure: % of good or excellent feedback from schools visited.	20-21 N/A 21-22 85 22-23 98 23-24 99 24-25 100		

Our operational performance continued



Enhance health and wellbeing

Understanding and supporting our customers and communities

Improving our customer service

Although our customer satisfaction (C-MeX) score reduced during 2024–25, we maintained our ranking at 16th out of 17 companies.

When we launched our turnaround in 2023, our customer service systems were outdated, so we've focused on improving our systems as well as our processes. We've redesigned web forms to encourage our customers to call us. Our website has been simplified and is now mobile-friendly, making it easier for customers to access information when they need it. We've introduced a new job management system for our operational teams, which has improved information on hand for teams so we're now able to respond to customers more quickly.

We've achieved a 25% reduction in complaints from 18,975 (91.33 complaints per 10,000 connections) in 2023–24 to 14,363 (68.78 complaints per 10,000 connections) in 2024–25. Billing complaints are now responded to within an average of four days, and we're leading the industry on the number of escalated complaints with 0.5 complaints per 10,000 connections. These reductions are a result of us taking a more direct approach to case resolution, with agents proactively calling customers to resolve their issues.

Digital technology is enabling more customers to self-serve. For example, the introduction of our virtual inspector continues to help customers resolve water issues using a real-time video link. From June 2024, we also updated our incident map, which now offers customers details about the latest issues in their area, in near real-time.

Over the past few months, we've been onboarding our new delivery partners for our large construction projects and maintenance of our wastewater network. This includes the roll-out of our customer promise, co-locating teams and customer journey improvements, for example, new ways of keeping customers informed about the status of their query.

The number of households in our region registered as unoccupied – or void properties as they're called – was 3.16% (2023–24: 2.97%). This is outside our Ofwat target of 2.56%, incurring a penalty of £600,000.

We haven't met our Ofwat target of 65 for gap sites – that's properties that were not previously recorded on our billing database – with 35 identified (2023–24: 39).

Preventing flooding in our communities

We saw a significant reduction in internal sewer flooding incidents compared to last year, with a total of 277 (2023–24: 527), meeting our Ofwat target. This is a decrease from the previous year and our best performance since the transfer of S105A assets – these are private sewers which the water industry took responsibility for.

As previously mentioned on page 36, our FOG and Unflushables team constantly engage with our communities to explain the importance of keeping fat, oil and grease out of drains and not flushing any items that may cause blockages, such as wet wipes. The team hosted seven Customer Engagement Days in town centres during 2024–25, offering advice and practical tips, while our Network Protection team visited nearby restaurants checking kitchens for grease management and offering best practice advice.

Proactive sewer network cleaning, root ingress surveys and remedial action also continue to assist with blockage, flooding and pollution reduction.

Supporting vulnerable customers

We've also now signed four new data sharing agreements with local authorities, which will help us to auto-enrol eligible customers onto our Essentials (social) tariff. To date, we've signed up 18,000 customers, without them needing to contact us, with a total of 144,045 customers now on our social tariffs, getting financial support.

Customer satisfaction with vulnerability support is measured by an annual survey. The result for 2024 was 66% (2023–24: 70%). We plan to increase the frequency of these surveys as part of our vulnerability strategy, to better understand where we can improve the support we provide to customers across our region.

Those happy with the effectiveness of financial assistance provided decreased to 74% (2023–24: 76%). This is the percentage of customers that paid their bills in the immediate 12 months following the receipt of financial assistance.



It's refreshing to work with a thought leader in the water industry to help make the world a better place."

Adrian Camp
Managing Director of Home Move Box



We've teamed up with Home Move Box to offer advice and free products to customers so they can live in a more sustainable way in their new home. This includes water-saving and blockage prevention products as well as advice about ways to reduce surface water run-off.

Our operational performance continued



Enhance health and wellbeing

Understanding and supporting our customers and communities

Our Priority Services Register increased to 310,591 customers in 2024–25 (2023–24: 235,901). This represents 15% of households (2023–24: 12%) – which is more than double the Ofwat target of 7%. There are an average of 8,019 registrations per month.

In December 2024, we launched our Money and Pensions Service, offered as part of the Money Adviser Network. It's a free, independent and confidential instant debt referral service, providing practical support for managing money. Referrals can be made by debt agencies such as Citizens Advice and StepChange, as well as via our website.

➔ Read more in our **case study** on page 62

In April 2025 a total of 25 colleagues from our vulnerability team, including Vulnerability Liaison Officers and customer-facing colleagues from around the business, took part in Autism Training. The course allowed team members to:

- gain an increased understanding of the autism spectrum and be able to identify main areas of difference
- understand that autism affects people in different ways
- identify differences in how autistic people may process sensory information
- be familiar with the current thinking around the causes of autism and gain an understanding of how theories have tried to explain some of the characteristics of autism, as well as how these have changed over the years
- appreciate the effect of increased anxiety for autistic people
- understand the impact of autism on families
- identify ways of changing your practice and making changes to the workplace to effectively support people.

Our partnership with Kidney Care UK continues, and the charity provided us with a training course in November

2024. Kidney dialysis patients face challenges not only with their health needs, but they may also struggle financially, with the cost of electricity for the machine and the heating needed to keep them warm during dialysis. Around 6,000 customers have been signposted to our Priority Services Register by the charity, making sure that these customers have access to our priority services.

We continue to support people through our Hardship Fund. The fund provides vulnerable customers with debt write off as well as help with white goods such as a fridge or a bed. We'll be working with CCW – the Consumer Council for Water – and customer challenge panels to look at how this could work even better in the future.

Our score for value for money over the past year was 60% (2023–24: 57%). This score shows the percentage of customers that are satisfied with the value for money of water and sewerage services in their area, following an annual survey by CCW – the Consumer Council for Water. The score is better than last year, however it's still outside our target of 80%.

Working with our customers to save water

The average daily amount of water used by household customers in our region (measured by a three-year rolling average per capita consumption) is 127.5 litres per person per day (l/p/d) (2024: 129.6 (l/p/d)). Although the average for 2024–25 127.2 (l/p/d) was a slight increase, it remains one of the lowest per capita consumptions in the UK. The lingering effects of the COVID-19 pandemic, changes in weather patterns, as well as the unpredictability of customer behaviour change, all impacted water use.

Our target is a reduction in average water use per person to 100 litres per person, per day by 2045. To achieve this,

we continue to provide educational tools to schools and host water-saving events. For example, this year we:

- Held two World Water Day Live webinars, reaching 20 schools and 739 pupils across the whole operational area.
- Hosted a Water World outdoor learning session at Testwood Lakes Education Centre delivered by Hampshire and Isle of Wight Wildlife Trust.
- Delivered 11 Our River Our Water (SERT) sessions to 728 pupils.
- Ran a Water Supply workshop with young carers in Hastings and SEN pupils in Portsmouth.
- Ran a primary school 'Water Protector' competition for 13 schools whose pupils collectively saved over 60,000 litres of water.

We also ran a customer awareness campaign about water scarcity, which brought in 38,500 first time users to our website.

The work of our Water Efficiency team includes making home visits where free water-saving devices, such as tap aerators, can be fitted. A total of 4,994 home water-saving visits took place, closing in on our target of 5,000 and taking our total number for the past five years to 37,936 visits. This takes the total amount of water saved as a result of such visits since 2020 to 1.388 Ml/d from retrofitted devices and fixing leaky loos, outperforming the target of 1.04 ML/d.

As part of a pilot trial, since December 2023 we've installed almost 1,100 LeakBot devices to homes across our region. LeakBot is an IoT-enabled smart water leak detector that can send data over the internet. This device is helping us understand how we can better support and manage customer-side leaks.

Our operational performance continued



Enhance health and wellbeing

Understanding and supporting our customers and communities

The trial has found that on average, 43% of homes had a leak and the majority of these were in toilets or loft tanks. In total, the trial has seen 1,018 leak alerts of which 1,005 leaks (99%) have been fixed, including one leak that was wasting 720 litres per day. In addition, 67% of customers interacted with the app to help them locate the leak, showing this device can engage customers in saving water in the home.

Additionally, we're working with the Behavioural Insights Team (BIT), to develop a roadmap of new effective and evidence-based solutions that can help to change our customers' behaviour around saving water. We developed a bespoke playbook for applying best practice to water efficiency communications to improve the effectiveness of our message with customers.

As part of our commitment to reducing business water consumption by 9% by 2037, we've also been offering free water-saving audits to schools and businesses across our region.

Since April 2024, these audits have helped schools and businesses save water and money. We've partnered with the charity Groundwork to carry out the audits, which include fixing leaky loos, taps, showers etc. and/or fitting water-efficient devices, as well as recommending other water efficiency improvements such as rainwater harvesting. Since April 2024, we have conducted 320 business audits, saving 1.67 million litres of water per day (7,909 devices fitted and 1,036 leaks fixed).

Also, we set up our Business Partnership Fund initiative in September 2023, which has been shortlisted for a 2025 Water Industry Award. The fund is advertised to businesses in our region and encourages them to think of alternative water supplies. To date we have funded 19 water-saving projects for local businesses across our region, from schools and garden centres to caravan parks and prisons. We've even worked

with an animal sanctuary. In total we've helped businesses to save 118,793 litres per day, with more than £300,000 so far awarded to these projects.

We've also offered business customers the opportunity to claim a free 200-litre capacity water butt to help reduce mains water demand. A total of 194 water butts were given out to customers between 2024–25.

Finally, we were awarded the Waterwise Checkmark for Offices accreditation by Waterwise (independent water efficiency campaigners) for our work to promote and carry out water efficiency at our Durrington and Falmer offices.

We're also encouraging developers to provide water-efficient housing by offering them a range of incentives to install water-saving products and fittings in new homes.

Southern Water offers the following incentives for water efficient new homes/premises:

- **Bronze – Water efficiency:** Properties that achieve efficiency ratings of 100 litres per head per day (l/h/d) through the installation of water efficient devices will be entitled to a £250 discount on their infrastructure charges per new connection.
- **Silver – Water reuse:** Installation of water recycling technologies, this could include solutions that use rainwater harvesting, grey water recycling or other water re-use technologies. The property must rely on these technologies as the primary means of water supply. The silver incentive is a further £800 discount per new connection. Water-efficient properties that install water recycling devices will be entitled to redeem the full bronze and silver incentive amounting to £1,050.
- **Gold – Water neutrality:** Where both water efficiency and water recycling solutions have been achieved, we

Case study

Our Business Partnership Fund is helping local businesses save water

We're working with local businesses, from theatres to leisure centres, campsites to community halls, to support them to make water savings. Whether that's setting up rainwater harvesting systems to flush toilets at a country park or installing water-efficient washroom facilities at a local theatre, so far our Business Partnership Fund has helped 19 businesses save around 43,359,445 litres of water per year.



Our operational performance continued



Enhance health and wellbeing

Understanding and supporting our customers and communities

“

Southern Water’s support demonstrates the importance of businesses investing in the communities they serve. Their funding is more than financial, it’s a vote of confidence in the power of grassroots organisations to make a lasting impact.”

Clare De Bathe

Chichester Community Development Trust

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Chichester Community Development Trust was one of the recipients of our Community Grants for 2024.

offer a service to facilitate water neutrality through water efficiency visits and retrofitting water saving devices to other existing properties. We estimate that seven water efficiency visits will be needed to offset the remainder of the water demand per new connection. We offer developers this service at a subsidised rate of £400 to achieve water neutrality. This equates to a Southern Water contribution of approximately £300 per newly connected property where the developer has applied for water neutral status.

Managing growth

Developer Services support with water and wastewater connections and infrastructure. As new properties or extensions to properties are built, we play an important role in protecting the network by ensuring that the quality of new work on developments meets our standards. For

example, sewers need to follow guidelines to limit the risk of blockages, and water quality needs to be protected when connecting to or extending water networks.

Every developer site is different and has its own specific challenges, and we cater for these differences and understand the importance of focusing on individual customer service offering dedicated teams to maintain continuity.

Our D-MeX score – the Developer Services Measure of satisfaction – is 83.75, putting us in 14th place out of the 17 water and wastewater companies (2024: 16th). This means we’ve moved up two places from last year’s ranking, however, we are still forecast to incur a penalty of £2.39 million. The score is made up of two measurements, these are the number of jobs completed with industry Service Level Agreements, and the results of a survey carried out by Water UK for a subsection of our customers.

Working with our communities

Our Community team works with local partners across our region, providing support in a variety of ways. Four pillars guide the work they do: building skills for our community, making the community stronger, caring for the environment together and taking responsibility.

Building skills for our community

Over the past five years, we’ve engaged with 165,000 young people through our different school programmes. Our Ambassador programme supports this work with schools, allowing colleagues from across the business to share their knowledge with local young people.

School tours of Peacehaven Wastewater Treatment Works have continued, with 31 delivered in 2024–25. These tours introduce young people to the treatment process, water-saving and sustainable drainage initiatives.

Special educational needs (SEN) can also be taken into consideration for these tours.

This year marked a significant expansion of our NEW WAVE education programme, as we extended our reach from primary into secondary schools with the launch of new online learning modules. Through our partnership with the National Schools Partnership platform, we engaged 98,609 young people across the UK. Of these, 74,000 students accessed our content via teacher-led delivery and digital downloads. In total, 813 lessons, assemblies and site tours were delivered, helping to inspire the next generation to value and protect our water environment.

We formed a new partnership with Chapter One volunteering – a charity improving literacy for young primary school children – which has allowed colleagues to use their volunteering hours to offer reading support online.

Work is also ongoing to support a Look Out Lodge at Long Hill Parish School. This is a wooden classroom space on the river which will provide an outdoor learning space and a connection to nature.

Making the community stronger

We host regular Your Water Matters customer drop in events at key locations across the region – these are often areas that have faced issues, or where we’re making improvements. Experts from across the business come together to answer questions and update customers on plans and progress in the local area. Nearly 300 customers attended our last two events, which took place in Thanet and Bognor Regis, with 94% saying they felt more positive about Southern Water as a result.

Caring for the environment together

We’ve continued our river dipping activities, called Our River Our Water, by funding local schools to have access to their local waterway in a learning environment. We’ve

Our operational performance continued



Enhance health and wellbeing

Understanding and supporting our customers and communities

engaged with 803 young people via 22 ‘on-the-river’ sessions delivered by Wessex Rivers Trust and the South East Rivers Trust through the programme.

Other activities include:

- funding an accessible beach garden in Bexhill
- volunteering activities with a focus on the environment
- supporting the purchase and future running costs of an adaptive boat for the reservoir, to be available for wheelchair users all year round.

Taking responsibility

Our Community Centre Grants were announced in November 2024. It’s the third year that we’ve made these grants available. Following the unprecedented interest, we increased the number on offer from 20 in 2022, and 24 in 2023 to a total of 30. This meant 30 community centres, supporting a total of 34,000 residents every month, each received a £1,000 to help them continue to operate as a vital community asset for our customers. Four of them also had a free Christmas party, to bring cheer and positive energy for the winter months.

We’ve continued our relationships with two organisations that work with businesses to make sure they’re community-focused – these are the Business for Social Impact (B4SI) and Business in the Community (BITC).

Our CEO, Lawrence Gosden, has joined the Leadership Council of BITC. We’re also represented on the organisation’s South East Leadership Board and Southampton Pride of Place Board. BITC has supported us in areas including the delivery and engagement strategy for the Hastings and St Leonards Goodwill Fund, and our Health and Safety at Work strategy.

Business for Social Impact holds an annual Global Community Investment Benchmark, where we are among the participants.

	2024–25	2023–24
Community donations	£434,421	£102,386
Employee hours volunteered	3,370	3,175
Students engaged through our education programme	98,609	81,101
Schools engaged through our education programme	810	1,085

“

The impact has been remarkable. For many of these young people—particularly those facing food insecurity — this breakfast is their first proper meal of the day. Starting with a healthy, balanced breakfast is improving concentration, boosting energy levels, and positively influencing behaviour and engagement in class. Teachers have reported a clear drop in disruptive incidents, particularly during morning lessons, and an overall improvement in classroom dynamics.”

Neil Denley Flourish
Lead Worker at The Bay Church of England School

As part of our ongoing strategy to support improved outcomes for our communities, we’re proud to donate £5,000 to Bay CE School’s Breakfast Club on the Isle of Wight. This initiative will ensure that all students can start their day with a nutritious breakfast. Launched in January 2025, the club has quickly become a vital part of school life.

Our operational performance continued



Enhance health and wellbeing

Understanding and supporting our customers and communities

Case study

Providing help and support if a customer gets flooded

If a customer experiences flooding in their home or garden due to a wastewater blockage or a burst water pipe, we provide bespoke support and reassurance to them. Every customer is different, so we've introduced new best practice guidance for everyone in our customer service teams to use, making sure customers get the best possible care.

It can be really worrying for customers if water or wastewater leaks into their home, causing damage to valued possessions and upsetting normal life. As soon as we know that a customer has an internal or external flooding incident, our teams will visit to try and sort it out. While they check what's gone wrong with the pipes and how any issues can be fixed, they'll work directly with customers to offer them as much support as possible.

We've found that following up a visit with a text or email, whichever the customer prefers, is the best way to keep them up to date.

We have designated colleagues in each county, so face-to-face meetings can be organised quickly and smoothly, giving customers the chance to show us how they've been affected and for us to give reassurance that something is being done about it.

It's not just about taking time to explain the next steps or talking about how things will be sorted out, it's also about showing that we care and listening to customers. Depending on the type of flooding, sometimes a customer may need practical support, such as talking them through how they can claim on their insurance or how they may be able to apply for compensation. We try to make sure we manage expectations and regularly keep customers informed of the process. If an issue can't be put right straight away, we maintain regular contact.

Every single person in the team is passionate about looking after our customers. Experiencing a flooding incident is really difficult, so the team tries to make things a little easier. We'll continue to listen to our customers about how best to help.



47%

Reduction in wastewater complaints
over the past year

Our operational performance continued



Enhance health and wellbeing

Understanding and supporting our customers and communities

Case study

Educating our future customers

We have a network of Ambassadors – colleagues who give school assemblies and involve children in water-saving activities.

The assemblies are fun and interactive, forming part of our wider New Wave Education programme, which includes free site tours, outdoor learning, careers information and young person mentoring.

We expanded the programme last year to secondary school pupils, providing schools with online educational resources covering the clean water cycle processes, taking good care of the sewer network and how water courses can be impacted and protected.



A brilliant overview of what happens during the treatment of water but also a focus on the female scientists, their roles and their journeys to their current positions. It was a massive highlight when one scientist shared she was dyslexic, and the positive affect that had on one particular student.”

Jane Arnold

Science teacher,

St Wilfrid's Catholic Secondary School, Crawley

Jane attended our Women and Girls in Science talk for Year 10 students in February 2025.

This year it's not just about water saving – it's also been about saving lives. Between April and May 2024, we teamed up with the RNLI on The Littlehampton Locality Schools Water Safety Project. It was rolled out to pupils at their morning assemblies, with 10 schools signing up to take part, reaching more than 3,300 youngsters. After an assembly, students were asked to create art pieces, that were then exhibited at Littlehampton Museum over the summer.

These assemblies also allow us to talk about the work being done to reduce the reliance on storm overflows, by slowing the flow of rainwater into sewers and supporting the creation of green spaces.

The [NEW WAVE Education Programme](#) is linked to the school curriculum and covers primary and secondary age groups. It also includes SEN-friendly in-school lessons, workshops and assemblies, as well as travel bursary supported outdoor learning, in partnership with the South East Rivers Trust, and tours of our wastewater treatment sites.

In total we engaged with 98,609 young people as part of our work to support educators, pupils and young people to enjoy and learn more about the importance of water and our industry.



Working with Southern Water through the Dare to Dream Programme has been an incredible experience for our students. It's provided them with a real-world insight into the expectations and opportunities within a major employer, offering invaluable exposure to the working environment.”

Billy Thompson

Leader for Careers and Enrichment,
St Leonards Academy

Our Dare to Dream is our employee mentoring programme through which we support local young people to build on the themes of identity, character, self-belief, employability, resilience, and happiness.



Our operational performance continued



Enhance health and wellbeing

Understanding and supporting our customers and communities

A look ahead

- We know the importance of making it easy for customers to resolve issues quickly online, so we're looking closely at how we can improve our website. We're adding more features, including water readings that can re-calculate payment plans, visualisations so customers can see how much water they're using, and the ability to report a problem.
- We'll be increasing the Hardship Fund from £250,000 to £1.25 million and introducing a network of Vulnerability Ambassadors. We're also making improvements to bottled water deliveries.
- We're working with Water Direct to develop a new Incident Management app. The app will improve how we can look after vulnerable customers during an incident, particularly where there is a loss of water supply. It will make more information available and help us provide proof of delivery of bottled water to customer addresses.
- New education initiatives are being developed, which include: extending our Beyond the Drain educational tours to open in Sandown, Isle of Wight and Budds Farm, Hampshire; creating a FOG – fat, oil and grease – module to support Food and Technology teaching in secondary schools; expanding the 'Our River, Our Water' educational offering to develop and trial a secondary school version, as well as expanding the existing primary school outdoor learning fully-funded sessions; and increasing the number of volunteers supporting Chapter One – the primary school reading programme.
- Looking ahead to 2025–26 the D-Mex methodology has grown to include surveying larger developers, Self Lay Providers and New Appointments and Variations (NAVs), as well as household customers.

Case study

We're offering more support to customers than ever before

We've set up data sharing agreements with local authorities across our region so we're able to auto-enrol customers onto our Essentials tariff. This means a minimum discount of 45% will be taken off their water bills without them needing to make an application.

So far, we've spoken to nine councils across Hampshire, the Isle of Wight, Sussex and Kent, with the first four agreements signed. We estimate this will see around 16,000 customers auto-enrolled onto the tariff.

The first agreement, with Adur and Worthing Council, has already seen us add a total of 3,500 customers. This is particularly important to us as bills begin to increase, in line with inflation and charges for our next five-year delivery period.

These agreements sit alongside a debt referral scheme, launched in December 2024 in partnership with the Money and Pension Service, which means that our agents can now refer customers for extra support. They will receive a call from the support service within three minutes of our agents logging a call.

Working in partnership like this to get help to customers when they need it most is a core part of our plans. We're looking to double the support on offer to individual customers from our Hardship Fund, as well as expanding our Priority Services Register over the next five years.

→ Read more about **supporting customers** on page 56.



3,500
customers already
auto-enrolled to receive
a minimum of 45% off
their bills.

c.16,000
more customers added to
our Essentials tariff.

Our operational performance continued



Sustain the economy Enabling and empowering our people

Diversity and inclusivity	Performance	
	2024–25	2023–24
Women employees (%)	26.54%	26.25%
Employees from ethnic minorities (%) – where this information was provided by employees	9.66%	9.31%
Women in the Executive team	22.22%	14.29%
Women on the Board	25.00%	27.27%
Job applications from women – where this information was provided by employees	27.33%	27.68%
Median gender pay gap	-0.03%*	-7.18%**
Mean gender pay gap	0.01%*	0.07%**
Median bonus pay gap	23.40%*	23.80%**
Mean bonus pay gap	56.40%*	48.16%**

* Calendar year measure 2024

** Calendar year measure 2023

Keeping everyone safe and well

We want to make sure that everyone is safe and well every day. We put in place our Health, Safety, Security and Wellbeing Transformation Plan in 2023, focusing on safety leadership, our management system, understanding and managing risks and ensuring employees had the right skills and capabilities to work safely.

The lost time injury frequency rate for employees and suppliers this year was 0.19 (2023–24: 0.27) against a target of 0.22. Our target for 2025–26 is 0.20, recognising that we'll see an increase in projects and the number of people working for us across our supply chain.

Our 'Stop Think Safe' safety leadership training has continued, with 84% of our people now having completed the course empowering employees to challenge any behaviour they think isn't safe.

Site visits for senior managers continue under our Felt Leadership programme. All senior managers in both operational and support roles are required to visit operational sites and have a conversation around health and safety.

Around 88% of the employees we identified to undertake NEBOSH general health and safety certificate and 66% of those we identified to take IOSH managing safely have now attended the course.

A new health and safety induction has been created and is now being rolled out to all new Southern Water recruits.

Our Point of Work risk assessment app and Eco-Online safety incident and observation reporting tool have now been fully rolled out to all areas of the business, and employees and partners continue to use them to report any unsafe behaviour or risks on our sites.

The Executive Safety Committee has reviewed 100% of our occupational health and safety risks and has put in place plans to address gaps identified in our control measures. As a result, we've moved many of our manual assurance checks onto our safety incident reporting application to give better visibility of activities undertaken.

In February 2025, we carried out a Health and Safety survey of all employees. A total of 928 responded, telling us that Southern Water takes health and safety seriously, and that there is real improvement but there is more to do.

Over the coming year, a priority will be making sure everyone understands the key risks and control measures put in place to keep themselves safe from injury or harm. So, we're looking to introduce our 'Safe and Well Everyday' plan, articulating our ambition for all employees.

We're also working with our People team to look at wellbeing and raising awareness about the benefits and services available to our people. This work depends on a clear understanding of the needs of our employees, understanding the drivers and how we can influence these and equip line managers to support the wellbeing needs of everyone in their teams.

Building a supportive culture

We want everyone to feel they can be themselves at work, so we work hard to create a culture of equality, diversity and inclusion.

During the year we were ranked 19th in the Inclusive Top 50 UK Employers List (IT50UK) – up from 29th last year. With more and more companies putting Equality, Diversity and Inclusion (ED&I) at the forefront of their agendas, making the list is more challenging each year. We're proud to be one of the two water companies to have made it. The other one is United Utilities, which ranked 4th.

We have six Employee Resource Groups (ERGs): Christian Fellowship; LGBTQ+ group, BeYou; Menopause; Neurodiversity; The Women's Network; and Working Parents. Groups supporting other areas, such as Carers and Endometriosis, are also being discussed. All the groups give valuable information and support to employees across a wide range of important areas.

We produce a regular Gender Pay Gap report. Our 2024–25 report showed that the average pay gap has now equalised, meaning there is no pay gap between men and women. This was an improvement on the previous year's results.

Our operational performance continued



Following the launch of our new engagement survey in January 2024, we carried out a shorter Pulse survey in November 2024, to gauge how we're performing in terms of our engagement. A record number of our employees responded to the survey, with 2,365 people answering the questions; that's 85% of our people. The responses showed an increase of 4% to our overall engagement, and a slight increase in scores for all questions that were comparable to the previous survey. These small but meaningful improvements in just 10 months highlight the positive direction we're moving in. Pride, motivation and commitment were among the biggest improvements since January.

This year, we've developed an Engagement Coach network of 25 colleagues, supporting managers in putting together their engagement action plans. One of our biggest opportunities for improvement is demonstrating action based on feedback from the survey.

We spent over £1 million on learning and development over the past year, supporting our people with a range of initiatives and courses. As well as launching the Inspire Academy last year, we have created a Manager Essentials three-day programme, focusing on manager behaviours. This is currently running as a pilot and will be part of our manager induction scheme. The programme uses behavioural profiling by Insights Discovery, an online feedback session, and three days of face-to-face delivery.

To support with career development, we've launched succession planning for our Executive leaders and our Senior Leadership. This new approach will then be used for critical roles across the business.

Our talent pool of high-potential individuals took part in Franklin Covey's Seven Habits of Highly Effective People, and a bespoke programme was created with the provider for our 40 new Engagement Coaches, who help support managers across the business.

Further improvements have been made on Workday – our employee hub – including the launch of Careers Hub, which uses machine learning and empowers employees to take an active role in their career development. There are also study opportunities for employees.

Our operational management graduate programme has been a great success, with all eight graduates slotting into permanent roles and an additional seven graduates joining.

Our apprenticeship offering continues to grow. Since September 2024 we have had 44 employees start out on apprenticeship journeys. This includes 14 external recruits and 30 people starting internal development options. Externally recruited apprentices have been onboarded across engineering, water, waste, IT and Procurement functions.

We currently have 160 employees undertaking apprenticeships, about 4% of our employees. We are also advertising for 15 more external recruits to start with us in September.

Working with our suppliers

Our supply chain partners are vital to the delivery of our plans, so we're always working to strengthen our supplier relationships.

We've now aligned our supplier relationship management (SRM) approach with our plans for capital delivery under the next Business Plan 2025–30. The approach has three areas: the introduction of more formalised engagement, providing more visible CEO sponsorship; greater cross-party open collaboration forums, organised around supply chains to better identify themes common to suppliers and drive collaboration across supply chain partners; and Delivery Boards aligned to strategic initiatives.

British Water annually surveys supply chain companies about how water and wastewater companies have performed. The Water and Wastewater company performance survey 2024 results for Southern Water saw our position rise from 10th to seventh overall, our most significant year-on-year increase and highest position in recent years.



The procurement process for this five-year investment period and Southern Water's general approach towards supplier relationship management, exemplified high levels of collaboration and professionalism from frequent and informative early engagement through to robust negotiations to achieve mutually agreeable outcomes."

Michael Ogden, Managing Director
Asset Creation NE, Galliford Try

Galliford Try is one of our strategic delivery partners for this investment period – helping to deliver some of our construction schemes across the South East.

Our operational performance continued



Giving back to our communities

We're committed to supporting the communities we serve. As part of our volunteering programme, every colleague is encouraged to volunteer with two working days allocated each year, to make a positive difference locally. This year, our teams gave 3,374 total hours of their time to support a wide range of causes that matter.

From clearing litter from our beautiful coastline to helping young people prepare for the world of work, our colleagues continue to show their passion for giving back where it's needed most.

Here's how most of our volunteering time was spent:

38% of our volunteering supported social welfare organisations, including:	29% of time was dedicated to environmental projects, such as beach cleans in:	18% of our efforts supported education and young people, through:
• Turning Tides • Aldingbourne Trust • RSPCA Chichester • Ferring Country Centre • Bognor Local Library	• Worthing • Brighton • Littlehampton • Seaford	• Mentoring sessions • Mock interviews • Summer camps for Scouts and Guides

A look ahead

Over the coming year, we'll roll out our Safe and Well Everyday Plan, which focuses on making sure that our employees have the right skills and knowledge to work safely, and that workplace hazards are seen and suitable controls measures are there to keep everyone safe. As part of this plan we're:

- introducing new IOSH working safely training for our front line operational employees, to give them the knowledge to identify workplace hazards and put in place suitable controls,
- updating our approach to work at height to ensure employees have the right knowledge and equipment,
- looking at how we can help visualise our health and safety procedures so they are easier to understand,

- introducing life saving controls for our key risks that can cause serious injury so everyone is really clear on what they must do to keep themselves safe,
- continuing to embed our digital tools including our point of work risk assessment app and our incident reporting and inspection system, and
- collaborating with our supply chain partners to share best practice.

The plan also covers how we're tackling mental and physical wellbeing and includes:

- giving line managers additional training to enable them to understand and manage the wellbeing needs of their team,
- building the capabilities of our mental health first aiders, and
- creating an environment where it is OK not to be OK, and ensuring employee support routes are in place.

Our suppliers are vital to the delivery of services, so we're testing a new supplier portal. Last year we completed the design and we are now in a BETA testing phase of this. The portal aims to provide a means to manage suppliers via a single shared interface where the team, stakeholders, and suppliers can easily connect, share information, and manage activities.

For ongoing talent management, we're getting expertise from a specialist workforce planner to help identify the shape, size and nature of our workforce to deliver our plans. We're also looking at our recruitment strategy to ensure we are adopting the best possible approach to the market, as well as reviewing our processes to make sure they're accessible, easy to use and suitable for the audience.

We're building a new Learning and Development framework – it's an end-to-end methodology to develop learning solutions, giving quicker and easier access to learning for employees. We're also redesigning our mandatory learning across the business, working with the Employee Resource Groups to make sure the content is inclusive and works for different styles of learning.

“

The beaches are visibly clearer of litter, and importantly, by preventing seasonal beach litter from entering the sea over the summer, we continue to see a significant reduction in plastics washing ashore over the winter. Your support means cleaner beaches and cleaner seas.”

Councillor Barry Manners

Thanet District Council and Friends of Botany Bay

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Friends of Botany Bay (FOBB) is a community charity which focuses on keeping beaches clean from Joss Bay to Palm Bay in Thanet.

We've been supporting them since 2021, and our last donation of £5,000 ensured the group were able to complete 350 hours of paid beach cleaning activities between April 2024 to March 2025.

The funding also supported more than 100 hours of volunteer cleaning, and helped purchase the planting along the entire length of Princess Margaret Avenue in Margate.

Our operational performance continued

Climate-related Financial Disclosures

The water sector is on the frontline when considering the effects from the climate emergency. We see growing potential for more severe and more frequent impacts to our critical infrastructure systems. We're dedicated to being transparent with our stakeholders about climate-related risks and opportunities related to our business activities.

➔ Read more about **Board oversight of climate-related initiatives** on page 69.

The impacts of the changing climate, amplified by population growth, present huge challenges, particularly in the South East. The year 2024 was the fourth-warmest year for the UK since 1884, and southern England experienced 121% of the long-term average rainfall for the region. It's vital that we increase our understanding of the impacts of higher temperatures, increased flooding, threats to water quality and availability, and changes to our environment and adapt the business to improve our resilience.

This section presents our climate-related financial disclosures (CFD) and complies with the Companies Act 2006 sections 414C, 414CA, and 414CB. This requires us to report against eight climate-related financial disclosures. While we believe we're compliant with these requirements there's still the opportunity to refine our disclosures, and we welcome your feedback.

To assist readers, the table on the next page indicates where disclosures are in this report and other documents that provide more detailed information. We've considered climate change in the preparation of our financial statements on pages 204 to 245, and specifically included information in note 2 on page 222.



Our operational performance continued

Climate-related Financial Disclosures

Index table for Companies Act disclosures

Companies Act disclosure	Disclosure level	Pages in this report	Reference to other information sources
Governance			
(a) a description of the company's governance arrangements in relation to assessing and managing climate-related risks and opportunities.	Full	Strategic Report	Board of directors and the Terms of Reference of its committees
		- CFD: Governance 68 - Delivering value to our stakeholders 29	
		Financial performance	
		- Risk oversight and governance 114 - Principal risks 117	
		Corporate governance	
		- Board of Directors 140 - Remuneration policy, applicable in year (unaudited) 181	
Strategy			
(d) a description of the principal climate-related risks and opportunities arising in connection with the company's operations, and the time periods to which those risks and opportunities are addressed.	Full	Strategic Report 70	Business Plan 2025–30: SRN02 Long-Term Delivery Strategy; SRN05 Wholesale Water; SRN06 Wholesale Wastewater
		CFD: Strategy	
e) a description of the actual and potential impacts of the principal climate-related risks and opportunities on the company's business model and strategy.	Full	Financial performance 222	Final Draft Water Resources Management Plan Drainage and Wastewater Management Plan
		Notes to financial statements – note 2: Climate change	
(f) an analysis of the resilience of the company's business model and strategy, taking into consideration different climate-related scenarios.	Full		Climate Change Adaptation Report, 2024

Companies Act disclosure	Disclosure level	Pages in this report	Reference to other information sources
Risk management			
(b) a description of: how the company identifies, assesses, and manages climate-related risks and opportunities.	Full	Strategic Report - CFD: Risk Management71 - Financial performance124 - Risk management approach112	Final Draft Water Resources Management Plan Drainage and Wastewater Management Plan Drought Plan Climate Change Adaptation Report, 2024
(c) a description of: how processes for identifying, assessing, and managing risks are integrated into the company's overall risk management process.	Full		
Metrics and targets			
(g) a description of: the targets used to manage climate-related risks; how to realise climate-related opportunities; and of performance against those targets.	Full	Strategic Report - CFD: Metrics and targets82 - Streamlined Energy and Carbon Report (SECR)86	Annual Performance Report, 2025 Business Plan 2025–30: SRN46 Net Zero Carbon
(h) a description of: the key performance indicators used by the company to manage climate-related risks; how to realise climate-related opportunities; and of the calculations on which those KPIs are based,	Full	Our operational performance32	

Our operational performance continued

Climate-related governance

We recognise the importance of strong governance in the delivery of our business plan, and this includes management of climate-related risks and opportunities. This is led by our Board, with key activities delegated to several of its committees, as described in the diagram below.

→ Read about our **Board's committees** on page 151.

Board of directors			
Has oversight of climate-related risks and opportunities, strategy and performance. Delegates certain responsibilities to its committees.			
ESG Committee	Audit Committee	Remuneration Committee	Nomination Committee
Challenges and provides direction on our ESG-related ambitions and performance. Reviews progress against our net zero commitments.	Ensures risks, including climate-related risks, are managed effectively via our Enterprise Risk Management process.	Ensures incentive and retention structures effectively drive performance across a balanced and broad set of outcomes, including climate-related ones.	Considers and monitors the Board's composition, including the balance of skills, including ESG-related skills such as climate change.
The Chief Executive Officer and Executive Committee (ExCo)			
Responsible for the day-to-day running of our company by our executives, including matters related to ESG. This includes oversight of the company risk profile and emerging risk scanning. The Executive delegates accountability for certain climate-related matters to Exec-sponsored or Senior Leadership team management committees and steering groups.			
Performance Committee	Investment Committee	Environment Steering Group	Energy Panel
Oversight and challenge of our financial and operational performance.	Responsible for investment decision-making including climate considerations.	Makes sure that plans are in place for the delivery of our environment strategy, shares best practice and discusses emerging issues.	Authorises our energy procurement strategy and has oversight of energy performance and projects.
Independent stakeholder groups			
Each group plays to its strengths and uses its expertise to drive action.			
Independent Climate and Environment Group		Customer and Communities Challenge Group	
Provides specialist, technical challenge and advice on environmental performance and strategies.		Provides expertise and challenge on customer feedback on our business plans.	

Our operational performance continued

Climate-related governance

Board oversight

Our Board has oversight of climate-related risks and opportunities and scrutiny of management's identification, assessment and management of these risks and opportunities. The Board continued to monitor performance of the Turnaround Plan, targets and long-term plans such as our Final Draft Water Resources Management Plan (WRMP).

It reviews and receives papers from the Executive that provide updates for discussion on performance, programme delivery and plans.

This year the Board discussed climate-related matters on at least 12 occasions; covering aspects including our Business Plan 2025–30, risk management, Water for Life – Hampshire and water recycling, asset resilience, pollutions, Drought Plan and our decarbonisation plans.

Climate change is one of our 12 principal risks, part of our Enterprise Risk Management Framework, and the Board considers updates on climate-related risk profiles and emerging risks. Our CEO is responsible for managing the business and the implementation of its business plan and policies and is accountable to the Board for climate matters.

Specific matters brought to the Board by the Executive to support decision-making processes included the following: its review of our submitted Business Plan 2025–30, including the Water Resource Management Plan (WRMP), resilience plans, Water for Life – Hampshire plans, including the Hampshire water recycling and water transfer project, and leakage performance and plans.

The Board is supported by the Audit and ESG Committees. The Audit Committee has oversight of our reporting, internal controls and management systems, and compliance. It discussed climate change-related issues concerning assurance of our WRMP, disclosure requirements, and risk assessment and control processes. At each of the four meetings held this year, the committee received an update on risk, which included climate-related matters. The ESG Committee met four times during the year and supports the definition and delivery of our ambitions and plans. Climate change remained a focus of the committee, and particularly the update to our interim decarbonisation target, approved by the Board last year. The committee was updated at each meeting during the year.

Executive management

The Executive have day-to-day accountability for climate-related issues, and the Executive Committee meets monthly to review matters of performance, plans and compliance. This year the committee approved updates to our Environment and Carbon policies, discussed the Climate Change Adaptation Report, award of our electricity portfolio and reviewed strategic water supply and resilience matters. The latter included approval of our WRMP and updates related to Hampshire water resources, water recycling projects and our Drought Plan.

The Executive sponsors and is supported by several committees, steering groups and Senior Leadership team-delegated groups. The Executive Performance Committee meets monthly and reviews our financial and operational performance including climate-related matters. The Business Deep Dive meets for deeper review and management of business-critical topics. Together, meetings this year discussed topics including power resilience, our Pollution Incident Reduction Plan, flooding and infiltration, our CHPs and pollutions.

The Environment Steering Group meets monthly to make sure that our environment strategy is delivered. This year it received updates on climate-related matters including our net zero carbon plan, climate adaptation planning and biodiversity performance commitment.

We engage with all stakeholders to understand their expectations on climate-related issues. This includes our Independent Climate and Environment Group (ICEG), and our Customer and Communities Challenge Group (CCCG). These groups are attended by members of the Executive and other senior managers. They also provide regular feedback to the ESG Committee, attending two and one respectively of its meetings during the year.

Senior management and all employees

Senior management and employees are incentivised to deliver on our ambitions in relation to climate-related issues. Objectives apply to all employees, including executive management, and are based on a range of stretch targets, with performance-related remuneration measures focused on climate-related matters including leakage, flooding and pollution incidents.

Our operational performance continued

Climate-related strategy

The impacts of climate-related risks and opportunities on our business, strategy, and financial planning

We're already seeing the impacts of a changing climate. Our business planning integrates consideration of both adaptation to, and mitigation of climate change. Planning processes include the identification, assessment and management of physical and transition risks and opportunities, to ensure the resilience of our assets and services, for the benefit of our customers and the environment.

Our latest adaptation report was published in 2024. This demonstrates how we're meeting the challenge of adapting to climate change and where we've identified opportunities for improvement in our adaptation journey. This report supports the fourth round of reporting under the government's Climate Change 'Adaptation Reporting Power' known as 'ARP4'. Key areas of change in this report, since the last report in 2021, include new high risks to infrastructure services from flooding, and from the result of cascading failures from other interdependent networks, such as energy and equipment suppliers.

Our Business Plan 2025–30 considered the results of the carbon impact assessment of our long-term plans and scenario modelling for a changing climate. The selection of climate change scenarios to be modelled was aligned with regulatory guidance. This includes the Ofwat PR24 Final Methodology, Water Resources Planning Guideline (WRPG) for developing the WRMP and national Framework for the Production of Drainage and Wastewater Management Plans for our DWMP. As an example of the WRMP climate change factors were based on a set of Regional Climate Models (RCMs) and Global Circulation Models (GCMs) from the UK Climate Projections (UKCP) 2018 data. More on the assumptions and scenarios used is available in the technical documents of these plans.

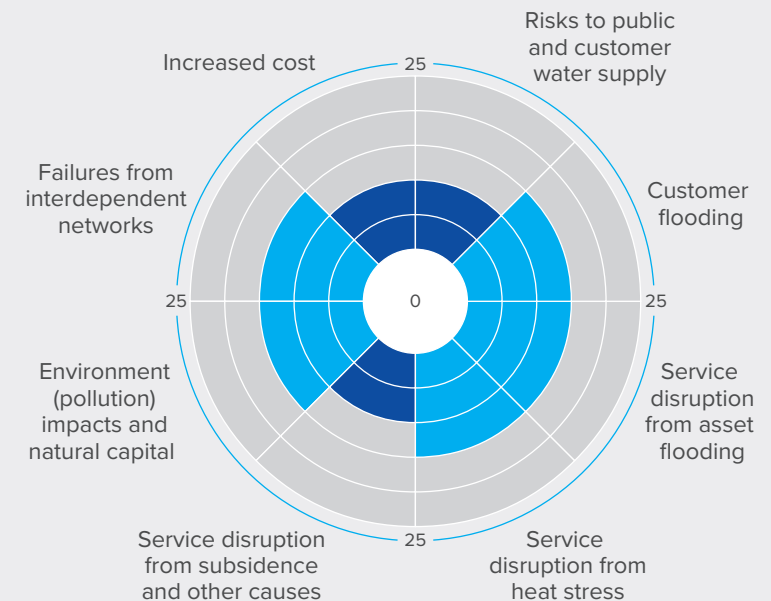
The planning process strengthened our long-term delivery strategy and adaptive planning to support management of future uncertainties, including that of a changing climate.

→ Read our [2024 Climate Change Adaptation Report](#).

We have several strategies and plans that consider building resilience to climate change:

- [Water Resources Management Plan](#)
- [Drainage and Wastewater Management Plan](#)
- [Drought Plan](#)
- [Pollution Incident Reduction Plan 2025](#)
- [Water for Life – Hampshire](#)
- [Climate Change Adaptation Report 2024](#)

A summary of predicted risk exposure in 2050 due to climate change, after mitigation actions are taken.



- Low risk band: Maintain watching brief
- Low/medium risk band: Action plan in place. Maintain watching brief
- Medium risk band: Action plan requires further development
- High risk: Action plan required.

Notes: Risks are scored using a 5 x 5 'heat map' in terms of likelihood (of impact) and impact (consequence). This is consistent with our enterprise risk assessment approach and criteria and gives a total risk score of between 1 and 25.

Source: Southern Water Climate Change Adaptation Report, 2024.

Our operational performance continued

Our climate-related risks and opportunities

Climate change is one of our principal risks and we apply an ongoing, iterative process to assess and manage the range of risks and opportunities. These are typically considered as part of a broader range of factors, to understand how they interconnect and impact our business.

The changing climate also has the potential to impact several of the other risks. This is summarised below:

 For more on our **principal risks** see pages 118 to 130.

Climate physical risks and opportunities	Water* Our ability to provide customers with access to a supply of high-quality drinking water now and in the future.	Wastewater* Our ability to ensure the capacity and resilience of our wastewater assets to effectively remove and treat wastewater.	Natural capital Our ability to protect and enhance natural capital across our region.
Climate transition risks and opportunities	Climate change* Our ability to improve our resilience to climate change including changes in policy, regulation, and markets.	Corporate affairs* Our ability to appropriately monitor and adapt to changes in political and regulatory frameworks to support our relationships and reputation with our customers and stakeholders.	

* Indicates a principal risk to our business

The following pages outline our climate-related risks and opportunities over the short, medium, and long term. These are identified during our enterprise risk management system processes and business planning activities. The tables refer to published documents that contain more detail on our climate change risk management processes and plans.

Our operational performance continued

Our climate-related risks and opportunities

Acute and chronic physical shocks and stressors

Description	Short term	Medium term	Long term	Potential business impacts	Mitigating risks and realising opportunities
WATER: Our ability to provide customers with access to a supply of high-quality drinking water now and in the future					
Reduced water availability and higher demand due to chronic higher temperatures, with drier and hotter summers, and an increased frequency of drought.	●	●	●	Accelerated asset deterioration. Supply of water fails to meet demand – service disruption, with the potential to lead to customer payments and/or penalties.	Business planning - Comprehensive modelling and short- and long-term plans feed into our five-year business plans and capital investment programme. - Water Resources Management Plan (WRMP) forecasts how much water our customers will need in the future and proposes options to make sure we have enough. - Operational resilience framework and action planning to improve asset, system and service resilience and organisational capability monitoring. - Drought Plan outlines the steps we would take to make sure we can maintain supplies of drinking water to customers during drought events. - Water for Life – Hampshire Phase 2 plan – a Strategic Resource Option (SRO). - Continuing to work with neighbouring water companies to improve how we move water around the region to where it is most needed. - Building climate change into the design life of capital delivery projects from the outset. - Health, safety, security, and wellbeing in business planning. Incident management - Incident preparedness and management planning to provide a continuous service to customers. Customer engagement - Target 100 water-saving customer engagement programme (target of 100 litres of water per person, per day). - Community engagement programme raising awareness of water saving, including in schools. - Strengthening partnerships with farmers, landowners and environmental groups to protect water sources from over-abstraction and pollution.
Impacts on infrastructure and increased risks of contamination due to increase in number and severity of storms and floods e.g. run-off polluting water sources, greater agricultural land run-off.	●	●	●	Additional treatment costs required to maintain water quality. Financial penalty and reward position.	
Risk of increase in sea level impacting assets			●	Further investment in infrastructure and incident management.	
Higher temperatures reduce water quality by increasing growth of harmful algae and bacteria.	●	●	●	Elevated risk to health, safety and wellbeing of colleagues and the public due to elevated pressures to respond, and increased use of watercourses to cool off. Potential for health and safety penalties and reputational damage.	
Opportunity to ensure ongoing security of water supply.	●	●	●		

➔ For more on **how we define short, medium, and long-term horizons** see pages 11 and 12.

Our operational performance continued

Our climate-related risks and opportunities

Acute and chronic physical shocks and stressors

Description	Short term	Medium term	Long term	Potential business impacts	Mitigating risks and realising opportunities
WASTEWATER: Our ability to ensure the capacity and resilience of our wastewater assets to effectively remove and treat wastewater.					
Increase in volumes of water entering the system due to increased intensity and frequency of storms.	●	●	●	Service disruption. Accelerated asset deterioration.	Business planning - Comprehensive business plans, including Drainage and Wastewater Management Plan (DWMP) and operational resilience planning that feed into our business plans and capital investment programme. - DWMP assesses and plans for future investment needs. - Pollution Incident Reduction Plan details programme of activities to reduce pollution incidents, including adapting to changing weather patterns. - Clean Rivers and Seas Task Force projects to manage surface water flooding and reduce storm overflow releases. - Installation of sewer level monitors to proactively identify blockages and failures. - Maintenance of critical sewers, including condition surveys. - Delivering groundwater infiltration resilience by building resistance into network through water tightness measures. - Power and heat resilience schemes. Incident management - Incident preparedness and management planning to provide a continuous service to customers and protect the environment. Customer engagement - Fat, oil, grease (FOG) and Unflushables team raising awareness on ways to keep our network free of blockages.
Drought/reduction in rainfall and temperature increases, elevating the risk of blockages, internal and external flooding and subsidence.		●	●	Additional processes and resources for sludge treatment. Financial penalty and reward position.	
National Grid power outages affecting the functioning of wastewater treatment facilities.	●	●	●	Further investment in infrastructure and incident management.	
Risk of increase in sea level and risk of river flooding of assets.			●	Pollution event fines or other penalties.	
Bioresources risks including increased sludge volumes, more concentrated sludge, and accelerated biological activity at treatment sites.					
Opportunity to enhance asset resilience.					

Our operational performance continued

Our climate-related risks and opportunities

Acute and chronic physical shocks and stressors

Description	Short term	Medium term	Long term	Potential business impacts	Mitigating risks and realising opportunities
NATURAL CAPITAL: Our ability to protect and enhance natural capital across our region					
Increased run-off and higher volumes of water, leading to pollution of rivers and seas, soil erosion and degradation.		●	●	Pollution event fines or other penalties. Financial penalty and reward position.	Catchment management - Increasing catchment resilience by working with farmers to protect and enhance natural capital and deliver a range of ecosystem services, including improved water quality. - Ecologists focused on opportunities to enhance biodiversity and comply with biodiversity net gain. - Measuring and evaluating our natural assets by catchment to understand the state of our land and water sites and help prioritise improvements.
Drought/water reductions/changes in water cycles and temperature patterns impacting ecosystems, habitats and species.		●	●	Stakeholder expectations not met. Less resilient assets.	
Tightening requirements in abstraction licenses and discharge permits to protect the environment.	●	●	●	Increased costs. Investment in new infrastructure. Increased risk of fines from non-compliance. Stakeholder expectations not met.	
					Business planning - Draft WRMP adaptive-planning approach represented a range of future scenarios. Environmental assessment included biodiversity net gain and natural capital. Options included nature-based solutions. - Water For Life – Hampshire programme creating new sources of water for the county, helping to protect the environment and safeguard future water supplies. - Our plans under the Water Industry National Environment Programme (WINEP) for water and wastewater, including increasing focus on catchment and nature-based solutions.

Our operational performance continued

Our climate-related risks and opportunities

Transition risks

Description	Short term	Medium term	Long term	Potential business impacts	Mitigating risks and realising opportunities
CLIMATE CHANGE: Our ability to improve our resilience to climate change including in policy, regulation, and markets.					
Emerging technologies, creating operational risks and opportunities including changes to skills and requirements. Example: a shift to hydrogen production via hydrolysis creates additional demand.		●	●	Investment in new and emerging technologies, skills enhancement, and new ways of working. Examples include technologies to support the reduction of process GHG emissions.	- Our research, innovation, and development teams lead on development of new processes, including trials tackling the monitoring and extraction of process carbon emissions. - Engagement with our partners, stakeholders and supply chain to support delivery of our ambitions. - Horizon scanning within industry networks.
Changes in energy and smart buildings markets and management, including cost increases, additional taxation, decarbonisation of fuel sources (market risks). Example: increasing reliance on grid increases intermittency leading to lower plant resilience, growth and price volatility risks.		●		Increased costs. Increased focus on self-generation and energy independence. Investment in new infrastructure. Examples include investment to move from gas to electric-sourced building heating.	- Focus on on-site and near-site renewable energy strategy and plans. - Making greater use of Corporate Power Purchase Agreements (CPPA). - Engagement with our partners and supply chain to support delivery of our ambitions. - Monitoring GHG emissions and targeting performance. - Energy procurement Risk Management Strategy.
Changes in transport market and management, including decarbonisation of fuel and development of no, and low, carbon fuel infrastructure. Example: diesel ban from 2035.		●		Investment in new, no and low carbon fleet. Investment and operational adjustments considering alternative fueling/charging infrastructure.	Fleet replacement strategy in business plans including transforming vehicles to no, or low, carbon fuels an engagement with haulage contractors.
Neighbouring infrastructure – other cascading failures including risks to bridges, roads, pipelines, leading to widespread delays and disruption.		●		Increased risk of service disruptions related to services provided by others. With the potential to lead to customer payments and/or penalties. Chemicals and materials shortages disrupting or delaying activities.	Strengthening partnerships with suppliers and other sectors.
Population growth, household composition. Appliance water-efficiency changes driving changes in demand for services.		●	●	Further investment in infrastructure to meet changing demand levels.	- Forecasts modelled and included in business plan 2025–30. - Engagement with the sector, such as Water Resources South East.

Our operational performance continued

Our climate-related risks and opportunities

Transition risks

Description	Short term	Medium term	Long term	Potential business impacts	Mitigating risks and realising opportunities
CORPORATE AFFAIRS: Our ability to appropriately monitor and adapt to changes in political and regulatory frameworks to support our relationships and reputation with our customers and stakeholders					
Changing public sentiment driving regulatory targets, permits, licenses, and enforcements, leading to increased non-compliance (policy and legal risks) Regulatory penalty/incentive reward for GHG emissions commences 2026.	●	●	●	Financial penalty and reward position. Increased risk of fines from non-compliance. Increased cost of carbon emissions, such as a carbon tax.	- Reputation Strategy focused on our communications and engagement approach especially with our critical stakeholders. - Strong engagement programme with regulators, MPs, and other stakeholders. - Engagement with our partners and supply chain to support delivery of our ambitions. - Strengthening partnerships with farmers to protect water sources from over-abstraction and pollution. - Agreement under Section 20 of the Water Resources Act 1991 with the Environment Agency for operation of abstractions from certain rivers in Hampshire. - Water for Life – Hampshire programme to create new sources of water for the county. - Governance framework including policies and risk management, that document accountabilities, processes and policies to aid decision making during business planning and delivery. - GHG emissions monitoring, management and targeting approach implemented. Carbon costs incorporated into investment decision-making processes.
Changing customer sentiment on the pace and scale of ambition and solutions.		●		Further investment required. Investment funding challenged.	- Strong customer insights, engagement, and consultation programmes. - Publishing our long-term plans including decarbonisation and adaptation, such as our WRMP. Consultation process during drafting of plans. - Community engagement programme raising awareness on water-saving, including in schools.

Our operational performance continued

Our climate-related risks and opportunities

Financial impact and planning

Note 2 of the Notes to Financial Statements includes critical accounting judgments related to climate change in the context of the assessments described here. See page 230.

We purchase energy in line with our energy risk management strategy, which is approved by the CFO. A central goal of this strategy is to make sure that energy needs are fully hedged before the year of delivery. This approach is designed to minimise deviations from forecasts and budgeted costs, thereby promoting cost certainty.

Given the current market conditions — where wholesale energy prices are significantly lower than those seen during the 2021–22 energy crisis and are trending downward — the strategy is to hedge all available (liquid) seasons as soon as the supply contract permits. This proactive hedging approach aims to secure wholesale costs close to the prices submitted in the PR24 Draft Determination and to protect against potential risks, such as geopolitical events that could impact energy security and pricing.

The volume hedged is based on a forecasted baseload. Nominated responsible individuals are authorised to hedge additional volumes, provided the newly hedged price is no more than 10% above the hedged price at the time for that financial year. If it is above 10%, it will need approval via executive-sponsored governance routes.

Reduce and avoid

Through efficiency savings



Replace

Use alternative solutions that are lower carbon



Remove

Through sequestration on our estate



Offset

Use responsible carbon offsetting for any residual emissions

Our net zero transition plan

Our net zero 2050 plan is in integral part of our submitted business plan for 2025 to 2030 and focuses on six areas to help deliver our ambition.

Our 2025 net zero roadmap

Our net zero 2050 plan is an integral part of our submitted business plan for 2025 to 2030 and focuses on the six areas outlined below to help deliver our ambition.



Greening our energy demand

Improving energy efficiency to reduce demand and source renewable energy from onsite or adjacent sources to meet our energy needs.



Decarbonising our fleet

Transitioning our fleet of cars and vans to electric by 2035 and investigating low carbon fuels such as biodiesel and hydrogen to decarbonise our HGVs by 2040.



Improving our bioresource processes

Developing new infrastructure and implementing new technologies and solutions to recycling our waste into biogas that can be used by others.



Focusing on process emissions

Researching and developing ways in which process emissions can be monitored and reported, and building on the Bluewave Innovation team trials to reduce process emissions.



Scope 3 emissions and capital carbon

Developing a sustainable procurement framework and our existing carbon culture for more conscious decision making, improving the coverage, scope, and quality of capital programmes.



Exploring natural carbon stores

Investigating ways in which we can better manage our own land and catchments to reduce our carbon footprint, restore our natural environment, and benefit our customers and community.

Our operational performance continued

Our climate-related risks and opportunities

We understand the important role we, and the water sector, must play in reducing emissions while balancing this with the need to provide our services at an affordable price to our customers.

We remain committed to achieving net zero by 2050 and this plan is aligned with national government net zero targets. Our long-term decarbonisation approach remains to follow the location-based approach and apply the carbon hierarchy (see page 77); however, we continue to believe best value to our customers will not be served by purchasing external offsets for residual emissions.

Our decarbonisation roadmap for long-term reductions is underpinned by four principles: further embedding a culture for decarbonisation; industry collaboration; innovation and research and development; and an adaptive approach.

We continue to develop our decarbonisation roadmap out to 2050. To inform development, this year we commissioned an independent gap analysis of our management of carbon against the standard PAS 2080 Carbon Management in Infrastructure and Built Environment. This included a review of the capability and capacity of our people, and our processes, data and systems. The carbon management plan will be enhanced using the prioritised recommendations from this gap analysis. This includes development of guidance, designing pilot projects as part of our capital delivery programme and evaluating the value of whole life capital carbon quantification tools.

Collaboration with Water UK and UKWIR on carbon matters has continued this year. This includes our contribution to the sector's Carbon Accounting Workbook and related guidance. We're involved with the Water UK Carbon Network that has set up several subgroups to develop sector approaches to carbon offsets, capital carbon, process emissions and supply chain. We review the findings and any recommendations from these groups as part of our carbon management activities. We're also supporting the work of the UKWIR to develop habitat mapping; part of investigating opportunities to standardise approaches to map habitat and support identification of co-benefits for biodiversity and carbon.

Focusing on process emissions from water and wastewater treatment, we continue to develop our approach to quantification and mitigation. Building on our latest innovation trials, we're developing our approach to measuring, quantifying, mitigating and monitoring process emissions. In the medium term, we'll complete our latest project to quantify and mitigate process emissions on three sites. We're collecting data at three representative sites with different treatment methods and using a machine learning model to improve the treatment process by adjusting operating parameters.

To capture process emission data accurately, in conjunction with industry partners Costain, Hach, Suez and Cobalt Water, we've installed N₂O (a GHG 300 times more potent than CO₂) sensors at some of our wastewater treatment works. These sensors allow us to capture process emission data. We're currently in the monitoring phase of the project, building a baseline of emission data. This requires collecting continuous N₂O concentrations over a one-year period to capture the full seasonal emission pattern, and an atmospheric scan of local process emission levels over a single day. This N₂O data, as well as other treatment data, will develop a machine-learning model of the treatment process. The model recommends new operating parameters that reduce emissions without compromising complete treatment of the wastewater. After a gradual shift to the new operating parameters, another atmospheric scan will be conducted.

We also continue to research and develop other projects aimed at quantifying process emissions across other areas of treatment.

➔ For more information on our **energy management** see page 84.

Our operational performance continued

Our climate-related risks and opportunities

The resilience of our strategy, taking into consideration different climate-related scenarios

We remain committed to ensuring a safe and secure water supply for our customers and to protecting the environment. We know that securing resilient water and wastewater services is key to addressing the growing pressures and long-term challenges our sector faces.

Our Business Plan 2020–25 activities are focused on delivering cost-effective and quick-win solutions to address the most pressing issues impacting our customers and the environment first. Our submitted business plan focuses on enhancing our operational resilience to respond to our future challenges through programmes designed to bolster the resistance of our assets, introduce redundancy options, and enhance the reliability of our services.

An adaptive planning approach has been applied to our long-term business plans including Long-Term Delivery Strategy (LTDS), DWMP and WRMP and included consideration of climate change scenarios. Our operational resilience assessments considered scenario conditions included a representative concentration pathway 'RCP8.5' as an 'adverse' scenario for subsidence, saline intrusion, and heat stress and 'RCP2.6' as a 'benign' scenario for coastal flooding.

The work categorised sites into either: further work required to enhance resilience; sites where further investigations were required; or sites for which no further enhancement was required. Seventy-five priority sites and pieces of equipment have been identified and are included in our programme to improve resilience. We review the operational resilience assessments, and the scenario analyses, as required by our regulators and in alignment with our five-year business planning cycle.

In preparing the financial statements, the directors have considered the impact of climate change, in the context of the risks identified. There has been no material impact identified on the financial reporting judgments and estimates. It's expected that any impact identified through our business planning processes would materialise over a longer period, rather than a single year, and no impact from this was identified in the current year. See page 223 in the financial statements for more on climate change financial considerations. For more on our approach to identify and manage risks, see pages 118 to 130.



Our operational performance continued

Climate-related risk management

Identifying climate-related risks

Our process for identifying and assessing climate-related risks is integrated in our risk management process. This is described below, with further detail on pages 116 to 118. Our business planning processes include the identification and assessment of climate-related risks and opportunities. This includes our five-year business plan development process and related management plans, that are often regulatory documents. These include our WRMP, DWMP, Drought Plan, Climate Change Adaptation Report, and operational resilience plans. These business plans are discussed and approved at Board level.

We consider a variety of time horizons as part of our climate-related risk assessment processes, and these broadly align with our planning horizons.

Planning horizons

Short term One to two years	Medium term 2025–30	Long term 2030 onwards
Business strategy approach Imminent risks requiring a tactical response.	Business strategy approach The five-year business planning cycle.	Business strategy approach Risks related to our long-term priorities and strategy.
Our key climate-related plans and processes • Risk management: risk profile reviews • Pollution Incident Reduction Plan: one year • Incident management planning	Our key climate-related plans and processes • Business Plan: five years • Drought Plan: five years • Risk management: emerging risks profile • Climate Change Adaptation Report • Clean Rivers and Seas Plan (storm overflows) • Hampshire Water Transfer and Water Recycling Project	Our key climate-related plans and processes • DWMP: 25+ years • WRMP: 50 years • Water for Life – Hampshire

We also assess our greenhouse gas emissions on an annual basis, to understand the volume and source of emissions, develop our decarbonisation plan and report performance. For more on this, see pages 86 to 88.

Long-term planning requires making decisions for an uncertain future. To manage uncertainty, we used an adaptive planning approach. We've looked at multiple supply-demand balance scenarios in view of the uncertainties associated with growth forecasts, the level of reductions required in the water we take from the environment and climate change impacts.

Our WRMP is published every five years and forecasts how much water we'll need, proposing a mix of options to meet demand. Our final draft plan was published in May 2025 and followed a period of extensive consultation.

We currently supply 560 million litres of drinking water per day to our customers across Kent, Sussex, Hampshire and the Isle of Wight. By 2075, the gap between what we can supply and demand for water could be up to 587 million litres per day. This is due to an increase in population and a reduction in what is available to us because of climate change and our steps to reduce abstraction from our current sources to protect the environment.

The options outlined in this plan will allow us to fill this gap and continue providing a reliable water supply to homes and businesses. Our plan focuses on significantly reducing demand alongside delivering new, large-scale sustainable sources of water. We're also making our supplies more resilient, so we will be less likely to introduce emergency restrictions on water use. It's shaped by a best-value regional plan jointly developed with our five neighbouring water companies as part of Water Resources South East (WRSE).

Our DWMPs and business plan to 2030 set out our investment in drainage and wastewater services. This includes a focus on reducing our use of storm overflows, reducing overall pollutions, accommodating growth and improving water quality. We'll improve the resilience of our most at-risk sites and identify sites and solutions for future investment cycles. We'll build on the improvements already made.

This year we completed additional climate change risk assessments of our 23 permitted sites. The assessments considered potential impacts arising from changing climate variables identified by the Environment Agency (EA) such as summer and winter temperature, rainfall, sea level rise, drier summers, river flow, and storms. The assessment was qualitative and used expert judgment, based on knowledge of similar projects, and a review of EA guidance and other climate change risk and adaptation literature. The reports focused on key site-specific operational assets, and the risk from climate change. Most of the identified risks were categorised as unlikely, moderate to low, and moderate to high.

Our operational performance continued

Climate-related risk management

Mitigation measures were identified and tailored to each identified climate impact. Some are specific actions which follow methods already in place at the site – for example, implementing additional odour control measures if higher summer temperatures have been identified, to reduce the potential for increased odour issues. In some instances, mitigation measures are not solely physical actions, they can include for example, increased monitoring, or carrying out regular reviews of existing site flood plans and ensuring these are updated in line with any new EA guidance.

These reports were submitted to the EA in April 2024 and will be managed as part of standard site management operations.

Managing climate-related risks

Our climate-related risk management approach is integrated into our company-wide risk management framework and processes. Our risk management process includes risk identification and ownership; risk assessment; risk response; risk monitoring, reporting and escalation for all possible types or sources of climate-related risks and opportunities. The risk management process is owned by the relevant risk owners, reviewed by our Enterprise Risk team and moderated by the Executive Committee. Our risk responses consider our ability to mitigate, transfer, accept or control the identified climate-related risks and where possible, to capitalise on opportunities. Selected risk responses are proportionate to the complexity and type of risk assessed over a range of time-horizons relative to the longer-term uncertainty and nature of the risk.

Our risk appetite defines the risks and opportunities we're willing to accept for identified categories. Seven risk components are identified for the principal risk of climate change, with the risk appetite set at 'moderate' for all. In addition, the changing climate has the potential to impact several of our other key risks. Most notably these are: our ability to provide customers with access to a supply of high-quality drinking water, now and in the future, and ensuring the capacity and resilience of our wastewater assets to effectively remove and treat wastewater. Principal risks are monitored by the Executive Committee, reporting to the Audit Committee and ultimately the Board.

We also regularly consider new, changing, or emerging risks that could affect our ability to achieve our long-term objectives. These emerging risks are considered using a PESTLE model (political, economy, social, technological, legal and environmental) across short-, medium- and long-term time horizons and with a view on the speed of onset (rapid, moderate and slow). For more on emerging risks see pages 118 to 130.

Engagement with our customers and other stakeholders is an important aspect of our management of climate-related risks. We use strategic engagement with stakeholders to support the development of our plans. This includes on our long-term plans including our WRMP and the Hampshire Water Transfer and Recycling Project.

We recognise the importance of our supply chain partners to support delivery of our plans and the reliance we have on them. To support us in our work, we are a member of the Supply Chain Sustainability School. This year we have enhanced the sustainability expectations and requirements written into significant frameworks that will support delivery of our Business Plan 2025–30. This includes supporting our decarbonisation and natural capital activities.

Integrating climate-related risk into overall risk strategy

We operate a risk management process that is a core component of our governance and internal control framework. It supports us to make better decisions through an improved understanding of risk across the business. This includes climate-related risks.

Our risk management process involves identification of the significant risks to the business, and classification of them using a scale of low to major impact. The criteria defined in our risk assessments are:

- Business disruption/customer experience
- Brand and reputation/legal and regulatory
- People/health, safety, environmental and security
- Financial – within the year and lifetime.

→ Read more: On our **engagement with stakeholders** – pages 29 to 30.

→ Read more: On our **work with our supply chain** – page 64.

→ Read more: On our [Water for Life – Hampshire plans](#).

Our operational performance continued

Climate-related metrics and targets

Metrics and targets used to assess and manage relevant climate-related risks and opportunities

We measure a range of metrics to support us in monitoring and managing our risks related to the changing climate, and other risks including population growth. These metrics focus on water supply, wastewater removal, and natural capital. We also report on our carbon emissions, in alignment with regulatory requirements and to report progress on our decarbonisation targets. The following table summarises the key metrics we use. Further information on our performance can be found in our [Annual Performance Report](#).

Identified risks and opportunities	Target	Metric	Performance summary	
Water: our ability to provide customers with access to a supply of high-quality drinking water now and in the future	Leakage: Regulatory end-of-year target 94.4 MI/d	Megalitres per day (MI/d)	Due to insufficient funding at our last price review, we've fallen behind where we need to be on leakage. However as part of our turnaround and following an equity investment from our shareholders, we're now seeing a marked improvement.	→ Read more on page 47
	Water use: regulatory end-of-year target 128.1 l/p/d	Per capita clean water usage litres per day	The average daily amount of water used by household customers in our region (measured by a three-year rolling average per capita consumption) is 127.5 litres per person per day (l/p/d).	→ Read more on page 56
	Water resources: Long-term supply and demand schemes: delivery by 31 March 2027	Months delay	As there have been changes in customer demand and scheme deliverability, since our Business Plan 2025–30 submission, we've made a request for Ofwat to amend the target for this.	→ Read more on page 47
Wastewater: our ability to ensure the capacity and resilience of our wastewater assets to effectively remove and treat wastewater	Internal sewer flooding incidents: regulatory end-of-year target: 341	Number of incidents	We saw a significant reduction in internal sewer flooding incidents compared to last year, with a total of 277.	→ Read more on page 55
	Number of pollutions categorised 1-3: regulatory end-of-year target 98	Number of pollutions categorised 1-3	We recorded 269 category 1-3 pollution incidents in 2024.	→ Read more on page 36
Climate change: our ability to improve our resilience to climate change including in policy, regulation and markets	N/A	Energy used in the reporting period	In 2025 we used 496,255 MWh of energy, a decrease on 2024.	→ Read more on page 84
	Generate 24% of our own renewable energy by 2025	Renewable energy generation as a proportion of energy use	In 2024–25 we produced 14.79% of the electricity we need to run our operations via on site renewable generation.	→ Read more on page 38
	N/A	Proportion of fleet that is low carbon/electrified fleet	This year, we added over 300 new vans to our fleet, more than 90% of these vehicles are equipped with sustainability features.	→ Read more on page 85
Corporate affairs: Our ability to appropriately monitor and adapt to changes in political and regulatory frameworks to support our relationships and reputation with our customers and stakeholders	Net zero emissions by 2050: interim target to reduce Scope 1 and 2 emissions by 35% by 2030	Absolute Scope 1 and Scope 2 emissions	In 2025 our gross location-based operational emissions were 257.9 kilotonnes of carbon dioxide equivalent (ktCO ₂ e) (2024: 231.4 ktCO ₂ e). Our gross market-based operational emissions were 266.3 ktCO ₂ e (2024: 281.2 ktCO ₂ e).	→ Read more on page 83
	N/A	Remuneration: Proportion of executive management remuneration linked to climate considerations	We report on remuneration in the Directors' Remuneration Report. The following 2024–25 metrics are key to our climate change resilience and are measures included in our Annual Bonus Plan (for our executive and all employees): Pollution incidents, internal sewer flooding incidents, leakage, and water quality compliance.	→ Read more on pages 187

Our operational performance continued

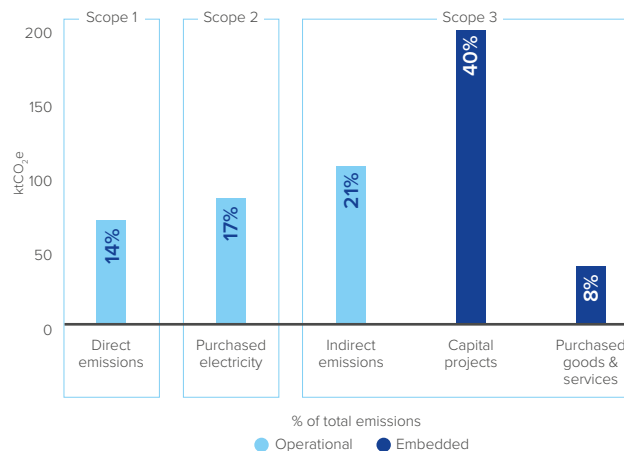
Climate-related metrics and targets

Our operational and embedded carbon emissions

In 2025 our gross location-based operational emissions were 257.9 kilotonnes of carbon dioxide equivalent (ktCO₂e) (2024: 231.4 ktCO₂e). Our gross market-based operational emissions were 266.3 ktCO₂e (2024: 281.2 ktCO₂e). Operational emissions relate to the carbon emitted due to our day-to-day activities, so our use of energy, process and fugitive emissions, vehicle fleet and business travel, waste disposal and use of chemicals.

Our embedded emissions relate to our purchase of goods and services, and capital carbon – emissions from the manufacture, construction, and installation of our assets. In 2025 our embedded emissions were 197.8 ktCO₂e (2024: 152.8 ktCO₂e). We continue to enhance our coverage of capital carbon missions, working with our supply chain partners, and have improved the accuracy of our calculations for emissions from purchased goods and services, sourcing more appropriate carbon conversion factors.

These emissions are presented in the chart, including how they associate to Scopes 1, 2 and 3 – this aligns with how emissions are presented in our Streamlined Energy and Carbon Report (SECR) on pages 86 to 88.



Note: The chart above shows gross emissions by source in the year 2024–25, calculated using a location-based approach. For more on the methodologies used to calculate these emissions, see our SECR report on pages 86 to 88.

Performance against targets

We monitor our emissions performance against our interim carbon reduction target to reduce Scope 1 and 2 emissions by 35% by 2030. Our gross Scope 1 and 2 emissions flatlined against the baseline year 2022–23. Emissions in all Scope 1 categories (emissions from fuels, process and fugitive emissions, and emissions from transport) have increased slightly – this reflects a continued increase in operational demands. Notably burning of fossil fuels in both water and wastewater operations has increased significantly by 145% compared to the baseline. This can be attributed to further demands in the business such as fuel consumption in generators. Our Scope 2 emissions have reduced by 6.5% due to our lower electricity consumption. Overall, the gross Scope 1 and 2 emissions result in a negligible percent change (0.1%), with the increase in Scope 1 emissions offsetting any Scope 2 reductions achieved. This commentary is equally applicable for year-on-year changes, comparing this year to last year.

This year our total reported gross operational emissions for Scopes 1, 2 and 3 have increased by 11.6% from our baseline year 2022–23. This is largely attributed to a significant increase in Scope 3 emissions, notably a 159% increase in outsourced activities compared to 2023–24 and the baseline. It also reflects a smaller increase in business travel and an increase in purchased fuels (extraction, production, transmission, and distribution – Scope 3).

	tCO ₂ e FY 2022–23 (baseline year)	tCO ₂ e FY 2023–24	tCO ₂ e 2024–25	% change against baseline	% change year on year
Baseline comparison analysis					
Scope 1 emissions	62,593.15	63,788.13	68,424.22	9.32%	7.27%
Scope 2 emissions	89,770.91	88,384.78	83,895.82	-6.54%	-5.08%
Total Scope 1 and Scope 2 emissions	152,364.06	152,172.91	152,320.04	-0.03%	0.10%

Our operational performance continued

Climate-related metrics and targets

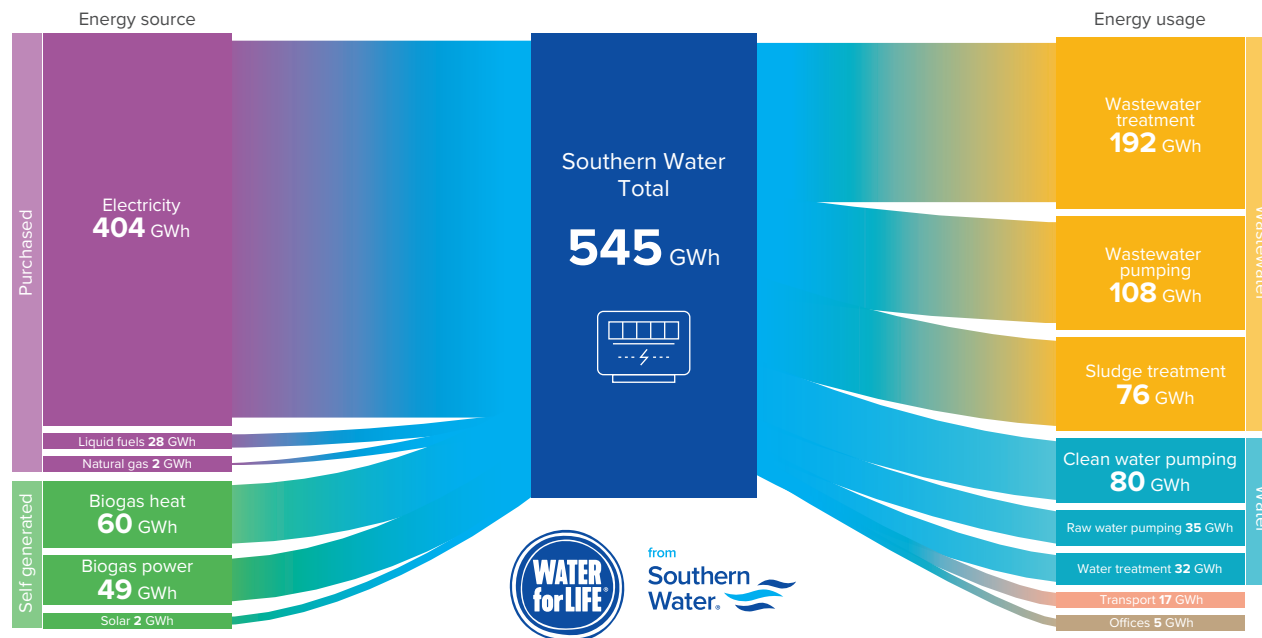
Demand reduction, energy efficiency and using renewable energy

Our operation is fundamentally enabled by having reliable and resilient access to energy to move water and sewage around our region and power our treatment processes. We recognise that we are a nationally significant consumer of energy and have an important contribution to make towards reducing the UK's greenhouse gas emissions and reliance on fossil fuels. We acknowledge that our customers and stakeholders expect us to excel against environmental objectives and outcomes and want to see us leading the green agenda.

Emissions from our use of energy formed 45% (location-based approach) of our 2024–25 gross operational emissions. Most of our energy is electricity, and we also use gas for heating, diesel for generators and gas oil to support heating our anaerobic digesters. In 2025 we used 496,255 MWh of energy, a decrease on 2024. Wastewater is the largest user of energy, accounting for 72% of consumption. Most of this energy is used to power our pumps and blowers.

We've continued to invest in energy efficiency this year, in multiple ways and using a variety of solutions, including the following:

- Published our 2025–30 business plan, which includes a commitment to invest in new CHP capacity, enabling us to make better use of the biogas we produce via wastewater treatment and increase our energy independence.
- Replaced >1,000 manual read electricity meters with automatic read meters (AMRs). We have a portfolio of >4,000 fiscal meters, of which 65% are now measured via AMR, representing >98% of our total electricity consumption. We continue to work towards eliminating manual-read meters from our portfolio to increase data accuracy and prepare us for the conclusion of market-wide half-hourly settlement (MHHS) event in 2027.
- Established a dedicated Technical Energy function. The new team are tasked with improving the energy efficiency of our sites through targeted audits, action planning and project delivery for significant energy consuming assets, plant, and processes.
- Enhanced the energy culture through the launch of an 'Energy for Water' campaign and resources to link our energy usage to our core water and wastewater services and better communicate our energy impact and mix to an internal audience. We also launched self-service online energy and carbon awareness training material for all employees – 300 delegates have passed the course.



Our operational performance continued

Climate-related metrics and targets

- Continued targeted submetering of significant energy consuming processes and assets. We added a further 40 submeters to our metering portfolio in the year bringing the total to 446. This represents approximately 11% of our overall electricity consumption by volume and allows us to enhance our energy optimisation and efficiency work by focussing on significant deviation from design and/or deterioration from established performance baselines.
- Installed advanced condition monitoring equipment at 750 category A pumping stations, allowing us to remotely evaluate power efficiency and performance and proactively respond to blockages and pump failure, helping us to improve energy performance and avoid pollutions.
- Thirty-two of our employees took up an electric vehicle through our salary sacrifice scheme, bringing the total to 76 since the scheme was launched in 2023. This is one way in which we create opportunities for employees to benefit from the transition to a greener economy.
- Installed solar panels on over 280 fleet vehicles. The solar capacity, totalling nearly 30kW, is used to power onboard auxiliary systems including air conditioning and refrigeration units, reducing emissions, fuel consumption and maintenance costs whilst increasing the vehicle's reliability and efficiency
- Began direct engagement with developers and local authorities to explore how we can support the development of heat networks, in alignment with government policy on decarbonising heat and in solidarity with local and national net zero goals.

While the electricity grid is decarbonising, we continue to review options to change the source of our energy and increase our energy independence. We currently generate 14.79% of our electricity from our own renewable sources. We also generated 70.066 MWh of electricity in wastewater via our CHP engines, which offsets 27% of our wastewater power consumption. Water supply accounts for the remainder of the energy needed to power our operations. Our solar generation totalled 1,573.97 MWh, helping to ease the need for imported energy at our supply works.

We continue to explore other low-carbon sources of energy either on-site or in partnership such as via a Power Purchase Agreements or behind the meter private wire opportunities with local generators. We're also focused on energy efficiency, and for details on our actions on this, and our energy use data, see our SECR on page 86.

Understanding our process emissions

Emissions from water and wastewater treatment were 23.7% of our 2025 operational emissions, and the largest source of Scope 1 emissions. Process emissions occur primarily from our sewage and sludge treatment processes producing methane and nitrous dioxide emissions, both of which have a significantly higher global warming potential than carbon dioxide emissions.

To date, process emissions data from wastewater treatment works, in the UK, have largely been theoretical, based on data modelling and assumptions. However, there is a pressing need to understand the actual emissions from these processes, using the most appropriate and cost-effective methodologies to do so for the long-term. To try and capture process emission data accurately, our innovation team, in conjunction with industry partners Costain, Hach, Suez and Cobalt Water, have installed N₂O (a GHG 300 times more potent than CO₂) sensors at some of our wastewater treatment works. These sensors are allowing us to capture process emission data.

Updating our fleet

Emissions from the use of fuel to power vehicles used for business activities were 1.6% of our 2025 operational emissions. This year, we added over 300 new vans to our fleet, more than 90% of these vehicles are equipped with sustainability features, including roof-mounted solar panels and utility batteries. These enhancements allow our teams to operate and charge electric hand tools at remote locations, reducing reliance on traditional power sources and supporting our commitment to greener operations.

Reducing embedded carbon

We've integrated carbon cost curves into our project cost estimating and assurance processes. This allows us to estimate capital carbon emissions based on spend and activity. To build our understanding of capital and purchased goods and services emissions we've included requirements for carbon reporting in our contracts with suppliers. This will allow us to understand carbon impacts during capital project asset lifecycles, as part of our risk and value process. We're working with key suppliers to understand their carbon reduction commitments and opportunities for emission reduction and will pilot carbon management approaches with projects.

Streamlined Energy and Carbon Report (SECR)

This section fulfils the requirements of the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2019.

Further information about our climate change activities can be found on pages 66 to 85 of this report.

Targets

To mitigate the company's climate impact, it's committed to delivering net zero by 2050 and to reduce Scope 1 and 2 emissions by 35% by 2030, compared to 2022 emissions. This interim target accounts for forecast emissions and our planned investments in assets.

Energy efficiency action

Energy use is a significant source of GHG emissions, and we have continued to invest heavily in energy efficiency throughout 2024–25, in multiple areas.

- Published our Business Plan 2025–30, which includes a commitment to invest in new CHP capacity, enabling us to make better use of the biogas we produce via wastewater treatment and increase our energy independence.
- Replaced >1,000 manual-read electricity meters with automatic-read meters (AMRs). We have a portfolio of >4,000 fiscal meters, of which 65% are now measured via AMR, representing >98% of our total electricity consumption. We continue to work towards eliminating manual-read meters from our portfolio to increase data accuracy and prepare us for the conclusion of the market-wide half hourly settlement (MHHS) event in 2027.
- Established a dedicated Technical Energy function. The new team are tasked with improving the energy efficiency of our sites through targeted audits, action planning and project delivery for significant energy consuming assets, plant, and processes.
- Enhanced the energy culture through the launch an 'Energy for Water' campaign and resources to link our energy usage to our core water and wastewater services and better communicate our energy impact and mix to an internal audience. We also launched self-service online energy and carbon awareness training material for all employees.
- Continued targeted submetering of significant energy consuming processes and assets. We added a further 40 submeters to our metering portfolio in the year bringing the total to 446. This represents approximately 11% of our overall electricity consumption by volume and allows us to enhance our energy optimisation and efficiency work by focussing on significant deviation from design and/or deterioration from established performance baselines.

Quantification and reporting methodology

The methodology used to calculate operational greenhouse gas emissions for the provision of water and wastewater services follows the GHG Protocol – Corporate Reporting Standard. The water sector employs a bespoke carbon accounting workbook which reflects best practice and is updated every year to use the latest emission factors, derived from the UK's GHG Conversion Factors. Version 19_V02.5 of the Carbon Accounting Workbook (June 2025) has been utilised to prepare the GHG estimations.

Embedded emissions are not included in the Carbon Accounting Workbook, and we calculate these using internal estimating tools in our Capital Carbon Management Framework. This was developed in line with the principles of the standard PAS2080: 2023 Carbon Management in Infrastructure and Built Environment.

Operational boundary

The reporting boundary covers all the company's operational services and is congruous with our financial reporting boundary.

Assurance statement

This quantification of greenhouse gas emissions and energy usage is checked internally through a governance framework and assured by independent consultants in accordance with the methodology of the AA1000 Assurance Standard v3. This is done as part of the company's annual regulatory reporting process.

35%
target reduction
in Scope 1 and 2
emissions.

→ For details on our
**carbon reduction
plans** see
pages 77 to 78.

Streamlined Energy and Carbon Report (SECR) continued

Energy use

Area	2024–25 kWh	2023–24 kWh
Electricity	476,480,229	484,069,984
Imported	409,940,433	426,817,694
Self-generated	72,400,153	57,252,290
Gas	2,435,223	3,321,624
Business transport	17,339,891	16,521,848
Total incl. self-generation	496,255,342	503,913,456
Total excl. self-generation	423,855,189	446,661,166

Our self-generated supply comes from combined heat and power (CHP), solar PV and diesel generation. In addition, we exported excess electricity to the grid, predominantly renewable energy from the company's 16 CHP installations.

Renewable heat from biogas used in our digesters is currently excluded due to data accuracy limitations.

Greenhouse gas emissions

Scope	Description	Included in Scope	2024–25 (ktCO ₂ e)	2023–24 (ktCO ₂ e)
1	Direct emissions from activities that the company own or control including combustion of fuel	Gas oil use, process emissions, company transport	68.4	63.8
2	Indirect emissions from purchase of electricity (location-based)	Grid electricity	83.9	88.4
	Indirect emissions from purchase of electricity (market-based)	Grid electricity	92.3	140.3
3	Other indirect emissions	Business travel on public transport/private vehicles	0.33	0.26
		Outsourced activities, grid electricity transmission and distribution, purchased chemicals, waste disposal, purchased fuels: extraction, production, transmission and distribution, embedded emissions, and purchased goods and services.	342.07	253.54
Total gross emissions (Scopes 1 and 2)		Location-based approach*	152.3	152.2
		Market-based approach**	160.7	204.1
Total gross emissions (Scopes 1, 2 and 3)		Location-based approach*	494.7	406.0
		Market-based approach**	503.1	457.9

* Location-based approach uses the average grid emission factor for power from the electricity grid.

** Market-based approach uses the carbon intensity of the energy we procure from the electricity grid.

Streamlined Energy and Carbon Report (SECR) continued

Energy intensity

Energy	Unit of measurement	2024–25	2023–24
All company total energy – including self-generation	kWh/ £100,000 of turnover	51,468	58,635
All company total energy – excluding self-generation	kWh/ £100,000 of turnover	43,959	51,974
Water services electricity – including self-generation	kWh/MI	716	689
Water services electricity – excluding self-generation	kWh/MI	692	676
Water services total energy – including self-generation	kWh/MI	754	720
Water services total energy – excluding self-generation	kWh/MI	730	706
Wastewater services electricity – including self-generation	kWh/MI	579	611
Wastewater services electricity – excluding self-generation	kWh/MI	460	513
Wastewater services total energy – including self-generation	kWh/MI	600	635
Wastewater services total energy – excluding self-generation	kWh/MI	481	537

Greenhouse gas emissions intensity

GHG emissions	Unit of measurement	2024–25	2023–24
All company (location-based approach)	Tonnes of CO ₂ e from Scope 1 and 2 gross emissions per £100,000 turnover	15.8	17.7
All company (market-based approach)	Tonnes of CO ₂ e from Scope 1 and 2 gross emissions per £100,000 turnover	16.7	23.7
Water services (location-based approach)	kgCO ₂ e per megalitre (MI) of water treated	257	251
Water services (market-based approach)	kgCO ₂ e per megalitre (MI) of water treated	287	353
Wastewater services (location-based approach)	kgCO ₂ e per megalitre (MI) of wastewater treated	362	323
Wastewater services (market-based approach)	kgCO ₂ e per megalitre (MI) of wastewater treated	366	374

Note: Turnover 2024–25 reported as £964.2 million for use in intensity metrics. This reflects a reduction of £28.5 million due to an Ofwat regulatory settlement.



s172 Statement

Effective stakeholder engagement

In the reporting period, with the approval of the Board and shareholders, we amended our Articles of Association to incorporate a public purpose to enshrine the principles set out in section 172 of the Companies Act 2006. The articles reflect our purpose to conduct our business and operations for the benefit of our members, while delivering long-term value for customers, communities and the environment.

We engage with a variety of stakeholders through membership of panels and regular meetings, as well as simply speaking to people and visiting operational sites to make sure that the matters set out in section 172 are addressed, which are now enshrined in our Articles of Association. In addition, we've been exploring other approaches to develop our governance and constitution to further support the interests of our customers and the environment.

Customer and communities

Our customers' priorities continue to inform our business strategy. In responding to Ofwat's Draft Determination of our Business Plan 2025–30, the Board considered the views of customers, including the impact of bill increases on customers and the affordability support offered. In addition, our storm overflow plan was tested with customers across the region, who agreed that the plan struck the right balance on delivery and affordability.

In addition to regular reports from management regarding customer service performance, the Board received specific updates following operational failures. In the event of any loss of supply incident we speak with approximately 150 affected customers to understand our performance across four broad themes – communications during the incident, the provision of bottled water, supporting customers on the Priority Services Register (PSR) and the overall handling of the incident. Lessons learned and investigation

outcomes, informed by colleague, stakeholder and customer feedback, were presented to the Board following the loss of supply incidents in Hastings and Hampshire (Testwood WSW).

Understanding the needs of our most vulnerable customers has continued to be a focus for the Board. This year, the Board, through its ESG Committee has provided feedback on the company's Vulnerability Strategy, which is based on extensive customer insight. The strategy has been shaped around six focus areas – affordability, awareness, engagement and communication, accessibility, tailored support and incident management.

➔ Read more about **how we support our most vulnerable customers** on pages 55 and 56.

Impact on the environment

The Board regularly considers environmental matters, including legislative changes, the steps being taken to conserve and enhance biodiversity, environmental performance, compliance against the Environment Agency's (EA's) Environmental Performance Assessment, water quality and environmental compliance and our net zero plans.

The Board, through its ESG Committee, provided feedback on our Wetlands Strategy, having consideration for feedback from Defra and the EA. The Board supported our annual Performance Incident Reduction Plan (PIRP) for publication. While the Water (Special Measures) Act introduced a requirement on water companies to publish a PIRP annually, this is the sixth annual PIRP that we've published. The activity in the PIRP reflects the priority of our customers, engagement with regulators, and with operational leaders across the business, and the impact

of pollution in sensitive areas like bathing waters, chalk streams and National Parks.

Independent challenge

The chairs of our independent challenge groups, Independent Climate and Environment Group (ICEG) and the Customers and Communities Challenge Group (CCCG), report to the Board through the ESG Committee. They provide insight on our activities and performance, identifying opportunities for continued improvement.

➔ Read more about **these groups** on page 30.

We're developing a new corporate Environment Strategy for the period 2025–50, which has been co-created with our Independent Climate and Environment Group. Workshops were held with ICEG to define strategic goals and ambition statements to meet these goals. Broad subject themes were defined including reducing emissions, healthy rivers and seas, thriving nature and communities and sustainable drinking water. The approach has been considered by the ESG Committee, with feedback provided.

Engagement with regulators

Regular meetings have continued between senior representatives of our key regulators – Ofwat, the Environment Agency and the Drinking Water Inspectorate – our senior executives and Chair and members of our Board. Discussions on performance and compliance with our statutory obligations take place, as well as performance against our Turnaround Plan and our plans for the future. In the year, the EA attended a Board meeting at our Fullerton Treatment Works.

s172 Statement continued

Hearing from our employees

The Board considers a broad range of areas on employee-related matters including health, safety, security and wellbeing, inclusion and culture.

➔ Read more in our **corporate governance report** on pages 136 to 180.

The results of the most recent engagement pulse survey were shared with the Board, with a deep dive presented to the ESG Committee. Members of the Board attended our externally-led behavioural safety training. Neil Corrigan, a non-executive director, has the remit of engaging with our workforce – see page 160.

The CEO and Executive team hold regular ‘Company Conversations’ with employees, which address a variety of topics. They are also an opportunity for colleagues to express their views and ask questions. In addition, quarterly sessions are held with all leaders and managers across the business to discuss performance and other key topics.

Our shareholders

Since the investment by funds managed by Macquarie Asset Management (MAM), the shareholder-nominated directors ensure that the views of our majority shareholder are communicated to the Board. In addition, the Board and Executive has engaged with MAM, including through regular performance updates and strategy discussions.

Hearing from stakeholders

We engaged an external agency to speak with some of the most influential stakeholders around the water sector to better understand their perceptions of our company. We presented the insights to the Board together with our reputation strategy.

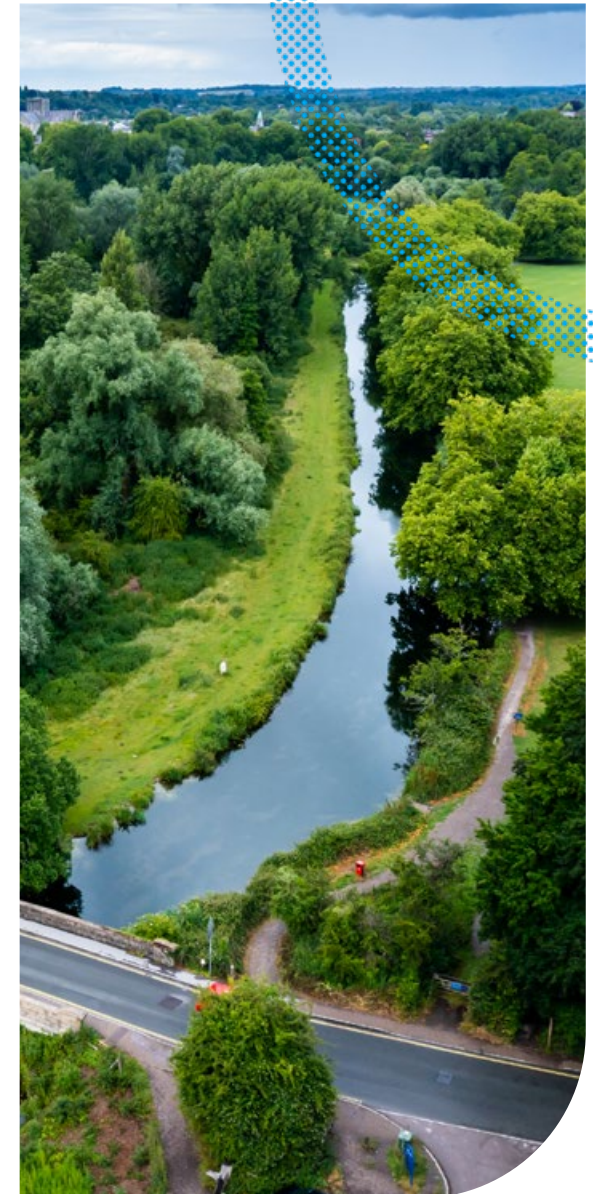
Considering stakeholders in decision-making
Approval of the draft Water Resources Management Plan

Stakeholder engagement	Stakeholder considerations	Outcome
Our draft Water Resources Management Plan 2024 was consulted upon from September to December 2024. We received 1,176 representations through an online questionnaire, emails and letters. Our stakeholders have also shaped our plan. We’ve engaged with the Environment Agency, Natural England and Ofwat. The plan has been developed in collaboration with Water Resources South East.	Public and stakeholder views ranged from the use of drought permits and orders, to bringing forward the delivery of Havant Thicket Reservoir and the Hampshire Water Transfer and Water Recycling Project. Some stakeholders wanted us to focus on more storage and aquifer storage and recharge schemes. There was strong opposition to the option of importing water via sea tankers. A technical stakeholder highlighted the risk of introducing invasive non-native species in UK waters and its ecological impact on fisheries.	The Board scrutinised our response to the points raised through the consultation and engagement process. The Board considered those areas of risk that could not be fully addressed, having regard to pressure on the environment in the event of drought, consideration of options to reduce the deficit in the company’s Western Area and ensuring that the company can meet its supply/demand balance. Due to the environmental risks and logistical challenges with sea tankering, the Board supported management’s exclusion of this option from its plan.

s172 Statement continued

Approval of the company's new vision and strategy

Stakeholder engagement	Stakeholder considerations	Outcome
In developing a refreshed vision, key themes were identified through stakeholder engagement which aligned with our goals and stakeholder expectations. Customer needs and expectations were captured through engagement and research in the development of our Business Plan 2025–30. Insight from customer and employee surveys and stakeholder research as well as regulatory drivers helped inform the vision. The vision was co-created between the Executive and Senior Leadership team.	Customers told us that their priorities included a reliable supply of clean and safe water, environmental protection and improvement, affordability and fair pricing, and for us to be transparent and engage with communities and customers. Customers want the coastline protected and are concerned about water scarcity. They're supportive of protecting other customers who need help. Customers and stakeholders want us to prepare for future challenges. The Executive and Senior Leadership team wanted a vision that would energise employees, improve performance and deliver transformational initiatives to ensure compliance, environmental stewardship and an enhanced customer experience.	The Board considered the draft vision, strategy and objectives at its Strategy Day and scrutinised their development through customer and stakeholder priorities. The Board provided feedback to the Executive. The vision was further developed, reflecting the feedback from the Board. The Board considered the strategy and objectives that had been developed to deliver the vision, ensuring that they reflected customer, stakeholder and internal priorities. The Board approved the vision, strategy and objectives.



Non-Financial and Sustainability Information Statement

This section of our Strategic Report helps stakeholders understand our position on key non-financial matters and complies with the non-financial reporting requirements (NFR), contained in sections 414CA and 414CB of the Companies Act 2006. We've used cross referencing, as appropriate, to deliver clear, concise and transparent information.

Non-financial information	Pages
Business model	23 to 30
Trends and challenges	21
Operational performance	32 to 65
Principal risks	118 to 130

Performance against our strategic non-financial measures is one indicator of the effectiveness and outcomes of our policies. Across Southern Water, policies and statements are in place to ensure consistent governance on a range of issues. For the purposes of the NFR requirements, these include, but are not limited to, the following:

Our people

Our people are our business. Every day they're helping us to succeed, driving the right outcomes for our customers, business and environment. We value and seek to harness the unique skills, experiences and backgrounds of every colleague. We're committed to maintaining a safe, inclusive and great place to work, and we strive to attract and retain diverse talent, so we remain representative of our communities. Our policies support our people and are available on our company intranet – The Hub – with [key policies](#) also available on our website.

Additional information	Pages
External environment	27 to 31
Enabling and empowering our people	63 to 65
Gender pay	63
Operational performance	32 to 65
Diversity of the board	166
ESG Committee	176

Our policies: Code of Conduct; Health and Safety; Code of Ethics; Equality, Diversity and Inclusion; Responsible Business; Flexible Working; Domestic Violence and Abuse; Volunteering; Grievance; Harassment; Probity; Supplier Code of Conduct; and Speak Up (whistleblowing).

The environment

We can only provide high-quality water and efficient wastewater services to our customers in the South East if we protect and improve our natural environment. As such we're committed to improving our environmental performance and, at a minimum, complying with environmental and regulatory standards. What we do, and how we do it, can have a positive and lasting impact on the environment. By going above and beyond compliance, we can create value. We're working with our customers, stakeholders, delivery partners, suppliers and regulators to do this.

Additional information	Pages
External environment	27 to 31
Operational performance	32 to 65

Our policies: Environment; Biodiversity; Plastics; Carbon; Sustainable and Ethical Trading; Code of Ethics; Supplier Code of Conduct; and Responsible Business.

Non-Financial and Sustainability Information Statement continued

Climate-related financial disclosures

The impacts of the changing climate, amplified by population growth, present huge challenges, particularly in the South East. Being resilient to the changing climate is critical for us to continue to deliver services to customers and protect the environment. So, it's vital we understand the risks, so we can plan and adapt for a resilient future. Responding to climate-related issues is therefore embedded in our business planning processes, including our Business Plan 2025–30, Water Resources Management Plan and Drainage and Wastewater Management Plan.

Additional information	Pages
Climate-related Financial Disclosures	66 to 85
Streamlined Energy and Carbon Report (SECR)	86 to 88
Case studies: Leakage	49
Case studies: Clean Rivers and Seas	40
Protecting and improving the environment	32 to 43
Principal risks	118 to 130
ESG Committee	176

Our policies: Carbon; Environment; Sustainable and Ethical Trading and Biodiversity.

Human rights

We operate in accordance with the United Nations' guiding principles on business and human rights. We promote human rights through our employment policies and practices and through our supply chain. We have policies and processes in place which ensure we're compliant with these requirements, and they're enforced throughout our business. Further information can be found in the following sections of this report:

Additional information	Pages
Enabling and empowering our people	63 to 65

Our policies: Modern Slavery Statement; Privacy Notice; Information Governance; Speak Up (whistleblowing); Sustainable and Ethical Trading; Supplier Code of Conduct and Responsible Business.

Social impact

We support our people, business partners and the communities we operate in. As well as the specific policies mentioned below, we have guidance and initiatives in place to support the following:

- Age UK, Citizens Advice Bureau and debt advice bodies
- An employee volunteering programme and community grants scheme
- Promotion of skills development through apprenticeships and graduate schemes as well as university partnerships
- Relationships with environmental groups such as the local Wildlife and Rivers Trusts.

Additional information	Pages
Enabling and empowering our people	63 to 65
Understanding and supporting our customers and communities	51 to 62

Our policies: Tax; Equality, Diversity and Inclusion; Responsible Business; Code of Ethics; Volunteering; Sustainable and Ethical Trading; Guaranteed Standards of Service; Code of Practice; Donations and Sponsorship; Health and Safety; Environment and Supplier Code of Conduct.

Anti-corruption and anti-bribery

We promote a culture of honesty and integrity, and we will not tolerate acts of fraud, dishonesty, bribery, corruption or theft of assets or data. In addition to our Code of Ethics we have policies in place, which are available on our intranet. We also have a confidential 24-hour anonymous Speak Up hotline. This is an independent whistleblowing service for employees to raise concerns. Further information can be found in the following sections of this report:

Additional information	Pages
Our values	04

Our policies: Speak Up (whistleblowing); Code of Ethics; Bribery; Supplier Code of Conduct; Probity and Sustainable and Ethical Trading.

Chief Financial Officer's review



Stuart Ledger
Chief Financial Officer

“

For the eighth year in succession, our external shareholders did not receive a dividend, as we prioritised investment in our systems and assets for the benefit of our customers, communities and the environment.”

Another step change in our investment levels, despite challenging market conditions for the UK water sector.

We continue to invest heavily in our assets to improve performance and to meet the regulatory commitments of our enhancement programme. Through our capital delivery programme, we invested a record £976.6 million during the year. Since 2020, we've spent over £1.5 billion more than our regulatory allowance in operating, maintaining and improving our business and assets. These high levels of capital investment expenditure will continue as we move into the delivery phase of our business plan to March 2030.

To manage the issue of surface water drainage, we're investing in sustainable solutions to manage flows. In total during the year, we spent £24.9 million on these schemes of which £8.6 million related to operating cost initiatives.

Furthermore, we've invested in activities including those to reduce leakage and pollutions from our networks, as well as to improve general compliance. This increased our operating costs by £10.2 million.

Sadly, we don't always get things right and major incidents at Hastings and Testwood increased our incident-related costs by £3.1 million in the year.

We know that the impact of inflation and the cost of living has had an impact on the ability of some of our customers to pay for our services. We're taking action to address this and supporting those struggling to pay with reduced tariffs. Nevertheless, we've seen an increase in the level of bad debt and debt collection activity, and this added £10.2 million to our costs for the year.

On 19 December 2024, Ofwat published its Final Determination of our plan for 2025–30. After careful consideration, our Board decided to appeal to the Competition and Markets Authority (CMA). They did this on the basis that it wouldn't enable us to

deliver the environmental and performance improvements, and new infrastructure, that our customers and communities expect.

We continue to be supported by our majority shareholder, announcing in July 2025 that we'll raise a further £655 million of equity, to support our plan, and up to a further £545 million intended to be committed by December 2025. This follows over £1.6 billion injected into the group since September 2021.

Following this, we intend to access the capital markets to raise the additional debt financing needed to deliver our plans. Part of it will be used to repay an existing loan, with the remainder available to support the capital investment programme.

During the year, following the Ofwat Draft Determination as well as political uncertainty, each of Moody's, Fitch and S&P downgraded their assessment of the UK water sector. This impacted our credit ratings, which were also downgraded. This was based on the sector's increased risk profile because of public scrutiny and heightened political and regulatory focus as well as our financial and operational performance.

We remain in a credit rating Trigger Event following these downgrades and in an Interest Cover Ratio Trigger Event. We expect to remain in Trigger while our CMA appeal is considered.

For the eighth year in succession, our external shareholders did not receive a dividend, as we prioritised investment in our systems and assets for the benefit of our customers, communities and the environment.

Stuart Ledger,
Chief Financial Officer

15 July 2025

Chief Financial Officer's review continued

The financial results have been prepared in accordance with FRS 101 and the material accounting policies of the company as set out in note 1 to the financial statements.

	Years ended 31 March	
	2025 £m	2024 £m (Restated)*
Income statement		
Revenue	964.2	859.4
Amortisation of regulatory settlement payments	28.5	27.1
Total revenue	992.7	886.5
Other operating income	1.6	1.8
Operating costs before charge for bad and doubtful debts	(618.5)	(582.9)
Charge for bad and doubtful debts	(24.7)	(15.4)
Depreciation and amortisation	(368.5)	(362.8)
Operating loss	(17.4)	(72.8)
Profit on disposal of fixed assets and other income	0.8	0.5
Loss before interest and tax	(16.6)	(72.3)
Net finance costs	(243.5)	(248.3)
Fair value gains on derivative financial instruments	170.7	88.1
Loss before taxation	(89.4)	(232.5)
Taxation	(9.6)	2.9
Loss for the financial year	(99.0)	(229.6)

* The prior year has been restated to reflect a correction to the methodology for calculating the interest capitalisation rate. Please refer to note 1 for further information.

Revenue

Revenue increased to £964.2 million (2024: £859.4 million). This is principally due to the application of inflationary increases of £24.1 million, an adjustment to reflect the fact that revenues have been below our regulatory allowances over the prior years of £66.0 million and the application of lower penalties for Outcome Delivery Incentives (ODI) to our revenues.

In 2024–25 ODI penalties, relating to performance in 2022–23, were applied to our water and wastewater revenue totalling £27.4 million (2024: penalties of £49.0 million). These lower penalties meant that revenue increased by £21.6 million offset by a one-off adjustment, amounting to £14.6 million associated with ODIs in the prior year.

Details of the other significant movements affecting our revenues are described here and shown in the diagram on the following page:

- Consumption – consumption across 2024–25 was lower than in the prior year, reducing revenue by £7.1 million.
- Properties billed – due to work undertaken to identify occupiers within properties, and reduce the number of gap sites, we saw an increase in revenue of £6.0 million.

[Read more about our performance on pages 32 to 85.](#)

Chief Financial Officer's review *continued*

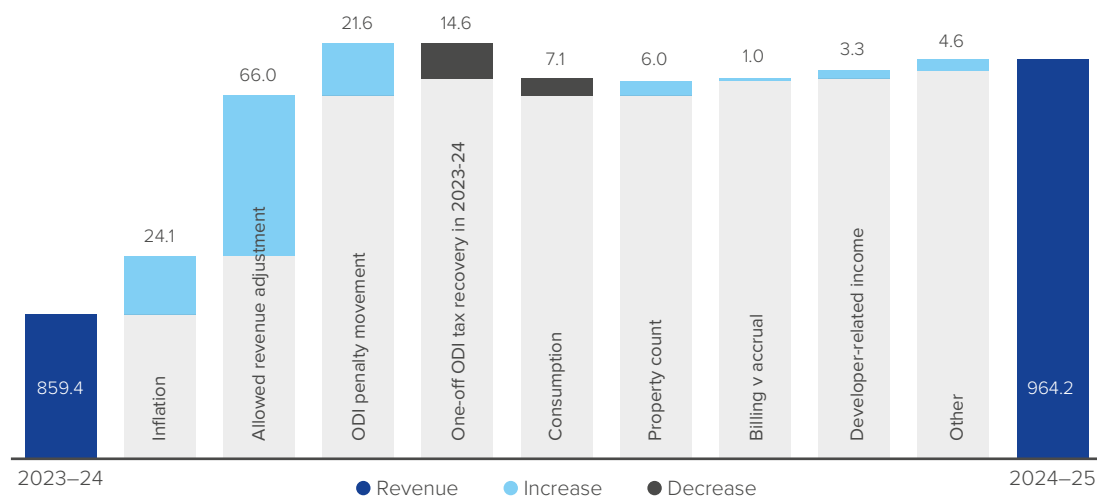
- Revenue estimation – most of our customers are billed based on metered water usage. At each period-end we make an estimate for water used but not yet billed. In 2024–25, we billed £10.2 million less than we accrued in relation to consumption to March 2024 (2024: £11.2 million lower), resulting in a movement of £1.0 million in revenues in the year.
- Developer-related income – we receive income from developers for new connections, infrastructure charges, requisitions, diversions and adoptions. The revenue recorded for these activities depends on the scale and level of developer activity – in 2024–25 these revenues increased by £3.3 million.

In 2018–19, we made provision for customer rebates, based on our regulatory settlement with Ofwat, to be provided to customers over the period 2020–25. These customer rebates are now included within our tariffs and so are part of the revenue reported in the income statement. The provision made in 2018–19 for these rebates is being released in line with the tariff adjustment over the same period. A total of £28.5 million was released in 2024–25, an increase from the prior year, reflecting the impact of inflation on our revenues.

An analysis of revenue is provided in note 5 to the financial statements.

[→](#) Read more about our **Financial statements** on pages 204 to 245.

Movement in revenue £ million



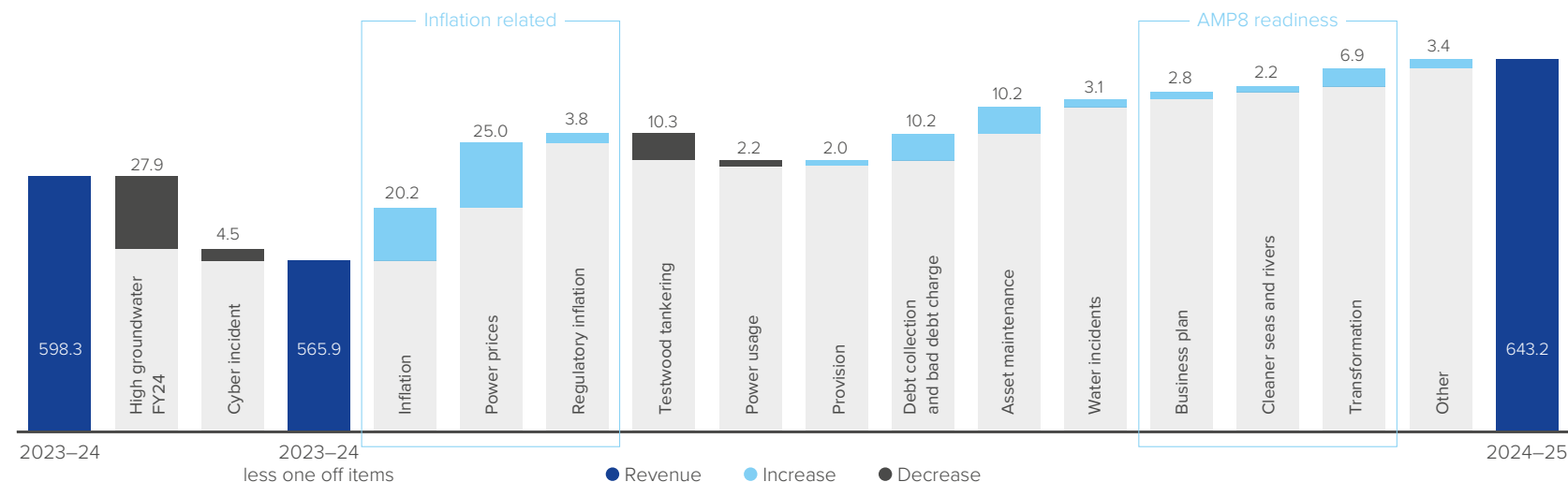
Financial performance

Operating costs and charge for bad and doubtful debts

Operating costs, including the charge for bad and doubtful debts, for the year increased by £44.9 million from £598.3 million to £643.2 million. This increase is explained in the chart below:

→ Read more about our **operational performance** on pages 32 to 85.

Movement in operating costs, including charge for bad and doubtful debts £m



Over the course of the year the most significant cost movements were:

- **One-off items from 2023–24** – there were one-off costs incurred in the prior year to address exceptional levels of tankering resulting from wet weather and the response to a cyber incident in February 2024. The removal of these reduced the underlying operating cost for the prior year to £565.9 million.
- **Inflation** – general inflation continued to add a significant amount to our underlying costs £20.2 million, plus a further £25.0 million

relating to power following the end of our fixed-price agreement and £3.8 million in relation to EA discharge fees and Ofwat fees.

- **Testwood tankering** – a saving of £10.3 million in tankering costs at Testwood, following improvements made on site.
- **Power consumption** – power usage reduced in the year, due to increased power generation from our Combined Heat and Power (CHP) plants.
- **Provision** – as disclosed in note 33, we have made a provision of £2.0 million in

relation to potential Environment Agency (EA) investigations and prosecutions.

- **Debt collection and bad debt** – we've experienced some reductions in cash collection from customers, reflecting the cost-of-living pressures in the economy. While we continue to work hard to support those struggling to pay, as set out on pages 55 and 56, the lower cash collection has resulted in an increase to our bad debt charge of £9.3 million to £24.7 million (2024: £15.4 million) and debt collection costs of £0.9 million.

Financial performance continued

- The increase to our bad debt charge includes an element of £3.0 million reflecting the fact that our higher charges for 2025–26 may add further pressure risk to the collection of outstanding debt at 31 March 2025.
- **Asset maintenance** – we’ve undertaken additional asset maintenance across our operational assets to reduce water leakage, improve compliance and resilience and help reduce pollution incidents.
- **Water incidents** – during the year we experienced two significant water incidents in Hastings and Hampshire. The costs of responding to these, including the provision of bottled water and compensation for affected customers, exceeded the cost of responding to similar events (e.g. storm Ciarán) in the prior year by £3.1 million.
- **Regulatory costs** – costs associated with the PR24 business plan process and our appeal to the Competition and Markets Authority (CMA).
- **Clean rivers and seas** – Our Clean Rivers and Seas Task Force is undertaking a series of projects to aid the reduction of storm overflows. These projects include initiatives to slow the flow of rainwater into our network. Some of the initiatives do not result in assets that we own and are expensed, incurring £8.7 million of additional operating costs during the year (2024: £6.5 million).
- **Transformation** – we’ve been preparing for the next investment period during the year, undertaking transformation activities to make sure that we’re ready to deliver the business plan to 2030. These activities include additional headcount, improvements to our

CHP plant to drive savings and changes to our billing and collection processes. This added £6.9 million to our operating costs.

Depreciation and amortisation

Depreciation and amortisation increased to £368.5 million (2024: £362.8 million) following the completion and commissioning of a number of capital investment schemes delivering compliance and operational performance improvements to our water and wastewater assets.

Operating loss

As a result of the increase in operating costs and depreciation, we incurred an operating loss of £17.4 million (2024: £72.8 million loss).

Financing costs and profit before tax

Net finance costs increased by £4.8 million to £243.5 million (2024: £248.3 million restated). This increase is largely driven by higher interest payable on new loans of £81.6 million; offset by lower indexation on our index-linked debt of £36.2 million due to falling inflation, and increased interest receivable on cash deposits of £30.0 million.

The actual interest paid in cash on loans was £277.2 million and included a prepayment towards future interest of £43.8 million. This was offset by receipts from financial derivatives of £89.8 million.

The fair value gain on our derivative financial instruments amounted to £170.7 million (2024: gain £88.1 million). The primary driver for changes in the valuation is the fluctuation

in UK Government bond yields, which are used to discount the future cash flows and inflation which increases the liability associated with our index-linked instruments. As government gilt yields are constantly moving and inflation has remained high over the past year, the valuation of our derivative instruments is volatile. The balance sheet value represents the present value of future cash flows using financial market forecasts for inflation and interest rates. This balance sheet value does not, however, reflect the expected impact of inflation on future revenues and future Regulatory Capital Value (RCV), which is expected to more than offset the reported balance sheet value.

The loss before tax for the year amounted to £89.4 million (2024: £232.5 million loss).

Taxation

We’ve recognised a total tax charge to the income statement of £9.6 million (2024: £2.9 million tax credit). This differs from the credit that may be expected of £22.3 million, based on the loss before tax of £89.4 million and the current period tax rate of 25%, as described in note 10.

 Read more about our **pollutions performance** on page 36.

Financial performance continued

Cash flow statement

Overall, cash and cash equivalents increased in 2024–25 by £143.5 million (2024: £297.7 million increase) and details of the principal movements in the cash flow are provided in the table below.

[Read more about our business plan](#) on pages 11 to 12.

	Years ended 31 March		Movement	Explanation
	2025 £m	2024 £m		
Cash from operations	271.0	247.6	23.4	Largely driven by the cashflow associated with our improved operational performance as described above.
Investment in assets	(803.8)	(732.1)	(71.7)	Driven by our capital investment programme to make improvements to our assets and operational performance. The increase reflects the final year of the 2020–25 investment period and preparations for the period 2025–30.
Proceeds from share issues	–	369.2	(369.2)	In October 2023, funds managed by Macquarie Asset Management, the majority shareholder in Southern Water's ultimate parent company Greensands Holdings, increased their investment in the group with new equity totalling £375.0 million issued by Southern Water Services less issue costs of £5.8 million.
Net interest-related transactions	(158.3)	(150.3)	(8.0)	In total, the net cash outflow in relation to interest increased by £8.0 million. The principal reasons were: Additional interest paid of £65.2 million predominantly due to first-time interest payments on lending secured in 2023–24. The timing of cash payments to our financing subsidiary SW (Finance) I plc resulted in £28.7 million less interest paid. Increased interest received of £28.5 million primarily due to increased cash held in 2024–25. No payments were made for preference share dividends during the year (2024: £nil million).
Net increase on borrowings	739.7	667.3	72.4	During the year, new loans totalling £761.0 million (2024: £1,088.0 million). This was offset by £21.3 million (2024: £420.7 million) of repayments.
Movements in short-term investment	100.0	(100.0)	200.0	No cash was held on deposit as a short-term investment as 31 March 2025 (2024: £100 million) resulting in a cash inflow in the current year in the cashflow statement.
Other	(5.1)	(4.0)	(1.1)	
	143.5	297.7	(154.2)	

Financial performance continued

Statement of financial position

	31 March 2025 £m	31 March 2024 £m (Restated)*
Non-current assets	8,442.8	7,797.4
Current assets (excluding cash)	441.9	461.5
Cash and cash equivalents	557.0	413.5
Total assets	9,441.7	8,672.4
Current liabilities	(1,146.1)	(617.0)
Non-current liabilities	(7,424.2)	(7,105.8)
Total liabilities	(8,570.3)	(7,722.8)
Total net assets	871.4	949.6
Total equity	871.4	949.6

* The prior year has been restated to reflect a correction to the methodology for calculating the interest capitalisation rate. Please refer to note 1 for further information.

At the end of the year to 31 March 2025, we had non-current assets of £8,442.8 million (2024: £7,797.4 million), an increase of £645.4 million from March 2024. This increase largely results from our ongoing capital investment programme, which – after depreciation – increased the value of property, plant and equipment and intangible assets by £608.0 million.

Overall, during 2024–25 our capital investment in property, plant and equipment was a record £961.9 million (2024: £786.7 million, restated). This step-up in expenditure allowed for refurbishments to our assets to improve performance and wastewater treatment. This included reducing phosphorus and nitrogen levels, improving storm tank capacity and increasing the amount of wastewater treated.

In addition, we experienced an increase in the value of our non-current financial derivative assets of £24.4 million

and in our long-term prepayments in relation to the Havant Thicket reservoir and IT contracts of £13.0 million.

Current assets decreased to £441.9 million (2024: £461.5 million). This decrease is mainly driven by three factors:

- A reduction in cash classified as short-term investments to £nil (2024: £100.0 million) due to timing of the maturity dates of cash on deposit.
- An increase in main trade debtors and accruals of £26.0 million, largely due to the impact of inflation on our revenues.
- An increase in the inter-company debtor with SW (Finance) I plc of £44.0 million. This cash is used to pay the interest on our loans.

The increase in current liabilities to £1,146.1 million (2024: £617.0 million) largely resulted from:

- Higher opex and capital creditors, £11.7 million and £89.3 million respectively, resulting from the higher operating costs and capital investment programme in 2024–25 and the timing of payments over the year-end period.
- A higher interest payable accrual of £40.3 million largely due to timing of interest payments on our new loans and preference share dividends.
- An increase in short-term borrowings of £330.6 million largely due to a long-term loan falling due in coming year.
- The classification of part of our derivative liability £84.8 million as current due to break payments due in November 2025.
- The release of the regulatory settlement provision to the income statement (2024: £28.5 million).

At 31 March 2025, non-current liabilities totalled £7,424.2 million (2024: £7,105.8 million restated). This increase of £318.4 million was principally the result of the following:

- An increase in borrowings of £463.2 million, mainly from the issuance of new loans totalling £762.7 million and indexation on our inflation-linked bonds of £47.6 million. This is offset by the reclassification of a loan of £330.6 million as short term.
- A decrease in the non-current derivative financial instrument liability of £141.2 million.
- An increase in the deferred tax liability of £16.6 million.
- A decrease in retirement benefit obligations of £29.1 million due to a £5.0 million payment against the liability in April 2024, the impact of movements in market conditions at 31 March 2025, which decreased the deficit by £27.7 million, offset by financing costs of £3.6 million.

Overall, net assets decreased from £949.6 million to £871.4 million.

Financial performance continued

Dividend policy

To enable the successful delivery of our plan for 2025–30 and beyond, all stakeholders must share in success. Customers benefit through environmental and water resilience improvements and better services, and shareholders earn a fair return on the money they have invested. Our dividend policy, covering both the appointed and non-appointed activities of the company, will ensure a fair, balanced and sustainable reward for customers, stakeholders and investors as well as complying with the dividend policy condition of our licence.

Dividend payments are designed to make sure that statutory obligations and key financial ratios are not prejudiced, that customer, environmental and other stakeholders are considered, and that the company has adequate resources to carry out its work now, and in the future.

Our shareholders supported substantial investment in the business during 2020–25, significantly over and above regulatory allowances. They expect to receive no further dividends for the next investment period to 2030. No dividends have been paid to external shareholders since 2017.

When proposing payment of a dividend, the directors of Southern Water Services Limited, acting in accordance with their directors' duties and with the company's licence, will consider the following:

- Base level of dividend – financial;
- Base level of dividend – performance; and
- Financial resilience.

This dividend policy is also aligned to our Articles of Association. These were also updated ahead of the 2025–30 Asset Management Period (AMP).

Base level of dividend – financial

The base level of dividend will be determined using an equity return consistent with our most recent Final Determination and our actual level of gearing. This recognises our management of economic risks and capital employed.

In assessing any adjustment to the base level of dividend, we'll take into account all aspects of our performance. This will reflect our overall financial performance as compared to the final business plan, as agreed by Ofwat.

Base level of dividend – performance

The Board will consider if the payment or part payment of the dividend reflects, or would be consistent with achievement of, the long-term social, environmental, financial and operational performance commitments made to stakeholders, including customers, employees and members of the Southern Water pension scheme.

In considering this issue, the Board will assess whether the company is significantly underperforming when compared with its Final Determination and/or has a serious performance issue. In order to determine performance, the directors will consider performance in the round and shall have regard to the suite of Performance Commitments that the company has made which include targets in relation to:

- Performance for customers (including, but not limited, to C-MEX and D-MEX).
- The delivery performance of the large enhancement programme that we've committed to for 2025–30.
- Operational commitments which are of importance to customers (including, but not limited to leakage, per capita consumption, water quality, interruptions to supply, risk of low pressure and pollutions).
- Wider social and environmental commitments (including, but not limited to, commitments in relation to vulnerable customers, sustainable abstraction, climate change mitigation and adaptation, and community investment).
- This assessment will also consider the previous performance of the company and the relative performance of the company to our industry peers over the period from 2020–30.
- Compliance of the business in line with statutory and regulatory obligations
- The base level of dividend yield can be adjusted up or down depending on performance.

The Board also takes into consideration the obligations of the company to its employees including (but not limited to) the obligation to make appropriate investment in health, safety and wellbeing and to make sure that there's appropriate funding of the pension scheme.

Financial resilience

The Board will consider our financial resilience ahead of any dividend decision and whether any

 Read more about our **tax arrangements** on page 102.

Financial performance continued

financial out-performance should be reinvested to benefit customers or the environment.

The financial resilience assessment works on the principle that dividends declared reward efficiency and the effective management of risks.

This will consider the interests of our employees, other stakeholders, and our pension schemes. Our dividend policy is intended to support the financial resilience and investment grade credit ratings of the business, and ensure continued access to diversified sources of finance. As part of this, we review:

- a. Headroom under debt covenants;
- b. Reserves, ensuring we have sufficient reserves in place;
- c. The impact on the company's credit rating;
- d. The liquidity position and ability to fulfil licence conditions;
- e. Key areas of business risk; and
- f. The requirements of current and future investment needs.

The policy, as reflective of our Draft Determination response will make sure that we restrict the payment of dividends, if gearing is above 70%.

Payment and non-payment of dividends

We'll be transparent in the payment of dividends and will clearly justify the payment in relation to the factors outlined above.

The company is currently in trigger events due to its debt covenant and credit ratings and, as a result, is therefore not allowed to pay dividends.

The dividend policy applies to the payment of any dividend regardless of the purpose of it.

The net benefits of unforeseen inflation will not be taken into consideration if they're not clearly linked to outperformance or the prudent actions of management.

No dividends were declared or paid in 2024–25 (2024: £nil).

Governance

We'll publish our dividend policy annually (in the Annual Report) and highlight any changes. No changes are currently planned to be made to the existing policy ahead of the next investment period (2030–35), but the Board will keep this under review.

Tax strategy and policies

Southern Water and all group companies adopt the tax strategy and policies outlined below.

Our approach to the management of tax affairs is driven by our core values of succeeding together, always improving, doing the right thing and working with care, alongside the corporate strategy of the company. We've a low-risk tax appetite, and this is reflected in our management of tax.

The foundation of our tax strategy is to comply fully with tax legislation and to focus upon maintaining a strong tax compliance culture and an open and transparent relationship with HMRC.

To make this happen, we run regular compliance reviews both internally and externally to make sure that our tax policies are consistently applied. Our approach to tax planning is to align to business decisions made in the best interests of customers and stakeholders, rather than use tax planning to drive or determine business decisions. The very nature of our business means we always take a long-term view on all activities.

This means that our tax strategy, and approach to tax, is sustainable, ethical, and considers both social and corporate responsibilities. It also means that it can stand up to external scrutiny. When faced with a decision or business case, the ongoing tax impact is always considered as part of that decision-making process.

Our approach to tax management and governance

We make sure that we're fully compliant with tax laws, rules, regulations and reporting requirements in all operations. This means following both the letter of the law as well as the spirit of the law.

A culture of doing the right thing is embedded in our core values and our approach to tax embodies this by making sure that we pay the right amount, in the right place, at the right time. We also use the expertise of professional tax advisers to maintain best practice in our approach to compliance and in circumstances when additional advice might be needed.

The management of the tax affairs of Southern Water and all companies in the group, including the relationship with HMRC, is the responsibility of the Tax team. Roles and responsibilities within the team are clearly defined. The team reports to the Group Treasurer, who in turn reports to the Chief Financial Officer (CFO). The CFO is the Senior Accounting Officer (SAO) and has ultimate responsibility for the tax affairs for Southern Water and the Southern Water Group companies.

Financial performance continued

Our management of tax risk

We adopt a conservative approach to tax risk. Our tax management focus is on compliance, systems and governance and our tax planning is always aligned with our commercial and economic activity. All companies within the group are subject to UK tax and all companies are UK tax resident, irrespective of their place of incorporation. This means that each company is subject to UK tax.

Tax risk primarily comes from business changes and complexities, along with the ever-changing regulatory and legislative environment. We manage this risk by having an experienced Tax team dedicated to compliance and risk identification and management.

Our Tax team puts processes and controls in place and determines what level of risk is acceptable. We also work with industry tax experts who provide specialist services, check what we're doing and provide guidance on compliance requirements. Our Internal Audit team also carries out assurance on the control environment relating to the transactional processes underpinning our payments to the Exchequer and our collection of taxes on its behalf.

Our relationship with His Majesty's Revenue and Customs (HMRC)

A key factor in our management of our tax affairs is our relationship with HMRC.

We meet all statutory and legislative requirements and we manage our tax affairs in an open and

transparent way. This means sharing information with HMRC, which goes beyond the normal filing of statutory returns. This includes sharing internal process manuals and other documents in an open and transparent way to demonstrate our management of tax risk. HMRC shares our view of our low-risk approach to the management of our tax affairs, with the last HMRC assessment, in September 2024, being that we were deemed to be a 'low- risk' company.

Maintaining public trust

We continue to be committed to complying fully with tax legislation, maintaining a strong culture of compliance and having open and constructive relationships with the authorities. We don't use tax avoidance schemes or take an aggressive approach on tax planning when interpreting legislation.

We apply government and fiscal authority tax incentives and exemptions, where they exist. For example, the UK tax system recognises the benefit to the economy of investment in infrastructure and environmental protection through the availability of capital allowances, which reduce the corporation tax Southern Water pays. Any benefits of this are passed to our customers through reduced bills.

Southern Water and all Southern Water Group companies pay taxes in the UK and do not use offshore companies to avoid tax or levies. In October 2022 all assets and liabilities from our Cayman subsidiary were transferred to two new UK tax registered entities (both subsidiaries of Southern Water Services Limited) and this Cayman Islands registered entity has now been dissolved, effective at the end of June 2023. It was originally

set up to issue debt in the UK. Its Cayman Island registration didn't have any impact on the tax due by the group.

Although our tax strategy is reviewed and updated each year, it's not expected to significantly change from year to year.

We regard this publication as complying with our duty as required under paragraph 16(2) of Finance Act 2016 for the financial year ended 31 March 2024.

Understanding our taxable profits and our corporation tax

Our taxable profits are generally different to our accounting profits for the following reasons:

- **Capital allowances and depreciation** – capital allowances are a way of obtaining tax relief on certain types of capital expenditure. These are treated as a business expense and so reduce our taxable profit. Depreciation represents how much of an asset's value has been used up and reduces accounting profit. Capital allowances are applied at different rates than used for depreciation. As a result, there's a difference between capital allowance deductions made against our taxable profits and depreciation made against our accounting profits. The annual variance between capital allowances and depreciation results in a difference between our taxable profit and accounting profit. Due to the large scale of our capital expenditure programme and the level of capital allowances available and utilised, our taxable profits are significantly reduced.

 Read more about our **other tax contributions** on page 104.

Financial performance continued

- **The treatment of interest costs** – we borrow money to finance our capital expenditure programme. The interest associated with this borrowing is recognised as both an accounting and tax expense, reducing profit and the amount of tax we pay. However, there are differences between the amounts of interest recognised for accounting profits and for taxable profits. Examples are that movements on the fair value of our financial derivatives are not recognised in our taxable profits, interest that's capitalised in our financial statements is treated as an expense when calculating our taxable profits, and a portion of interest that is restricted under corporate interest restriction rules.
- **Group relief** – Southern Water is part of the Greensands Holdings group of companies (at 31 March 2025), as set out on pages 108 to 110. All of these companies are taxable as UK companies and profits or losses of the companies within the group can be set off against one another in the financial year. Group relief can be claimed by Southern Water Services Ltd where the standard rate of tax for the losses claimed is paid. For 2023–24, no tax for these losses was paid, therefore there was no group relief claimed.
- **Deferred tax** – the cumulative difference between taxable profits and accounting profits, which are expected to be temporary and reverse in future years, is presented as deferred tax on the statement of financial position. Changes to the future rate of corporation tax revise the carrying value of these differences.

Our tax charge is reduced by our large capital expenditure programme and the interest we're charged on borrowings. The benefit of this is passed to our customers through reduced bills. There's no corporation tax allowance within our customer bills for the regulatory period from April 2020 to March 2025.

Details of our tax charge for the current financial year are disclosed in note 10 to the financial statements and the current year charge to the income statement is also explained further on page 226.

Our other tax contributions

Our other contributions to the Exchequer amounted to £95.7 million. These are explained below:

- Business rates of £35.0 million paid to local authorities (2024: £32.5 million) and payments to the Environment Agency of £11.3 million (2024: £8.6 million) for abstraction licences and discharge consents, which reduce profits chargeable to corporation tax.
- Employment taxes of £49.4 million (2024: £49.0 million) paid to the Exchequer under PAYE (Pay As You Earn) and National Insurance contributions.

No payments have been made to other group companies for tax losses surrendered to the company. As a result of capital allowances and interest charges, no corporation tax was paid by the company to HMRC in 2024–25.

Financial KPIs

Within our financial debt structure is a comprehensive set of covenanted financial ratios. Of these, there are two key ratios, namely the ratio of net debt to Regulatory Capital Value (RCV) and the ratio of adjusted net cash income to net interest cost.

The net debt to RCV ratio is calculated as short and long-term senior borrowings less cash and short-term deposits, for the consolidated SWS group of companies, to the RCV. The RCV is set by Ofwat at each five-year review and reflects our initial market value plus subsequent capital investment and inflation. The RCV is adjusted at each periodic review for relevant changes to the level of expenditure or performance during the five-year period.

The adjusted cash interest cover is measured as the ratio of net cash inflow from operating activities less RCV depreciation to net cash interest expense for the consolidated group of SWS companies.

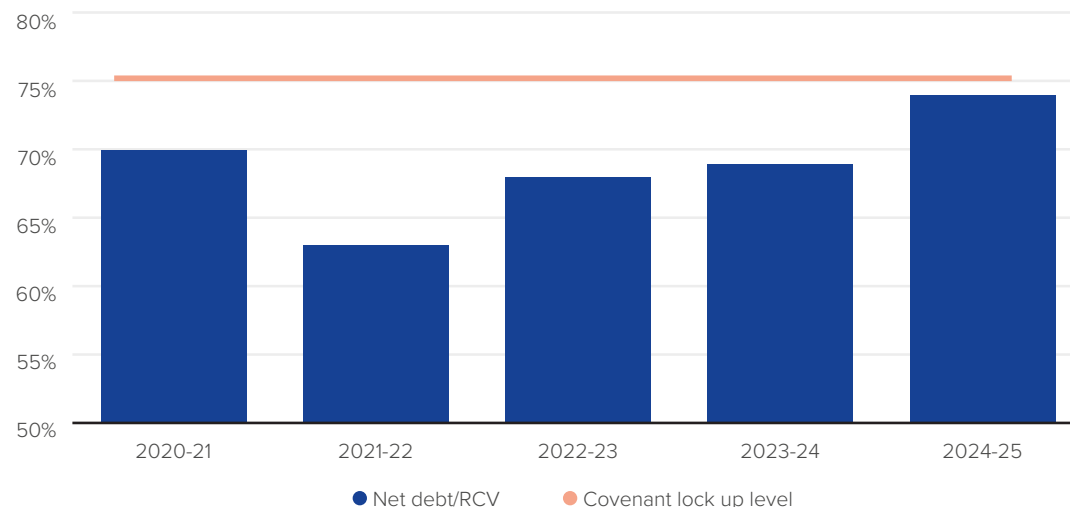
Credit ratings shown on the next page are as at the date of publishing the accounts.

SWS is in a debt covenant trigger event under our Common Terms Agreement which restricts the payment of dividends and, on demand, requires the preparation of a remedial plan for our lenders.

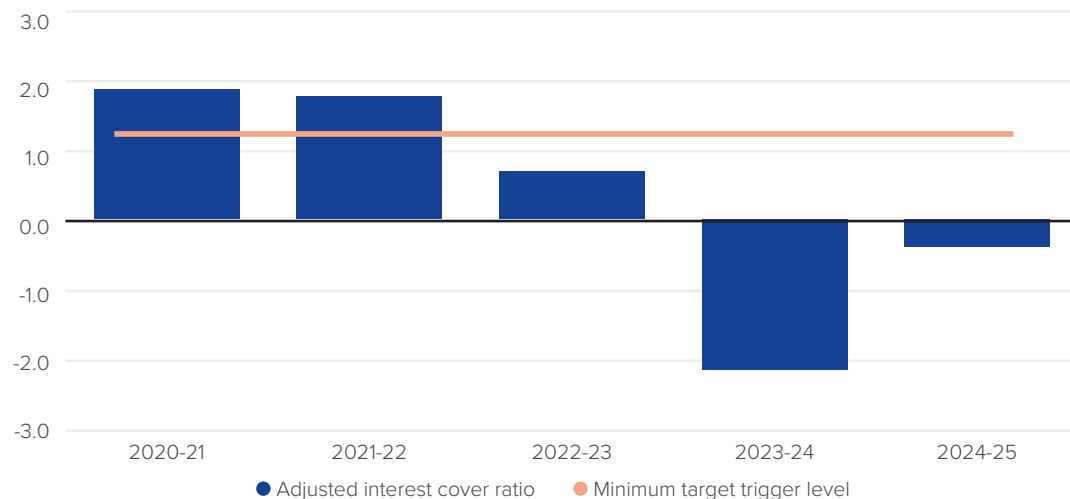
Our covenant ratios also contain default levels. Further details are provided in the going concern statement on page 199.

Financial performance continued

Debt covenant Net debt/RCV



Adjusted cash interest cover ratio



The covenanted lock-up level/trigger level refers to debt covenants where payment of dividends by Southern Water is not permitted or, in the case of net debt/RCV places restrictions on our ability to issue further debt. These are structural buffers to protect against a default covenant, e.g. the covenanted default net debt to RCV level is at 95%.

Credit rating as at date of publishing the accounts

Standard & Poor's

Class A debt:

BBB-
(CreditWatch negative)

Fitch

Class A debt:

BBB- (stable outlook)

Moody's

Class A debt:

Ba1 (stable outlook)

Southern Water has obtained a waiver from its lenders to continue to access permitted financial indebtedness to refinance the business to March 2030 in the event of a Trigger event.

SWS is also in a credit ratings Trigger event, which also restricts the payment of dividends under the terms of our Common Terms Agreement, which states that a Trigger event occurs if any two of the credit ratings fall to BBB (Standard & Poor's), BBB (Fitch) or Baa2 (Moody's) or below; and a default would occur if any two of the credit ratings are lower than the minimum rating required for the status of investment grade.

A further credit rating downgrade by Fitch or S&P, would lead to a default under our Common Terms Agreement and would result in a breach of our licence and a Ratings Event of Default.

Southern Water has entered into a lock-up agreement with financing creditors representing more than 72% by value in support of certain proposals, including removing the Ratings Event of Default from its financing documents.

Capital structure

Why Southern Water raises finance

Significant capital investment has been a feature of our business since privatisation in 1989. We've invested in both maintaining our existing asset base and constructing new assets to improve the environmental quality of wastewater, improve the quality of drinking water and accommodate population growth in our area of operation.

As an example, before privatisation, 350,000m³ of untreated wastewater per day was discharged into our coastal waters, but the completion of our £300 million Cleaner Seas for Sussex scheme in 2013 marked the conclusion of a programme of capital investment to fully treat wastewater of the coastal towns and cities from Kent to Hampshire and the Isle of Wight.

A further example is our £100 million construction project at Woolston, which has improved the quality of effluent discharged into the River Itchen and reduced odours from our wastewater treatment site.

We raise finance to pay for the construction of new assets and to repay loans taken out in previous years. We can't rely wholly on raising new finance to pay for the construction of new assets. Our shareholders contribute approximately 30% of the funds we need, which also provides a financial buffer to absorb financial risk.

Revenues from our customers are used to meet the costs of running the business (our operating expenditure), the cost of maintaining our assets, and to pay for the interest on the finance we raise and a return on the equity provided by our shareholders, to finance the capital investment programme. Our economic regulator, Ofwat, is there to make sure that we can only charge our customers for an efficient level of cost, which is benchmarked against other water companies.

The charts on the next page illustrate the sources and uses of expected cash flows for the business plan 2020–25 and demonstrate our requirement to raise finance to fund our capital investment programme. The data is based upon the regulatory price determination for 2020–25, which sets out both our performance obligations and the limits on customer bills for this five-year price period.

➔ Read more where our **customers' money goes** on page 107.



Capital structure continued

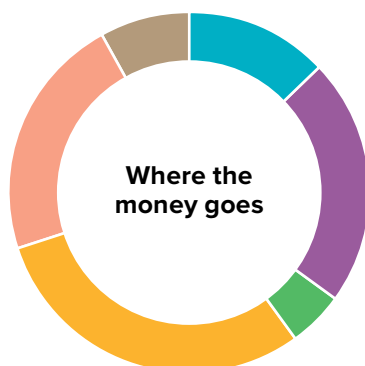
2020–25

Household customers	58%
Business customers	15%
Net debt proceeds	13%
Equity proceeds	14%



2020–25

Operating costs – providing clean water	13%
Operating costs – collecting and treating wastewater	22%
Operating costs – customer service	5%
Capital investment – maintaining infrastructure	30%
Capital investment – enhancement expenditure	22%
Interest	8%



Note: No dividends have been paid to shareholders.

Where the money comes from

Household customers – money we charge customers for providing water and wastewater services to their homes.

Business customers – money we charge businesses for providing water and wastewater services. It also includes charges to developers for providing infrastructure and new connections to our network.

Net debt proceeds – new loans raised to fund capital investment programmes, less loans repaid.

Equity proceeds – additional financing raised from shareholders to support the delivery of our capital investment programme.

Where the money goes

Operating costs – Day-to-day running costs including wages, power, chemicals, materials and bad debt* costs.

* Bad debt = the cost of providing for unpaid customer charges.

Capital investment maintaining infrastructure – investment to maintain our existing pipework and treatment works.

Capital investment enhancement expenditure – investment to build new assets, improve treatment standards, comply with environmental obligations and cater for population growth.

Interest – on money we've borrowed to finance improvements to the business over the long term.

Capital structure continued

GHL ownership (at 31 March 2025)

MSCIF Wight Bidco Ltd

Funds managed by Macquarie Asset Management on behalf of long-term investors including pension funds and insurance companies.

UBS Asset Management

Shareholding advised by UBS Asset Management, a large scale global asset manager, offering investment capabilities across all major traditional and alternative asset classes.

Hermes Infrastructure funds

Hermes Infrastructure is part of Federal Hermes International and is a specialist infrastructure manager operating a diversified, well-established, UK-focused shared investment platform.

Other

Minor shareholdings held by infrastructure investment companies.

Ownership and structure (at 31 March 2025)

Southern Water Services Limited (Southern Water) is a privately owned company and is the principal subsidiary of Greensands Holdings Limited (GHL). All companies in the group are UK tax resident and liable for tax in the UK.

Ownership

GHL is owned by a consortium of long-term investors representing infrastructure investment funds, pension funds and private equity.

In September 2021, funds managed by Macquarie Asset Management (MAM) acquired a majority stake in GHL with an investment of over £1 billion of new equity into the group. In October 2023, funds managed by Macquarie Asset Management (MAM) agreed to invest an additional £550 million of equity into the group.

The equity injected was used to recapitalise the ownership structure and improve the financial resilience of Southern Water. None of the proceeds were paid to the existing shareholders of GHL.

GHL Board

The GHL Board comprises three directors, appointed by its majority shareholder.

The purpose of GHL is to act as a single-purpose entity, as the ultimate holding company for Southern Water and the other companies within the group. The GHL Board complements and supports the aims of Southern Water for its long-term success. While certain matters are reserved to the GHL Board and/or shareholders in it, they do not impact the day-to-day operations of Southern Water and nor do they materially affect its ability to function as a company in providing an essential public service.

Group structure

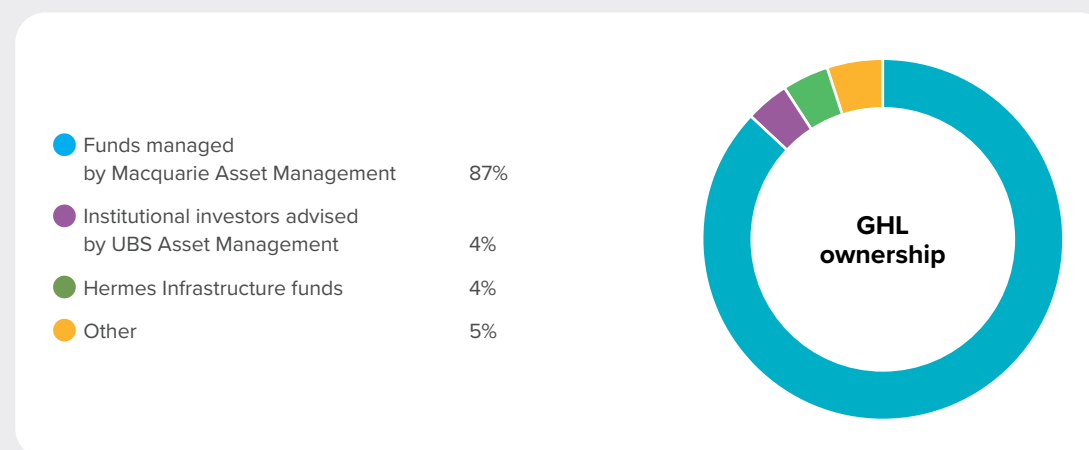
In September 2007, the Greensands group of companies was established for the purpose of the acquisition of 100% of the share capital of Southern Water Capital Limited, the then ultimate parent company of Southern Water, from the Royal Bank of Scotland (investing £1.9 billion of equity and debt to finance the acquisition).

During 2018–19, additional Greensands financing companies were added to the group structure as part of a financing plan to improve financial resilience of Southern Water ahead of the five-year price review period starting April 2020.

As mentioned above, funds managed by Macquarie Asset Management acquired a majority stake in the Greensands group in September 2021. This investment was used by the group to repay external debt totalling £476.0 million and make a cash injection into Southern Water Services totalling £529.9 million from the settlement of an inter-company loan and the issue of new equity.

Of the further equity injection, of £550 million made in October 2023, £175 million was retained in group companies to support interest payments on external debt and £375.0 million was injected into Southern Water Services.

→ See page 196 'post balance sheet events' for details of **changes to our structure after 31 March 2025**.



Capital structure continued

A summarised group structure (at 31 March 2025), together with details of the interest and dividend payments between companies, is shown in figure 1.

In summary, SWS has made no payments to internal companies. Greensands companies have paid external loan interest payments of £33.2 million.

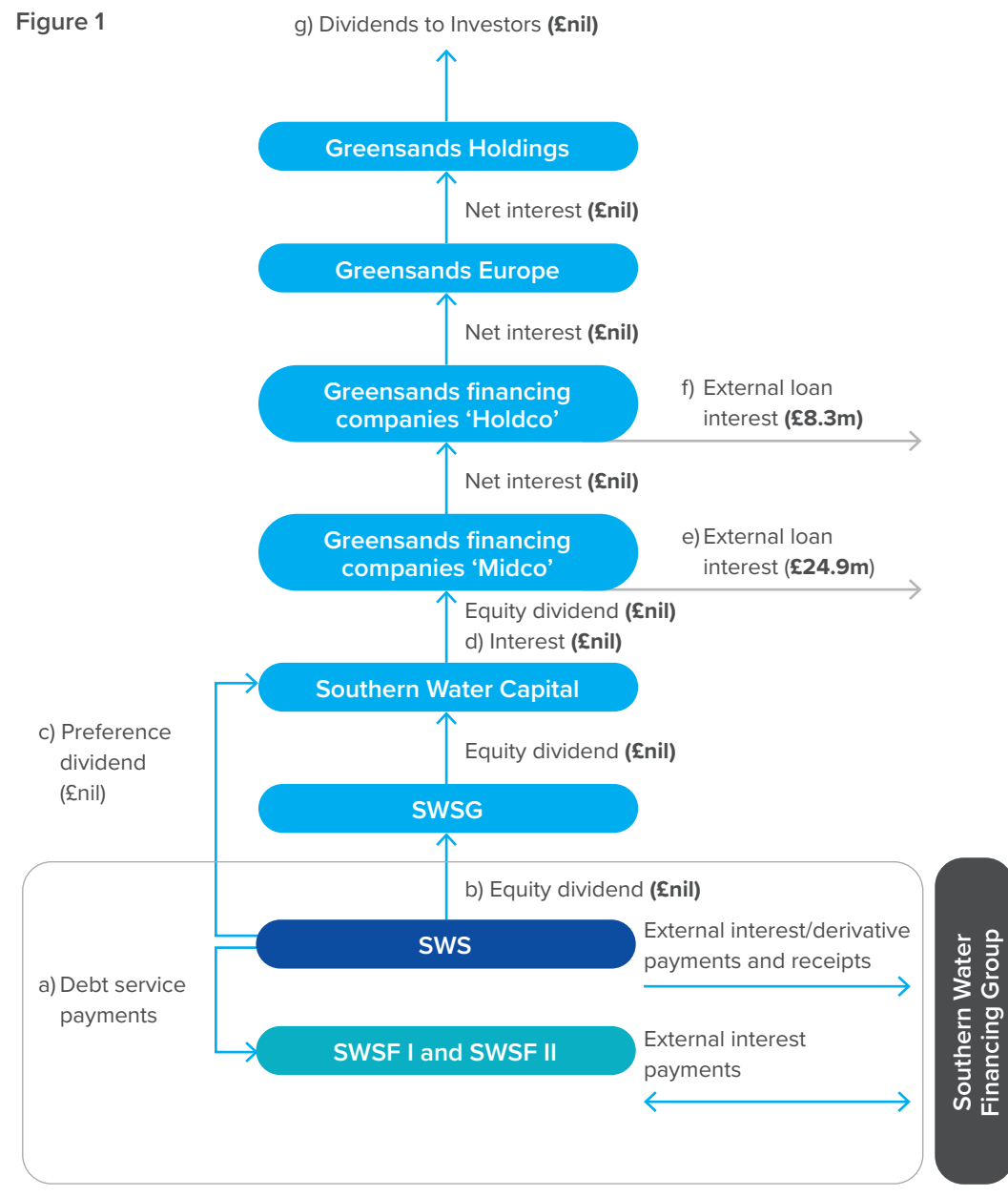
No interest or dividends have been paid to investors in Greensands Holdings.

Footnote:

- a. Interest payments from SWS to SWSF I and SWSF II on the loans taken out on behalf of SWS. This is then used to pay the interest on these external loans.
- b. There were no ordinary dividends during the year.
- c. No dividend payments were made on the preference shares issued by SWS in relation to dividends accrued at March 2025.
- d. Interest payable on inter-company loans from Southern Water Capital to Greensands Investments.
- e. External interest paid by GSF Ltd, funded from interest receivable and cash held at 'Midco'.
- f. External interest paid by SWGF, funded from interest receivable and cash held at 'Holdco'.
- g. No dividends were paid to investors.



Figure 1



Capital structure continued

All companies are UK tax resident and therefore subject to UK taxes.

Most companies within the group are incorporated in the UK. The only exception is:

- Greensands Holdings Ltd is incorporated in Jersey, but UK tax resident. The company was incorporated there in 2007 because Jersey law allowed greater choice than the UK about the way distributions can be made to shareholders while treating UK and non-UK investors equally.

→ Read more about **how we finance the business** on page 111.

→ Read more about **changes to our group structure** on page 196.

Corporate level	Companies (at 31 March 2025)	Description
Greensands Holdings	Greensands Holdings Limited (GHL)	The ultimate parent company for the group.
Greensands Europe Part of 'Holdco'	Greensands Europe Limited (GSE)	Intermediate holding company. Listed (Jersey) Eurobonds held by shareholders in proportion to their equity were converted to an inter-company loan with GHL in June 2021.
Greensands financing companies 'Holdco'	Greensands UK Limited (GSUK) Greensands Junior Finance Limited (GSJF) Southern Water (Greensands) Financing plc (SWGf) Greensands Senior Finance Limited (GSSF) Greensands Investments Limited (GSI)	A group of companies established to provide additional external financing for the acquisition of the Southern Water Capital group of companies in 2007 plus a further £250 million of additional finance raised in 2019, the proceeds of which were invested into SWS. The security granted to the lenders of this financing is limited to the share capital of GHL. There are no debt guarantees in place between the Greensands financing companies and the Southern Water Financing Group, with the result that SWS is fully protected, and fully isolated, from a default at any Greensands company.
Greensands financing companies 'Midco'	Greensands Finance Holdings Limited (GSFH) Greensands Finance Limited (GSF Limited) Greensands Financing plc (GSF plc)	A group of companies incorporated in 2018 as part of a financial restructuring exercise to improve the financial resilience of Southern Water. The objective of the restructuring was to reduce the total leverage within the Southern Water Financing Group. There are no debt guarantees in place between the Greensands financing companies and the Southern Water Financing Group, with the result that SWS is fully protected, and fully isolated, from a default at any Greensands company.
Southern Water Capital	Southern Water Capital Limited (SWC) Southern Water Investments Limited (SWI)	Intermediate holding companies established 2002 as part of a previous ownership structure.
Southern Water Services Group	Southern Water Services Group Limited (SWSG)	Intermediate holding company established as part of a previous ownership structure.
Southern Water Financing Group	SWS Group Holdings (SWSGH) SWS Holdings Limited (SWSH) Southern Water Services Limited (SWS) SW (Finance) I plc (SWF I) SW (Finance) II Limited (SWF II)	SWS is the regulated water and wastewater company. It is the company that this Annual Report and financial statements relates to. SWF I and SWF II have been incorporated to raise finance on behalf of SWS. The Southern Water Financing Group was established in 2003 and comprises a legal framework where each company guarantees the obligations of others within the group. Security granted to the lenders within this group is limited to the share capital of SWS Group Holdings Ltd. This structure ensures that SWS can continue to operate as a regulated water and wastewater company in the event of a default by any of the group companies above the financing group.

Capital structure continued

How we finance the business

In note 20 to the financial statements, we provide an analysis of our outstanding debt at 31 March 2025 and 31 March 2024. Our loans comprise: sterling bonds, issued by our financing subsidiaries SWF I and SWF II and listed on the UK Stock Exchange; other loans, including loans from US insurance companies; bank loans; and a loan from the European Investment Bank.

The regulatory framework under which revenues and the RCV are indexed exposes us to inflation risk. This risk is managed through the use of inflation-linked loans and derivatives within the overall debt portfolio. We don't intend to access future inflation-linked debt through the use of derivatives, but will instead seek such debt from natural sources, such as public and private bond markets. As a consequence, we expect the proportion of the RCV and debt that is currently linked to inflation through the use of derivatives will decrease over time. We're not restricted to issuing only sterling debt but will make sure that any other currency loans are fully hedged back to sterling. We also hedge our exposure to interest rate volatility by making sure that at least 85% of our outstanding debt liabilities (in respect of Class A and Class B debt) are either inflation-linked or fixed rate for the current five-year regulatory period and at least 70% in the next period (on a rolling basis).

We also consider refinancing risk by making sure that loan maturities are not concentrated in any single year or regulatory period. When issuing new loans, we test that refinancing obligations are less than 20% of RCV in any two consecutive years and 40% of RCV within any five-year regulatory period. The maturity profile of loans extends to March 2056, which means that we can comfortably meet this test. Although not formally required, we make sure that inflation-linked swap accretion payments are included within our maturity analysis.

We make sure that sufficient liquidity (cash and committed bank facilities) is in place to fund the business for at least the next 12 months (including loan and inflation-linked swap accretion maturities), which is an important consideration given that we have negative cash flow generation in most years because of our continuing capital investment programme.

As a result of our prudent liquidity policy, we can have large cash balances at times. We reduce the risk of losing cash on deposit, from bank or fund failure, by setting maximum limits on cash deposits and minimum credit ratings for each bank or fund. Banks must have, as a minimum, a credit rating of P1 (Moody's), A1 (Standard & Poor's) or F1 (Fitch). Funds must have the most secure rating of AAA rated.

The Greensands companies also have their own external loans:

- Loans issued by Southern Water (Greensands) Financing plc, represented in the diagram above as part of the 'Holdco' financing companies.
- Loans issued by Greensands Finance Limited and Greensands Financing Plc, represented in the diagram above as part of the 'Midco' financing companies.
- The Greensands financing companies also maintain liquidity facilities (£40.0 million at Greensands Midco financing companies to October 2027), which can provide a source of finance to pay interest on loans.

Post balance sheet event: On 4 July 2025, Sandstone Bidco Limited acquired the issued share capital of Greensands Junior Finance Limited and Southern Water (Greensands) Financing plc from Greensands (UK) Limited, becoming the new ultimate indirect holding company of Southern Water, replacing Greensands Holdings Limited, the previous ultimate parent company.



Risk management approach

As we enter the new business plan period our approach to risk management is to support better decisions through an improved understanding of risk across the company.

➔ Read about our **risk oversight process** on page 114.

Risk management is a core component of our governance and internal control framework, which provides the structure through which we conduct business.

Risk is inherent in our business, and we face a diverse range of risks and uncertainties that cannot be completely eliminated. The purpose of our approach to risk management is to support better decisions through an improved understanding of risk. Those risks that have the potential to have a material impact on our company and our ability to deliver on our strategic objectives are our principal risks. Our risk governance model means that we're able to manage, monitor and report on our principal risks to maintain a resilient business. These risks are described on pages 118 to 130.

Managing risk

Our approach to risk management is designed to provide a clear and consistent framework for managing and reporting risks associated with our operations, to the Executive and to the Board.

Our risk management framework is the totality of systems, structures, policies, processes and people that identify, measure, monitor, report and control or mitigate internal and external sources of risk.

The framework promotes better decision-making and strengthens our operational resilience. It supports the best outcomes and opportunities for the company and our customers through effective:

1. **Risk identification and ownership:** understand the risk environment, identify the specific risks we face and assess potential exposure.
2. **Risk assessment:** determine how best to manage identified risks to balance exposure.
3. **Risk response:** take action to manage the risks we're exposed to, ensuring our resources are effectively and efficiently prioritised and used.

4. **Risk monitoring, reporting and escalation:** report on a quarterly basis to the Executive Committee, Audit Committee, and the Health and Safety and Operational Risk Committee and to the Board on a periodic basis on how key risks are being managed, monitored, assured and the improvements that are being made.
5. **Risk appetite and communication:** use our analysis to support the Board's determination of risk appetite and to monitor and report against it.



Risk management approach continued

Across the company our risk management approach is embedded within the business directorates and their business processes. We've put in place an approach that provides a consistent basis for measuring risk to:

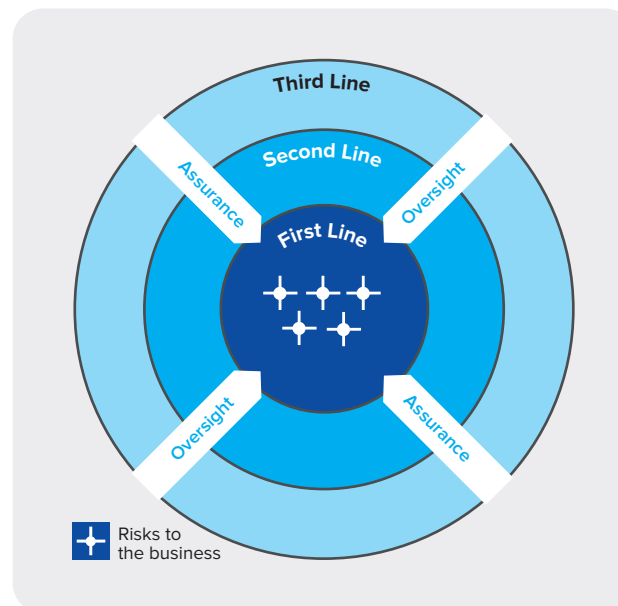
- establish a common understanding of risks on a like-for-like basis, taking into account potential impact and likelihood,
- report risks and their management to the appropriate levels of the company,
- inform prioritisation of specific risk management activities and resource allocation.

All areas of the company review risks and business processes to help inform and enable risk-based decision-making. As part of our annual planning process, the Executive and Board review the company's principal risks, emerging risks, and high impact low likelihood (HILL) events.

Three lines of defence

Our approach to risk management adopts the 'three lines of defence' model in which risk ownership responsibilities are functionally independent from oversight and assurance:

- Primary responsibility for risk management lies with the business. The risk owner is the first line of defence. An important part of the role of all employees is to make sure that they manage risks appropriately.
- The Risk Management function forms the second line of defence and provides independent and objective review and challenge, oversight, monitoring and reporting in relation to material risks.
- Independent External Assurance and the Internal Audit function act as the third line and provide independent assurance on the business control environment and the effectiveness of the wider system of internal control.



First line

- The functions that own and manage risk.

Second line

- The internal functions that oversee risk and regulatory compliance activities.
- Provide guidance, direction and oversight.
- Develop the related assurance frameworks.

Third line

- Provides independent assurance on the business control environment, and the effectiveness of the wider system of internal control.

The next 12 months

The coming year will focus our risk management efforts on maturing our control environments and risk mitigation activities, including:

- Embedding our risk-aware culture.
- Analysis and risk assessment to the Final Determination outcomes issued from Ofwat.
- Updating our corporate risk taxonomy and risk appetite position to reflect the business strategy for the next five-year Asset Management Period (AMP8) beginning 1 April 2025.
- Prioritising mitigation activities to reduce risks related to our key risks including regulatory compliance and cyber security.
- Enhanced our focus on climate adaptation strategies and their related risks and opportunities.
- Enhancing our dynamic risk reporting to support risk based decision-making and deliver business intelligence insights.
- Continued training across the company to embed our business partnering model.
- Strengthening our analytical risk management capabilities through use of our governance, risk and compliance (GRC) system.

The continuous improvements to our risk management approach are critical to support long-term organisational development, value and sustainability. This means the decisions we make are considered and demonstrate our continued commitment to delivering value to our customers and stakeholders.

➔ Read more about **the Board's role in mitigating risks** on pages 114 to 115.

Risk oversight and governance

To successfully embed risk management, the process is supported by a governance structure that defines roles and responsibilities at each level of the company. The Board has overall accountability for risk management but discharges this role through the Audit Committee. It oversees and advises on enterprise risks, while the Health and Safety and Operational Risk Committee oversees and advises on operational risks.

Role of the Board

The role of the Board is to promote the long-term sustainability and our responsibilities to shareholders, customers, employees, and the communities in which we operate. It has overall responsibility for risk management within the company.

The Board is responsible for maintaining an effective risk culture and is committed to:

- reviewing, endorsing and monitoring our approach to risk culture and conduct;
- forming a view on our risk culture and the extent to which it supports our ability to operate consistently within our risk appetite.

The Board defines our risk appetite, enabling the company, in both quantitative and qualitative terms, to judge the level of risk it is prepared to take in achieving its overall objectives.

Our risk appetite is directly aligned to our principal risks. The risk appetite for each of these underpins our governance and reporting framework and is subject to regular review by the Board. The alignment of our principal risks with risk appetite allows for an informed analysis and discussion of our position and provides the Board with the insight to make key decisions.

As a company we're tolerating a level of risk which is outside our current risk appetite and is reflected in the review of our principal risks in the coming pages. This can result in more focus on short-term issues than longer-term resilience.

The Board ensures the oversight and monitoring of our risk culture, appetite and management activities through the Audit Committee.

Role of the Audit Committee

The Audit Committee is responsible for the review of the company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems. It advises the Board on the company's overall risk appetite, tolerance, culture and strategy, considering the current and prospective regulatory, legal, political, macroeconomic and financial environment with the Board retaining overall ownership and approval.

The Audit Committee oversees and advises the Board on current risk exposure and longer-term strategic risks to determine our future risk strategy. It also has a key role in risk assessment:

- reviewing the company's overall risk assessment processes for enterprise and corporate risks that inform the Board's decision-making, ensuring qualitative and quantitative metrics are used;
- reviewing regularly and approving the parameters used in these measures and the methodology adopted; and
- setting a standard for the accurate and timely monitoring of large exposures and corporate risk types of critical importance.

In addition, the Audit Committee reviews the company's capability to identify and manage new and emerging risk types and reviews reports on any material breaches of risk limits and the adequacy of proposed action. The Audit Committee also consider the findings of internal and external investigations and executives' response.

Role of the Health and Safety and Operational Risk Committee

The Health and Safety and Operational Risk Committee is responsible for the oversight and assessment of the overall adequacy and effectiveness, of the health, safety and wellbeing policies, strategies; processes and controls; operational risk management and compliance with relevant legal and regulatory requirements, with the Board retaining overall ownership and approval.

The Health and Safety and Operational Risk Committee has a key role in:

- reviewing the areas of significant corporate and individual health, safety, wellbeing and operational risk whether the executive is managing these risks effectively, including via the supply chain;
- reviewing the company's health, safety, security and wellbeing performance;
- reviewing operational risk and risk management of water, wastewater and capital delivery.

Risk oversight and governance continued

Role of the ESG Committee

The ESG Committee provides consideration of the material environmental and social matters relevant to the company's activities, as well as oversight of wider governance matters.

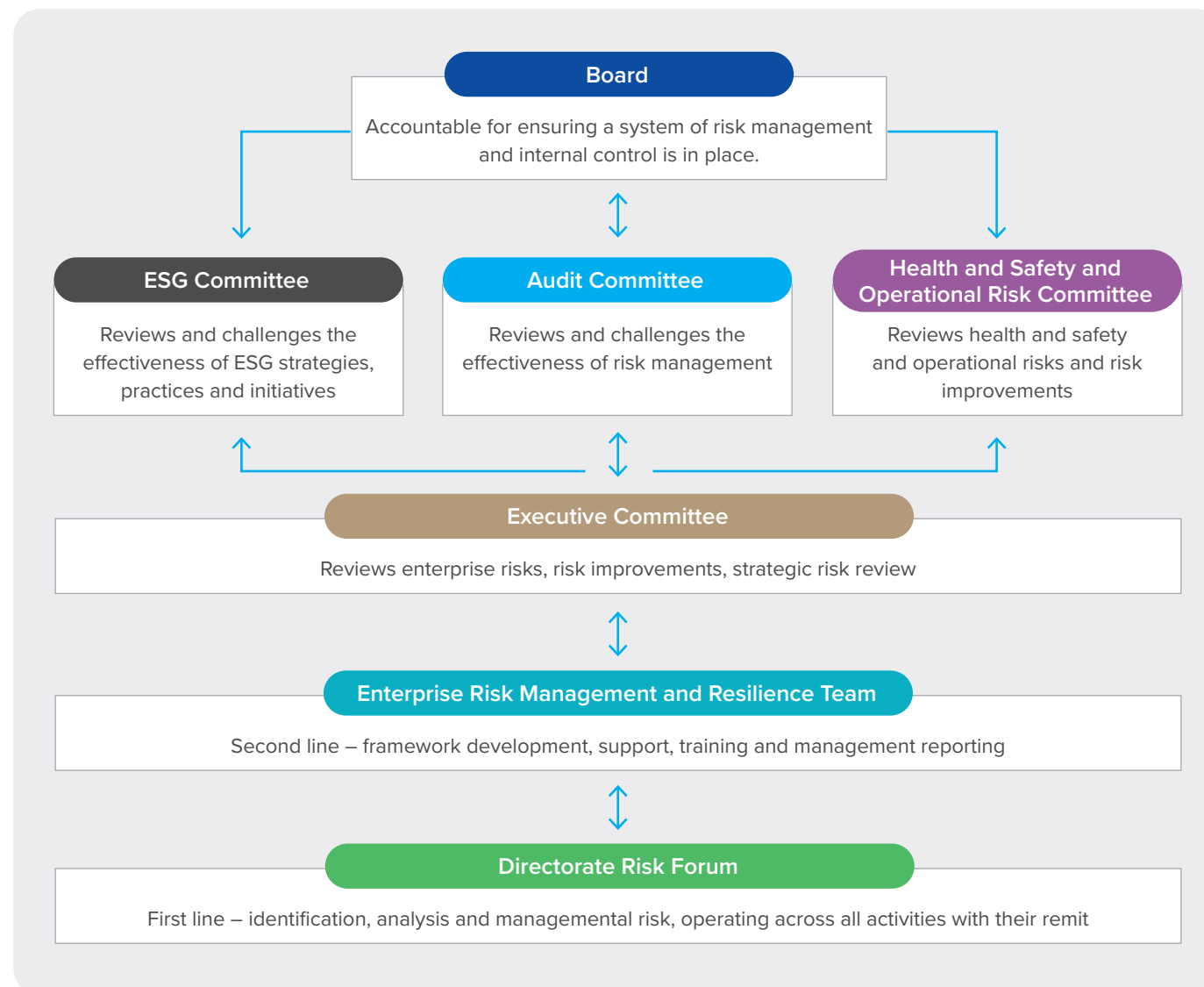
ESG Committee is responsible for the review of the risks related to our environment, social, and governance practices, commitments, policies, and strategies.

The ESG Committee has a key role in:

- Board approval of our decarbonisation targets and plan, and monitoring the delivery of such.
- Reviewing our annual ESG-related disclosures, including climate-related financial disclosures.
- Reviewing the progress of our equality, diversity, and inclusion objectives and plans.
- Reviewing the progress of our environmental and social impact programmes and plans, including nature and biodiversity.

→ Read more about our **principal risks** from pages 118 to 130.

Key risk and governance responsibilities include:



Emerging risks, high impact low likelihood (HILL) events and principal risks

Emerging risks

We regularly consider new, changing, or emerging risks that could affect our ability to achieve long-term objectives. We define emerging risks as uncertain future events that are challenging to assess due to their unpredictable nature or lack of reliable information. We run regular horizon-scanning exercises to identify and monitor emerging risks. Our risk assessment process monitors available management information from a wide variety of internal and external business and environmental sources and analyses potential causes, impacts, likelihood, and the time frame over which a risk could occur.

Our immediate horizon scan reviews possible emerging risks and their potential impact on the company, as illustrated.

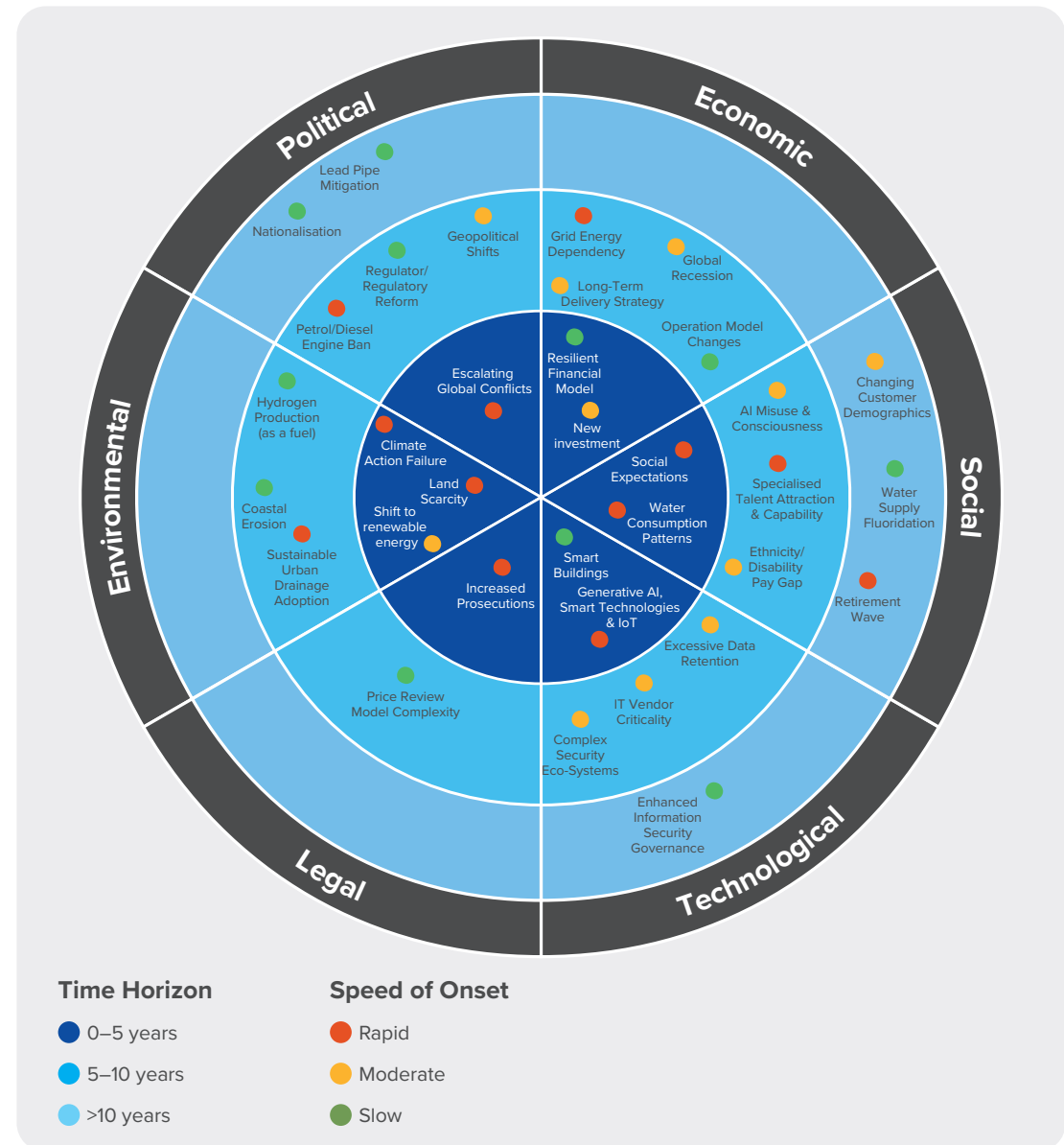
High impact low likelihood (HILL) events

High impact, low likelihood (HILL) events by their very nature are disruptive, and difficult to identify and control due to their unfamiliarity and low probability and infrequency of occurrence. While rare, when they occur, they have a major impact and can materially affect business operations and the achievement of the strategic objectives. However, preparing for every possible event is far too costly.

We regularly review a representative range of challenging yet plausible HILL event scenarios to understand the potential impact of such events, calling on expertise and business knowledge, and the application of our risk management framework. This allows us to understand the potential impact of such events and make sure that appropriate contingency plans are in place.

Key mitigation for HILL events is the preparedness of the enterprise-wide continuity planning to identify vulnerabilities, reduce their potential impact and to provide resilience in our planned 'response and recovery'. This is critical to have in place in addition to any preventative actions and controls.

HILL events are also considered when deciding what disaster recovery and business continuity scenario exercises to carry out. Understanding our preparedness and conducting a potential impact analysis for HILL events increases our knowledge of the underlying threats, allowing us to plan for the unknown.



Emerging risks, high impact low likelihood (HILL) events and principal risks continued

→ Read more about how the Board **manages risks** on pages 174 to 175.

Principal risks

Those risks that have the potential to have a material impact on the company's strategic objectives are our principal risks.

As part of our annual planning process, we manage, monitor and report on the principal risks for the Executive and the Board to review.

We have 12 principal risks. These are a key feature of our risk taxonomy and risk appetite. We review our principal risks and their risk components on an annual basis, in response to changes in internal and external operational environment, making sure that emerging risks are reflected and that the current structure reflects our risk context.

Principal risk radar

The principal risk radar provides an indicative view of the current risk position of each of the principal risks, relative to each other.



Emerging risks, high impact low likelihood (HILL) events and principal risks continued

Risk climate



Improving



Stable



Deteriorating

Risk	Commentary
1 Water Category Operational Risk climate	We're responding to changing weather patterns and regulatory pressure by strengthening supply resilience. Groundwater levels are strong, but contingency plans are in place for prolonged dry weather. The company has improved water quality through targeted programmes and is reducing leakage. Despite two major supply disruptions, a quick response helped manage customer impact. A major capital investment programme is underway to upgrade infrastructure and reduce environmental impact, though there are challenges that may affect delivery.
2 Wastewater Category Operational Risk climate	Extreme weather, rising demand, and strict regulatory targets are having an impact on our operations. While overall pollution events have decreased since 2020, serious pollution incidents have risen. Meeting future pollution reduction goals will require investment. The Clean Rivers and Seas Task Force is working to reduce storm overflow use. Public engagement remains central, especially regarding spills affecting rivers, chalk streams and bathing waters.
3 Customer Category Operational Risk climate	Since launching our Turnaround Plan in 2023, we have modernised customer service systems, improved the website, and introduced tools to speed up service and reduce complaints. New digital services like our virtual inspector and real-time incident maps have improved transparency and response times. Education and community engagement efforts reached over 98,000 young people. To help with rising bills, we have increased the financial support on offer to customers.
4 Financial Category Financial Risk climate	We're facing significant financial challenges due to increased public and regulatory scrutiny, which has made it harder to attract investors and raise money. Credit rating agencies downgraded the company in 2024, and more downgrades are possible. Since 2021, Southern Water has raised over £1.6 billion to support improvements and another £655 million has been committed for future investments. We submitted an £8.5 billion plan for 2025–30, but after Ofwat's Final Determination, we appealed to the Competition and Markets Authority. Ongoing uncertainty makes it harder for us to plan and deliver key improvements.
5 Compliance Category Corporate Risk climate	We're operating in an increasingly complex regulatory environment and remain under close scrutiny from multiple regulators. We're addressing past wastewater permit breaches and actively cooperating with ongoing investigations by the Environment Agency and Ofwat. We're also working to meet obligations under various environmental and water quality programmes, with detailed plans in place for key sites. A five-year compliance programme with Ofwat has been completed, and discussions are ongoing to formally close it.
6 Climate Change Category Corporate Risk climate	More frequent extreme weather impacts both water supply and pollution control. We must balance strict water abstraction rules with customer demand and environmental protection. Long-term plans guide how we manage water and wastewater services. Operational emissions have decreased, but broader carbon reporting has increased total emissions. Climate risk assessments for 23 sites and a Climate Change Adaptation Report were submitted in 2024. The 2025–30 business plan includes investments to strengthen climate resilience.

Risk	Commentary
7 Delivery Category Corporate Risk climate	We've launched our largest-ever investment programme for 2025–30. This includes £3.4 billion for water services, such as modernising major supply works and planning future infrastructure, and £4.1 billion for wastewater services, including major upgrades to reduce storm overflows and improve water quality. A record £3.3 billion will go toward environmental improvements. However, the final scope depends on the outcome of an appeal to Ofwat's Final Determination, currently under review by the Competition and Markets Authority.
8 Digital Category Corporate Risk climate	We've strengthened digital and operational technology to better protect systems and data from cyber threats. This includes new enterprise systems for asset management, upgraded connectivity and communications at sites and enhanced cybersecurity measures. The Operational Control Centre has been modernised for greater security and reliability. Customer-facing digital platforms have also been improved. A new risk management office has been set up to ensure a consistent and proactive approach to digital risk.
9 Resources Category Corporate Risk climate	We're building a more resilient and sustainable supply chain to support our investment plan for 2025–30. Despite inflation and global supply chain issues, we've expanded our supplier base, simplified contracts, and introduced a balanced scorecard to align suppliers with business goals. We're also managing costs through better planning, budgeting, and risk mitigation strategies like hedging. In 2025, we implemented the Procurement Act 2023 to make procurement more efficient, transparent, and accessible.
10 Health and Safety Category Corporate Risk climate	We have concluded our programme of work designed to support our company-wide Health, Safety, Security and Wellbeing Transformation Plan. It includes a robust framework for health, safety and wellbeing, which is based on risk management and complying with our legal obligations to make sure everyone is safe and well every day. We're also improving our security, policies, reducing risks, and building a culture of security awareness.
11 Corporate Affairs Category Corporate Risk climate	During the year we were challenged by several significant service disruptions, leading to more customer complaints, negative media attention, and political pressure. In response, we've increased transparency, engaged with stakeholders, and committed to improving performance and trust. A major investment plan for 2025–30 has been launched, aiming to reduce storm overflows, improve water quality and strengthen water supply resilience amid environmental and population pressures.
12 People Category Corporate Risk climate	We're focused on having the right people in the right roles to meet our business goals. Key efforts include attracting and retaining skilled employees, especially in technical roles, and developing talent through training and succession planning. However, recruitment is challenged by location, competition and inconsistent terms and conditions. We continue to create a fair, inclusive and value-driven culture.

Principal risks and uncertainties

Risk climate



Improving



Stable



Deteriorating

Operational risk

1 Water

We're committed to maintaining a sufficient supply of high-quality drinking water to cater for a growing population of more than 2.7 million across the region. Failure to do so could result in water contamination and interruptions to supply.

Executive accountability:
Managing Director – Water

Risk climate:



Mitigating strategy:

Cross reference:

Changes in weather patterns and events, and to our regulatory operating environment, impact our supply/demand balance and increase our risk in relation to drought, raw water source depletion and abstraction. At the time of writing, we've entered a period of dry weather after a prolonged period of wet weather. As a result, our groundwater sources are in a resilient position. We continue to work with our regulators to manage our licenced abstraction volumes, balancing the security of supply with the protection of our natural environment.

We've worked to maintain and improve our water treatment processes and this has been reflected in an improvement in our water quality compliance measure. This is a result of initiatives included in our Water First and turnaround programmes.

We continue to work to reduce leakage, using digital technology to better detect leaks, increasing our field resource and investing in pressure calming solutions. All of these measures have increased the speed of repairs. As a result, we're now seeing real improvements in performance as we head into the new business plan period.

During the year, we experienced two significant water supply disruption events on key operational sites, which resulted interruptions to supply for our customers. Our teams deployed an immediate response and repair plan, establishing bottled water stations and issuing regular communications, across several media platforms, to keep customers informed.

We've stepped up our capital programme significantly for the next investment period, to improve reliability of some of our most critical sites. This involved replacing substantial lengths of our network, addressing the reliability of supply in certain areas and reducing the environmental impact of our business.

All water companies are embarking on substantial programmes of capital work with the sector reporting a four-fold increase in new investments. Recruiting experienced individuals will be hard as there'll be strong demand across the sector.

The regulatory process and our decision to challenge Ofwat's Final Determination at the Competition and Markets Authority (CMA) means there's still some uncertainty on the exact scope in some areas of the plan (such as mains replacement), which will need to be started quickly if a favourable outcome is achieved for the business towards the end of year one.

- Water for Life – Hampshire, capital and asset improvements to provide long-term resilience.
- Water First programme, improving processes and asset performance.
- Capital scheme investments at our four main sites, increasing reliability and resilience of our water supply works, benefiting 62% of our customers.
- Investment to improve our leakage remediation.
- Development of our incident management capability.
- Investment in reducing site outage to provide enhanced production network resilience.
- Further improvements in performance for our customers in water quality and resilience during the 2025–30 investment period.

→ Read more about how we're **understanding and supporting our customers and communities** on pages 51 to 62.

→ Read more about how we're **ensuring a supply of high-quality water for the future** on pages 44 to 50.

Principal risks and uncertainties continued

Risk climate



Improving



Stable



Deteriorating

Operational risk

2 Wastewater

We're committed to providing our customers with reliable wastewater services, which are essential to maintain public health and protect the environment. Failure to do so could result in a discharge of non-compliant sewage causing pollution, spills to the environment and/or sewer flooding impacting the environment or public health.

Executive accountability:
Managing Director –
Wastewater

Risk climate:

Our operational performance has been challenged, specifically in light of an increase in extreme weather events/patterns, increased capacity demand and challenging regulatory targets. Improving our pollution performance is our primary focus. We've increased our mitigation activities through our Turnaround Plan and our Pollution Incident Reduction Plan, successfully building capacity and resilience at our wastewater treatment works.

Our Clean Rivers and Seas Task Force is delivering storm overflow release reductions through measures to manage excess water (ground or surface) at source, which includes updating our sites and networks, alongside the construction of natural drainage solutions, like wetland treatment, ahead of more traditional infrastructure. We successfully met our spills target set by our regulator, saving or treating more than 700 spills in total.

We've also been preparing for delivery of the WINEP-CSO programme over the next investment period. This includes setting up new agreements with Highway authorities across our region for the construction and operation of Sustainable Drainage Systems (SuDS). We'll continue to work with our customers, the general public and stakeholders to limit our impact on the environment; with a key focus on spills affecting rivers, chalk streams and bathing waters.

The reduction in pollution incidents required over the next five-year investment period will demand substantial investment in our sites and networks, while we also accommodate changing metrics and an increased focus on financial efficiency from our regulator. There's a risk of increased total pollution incidents as a result of a change in reporting definitions of 400 to 4,000 events, dependent on the outcome of regulation 16_02, which may flow through into the Environmental Performance Assessment score from the Environment Agency. Ofwat reporting is not yet aligned to these new metrics and may, therefore, mean we see an increase in penalties from 2026.

In addition, increased levels of open data and reporting will focus more media attention on the water industry. We'll increasingly use this data through machine learning and AI to predict failures on our network and intervene earlier to prevent pollution incidents and improve our performance.



Mitigating strategy:

- Over £4.1 billion investment from 2025 to improve the capacity, capability and resilience of our wastewater network and treatment works across the region.
- Increased £682 million investment in storm overflow reduction as part of our Clean Rivers and Seas Task Force.
- Continued improvements and further development of our Enhanced Pollution Incident Reduction Plan (£22 million in 2025) and full end to end review of our pollution incident processes.
- Improved maintenance standards, emergency response and proactive control measures to stop assets failing.
- Digitalisation of our sewer network to reduce pollutions and flooding, using industry-leading monitors, artificial intelligence for prediction and maintenance.
- Effective Event Duration Monitoring (EDM).
- The continual improvement of our storm overflow reporting system, Rivers and Seas Watch.
- Improving training, development and productivity by upskilling front-line colleagues.
- Enhance operational resilience, with a focus on groundwater resilience, coastal erosion, power and heat resilience.

Cross reference:

→ Read more about **how we protect and improve the environment** on pages 32 to 43.

Principal risks and uncertainties continued

Risk climate



Improving



Stable



Deteriorating

Operational risk

	Risk climate:	Mitigating strategy:	Cross reference:
3 Customer We're committed to providing an excellent customer experience. Our customer service teams are trained to understand and respond to our customers and their unique needs. During times when we experience an interruption to services, we're committed to providing up-to-date information about the issue, any available support and updates on return to service. Failure to do so will result in an increase in complaints and dissatisfaction from our customers and regulators. Executive accountability: Chief Customer Officer	Throughout the year, we encountered several major challenges including extreme weather events and water supply disruptions. These incidents had an impact on services and negatively influenced customer perceptions. This resulted in our C-MeX ranking remaining at 16th out of 17 water companies. When we launched our turnaround in 2023, our customer service systems were outdated. Since then, we've made significant strides in modernising both our systems and processes. We redesigned our web forms to encourage direct customer contact and launched a simplified, mobile-friendly website to make information more accessible. Our new job management system has improved visibility for operational teams, enabling faster response times and better service delivery. We've also focused on reducing customer complaints by proactively engaging with customers that contact us. Digital innovation continues to play a key role in our transformation. Our virtual inspector tool, launched in June 2024, allows customers to resolve water issues via a real-time video link. We've also enhanced our incident map to provide near real-time updates on local service issues, improving transparency and trust. To further improve service delivery, we've brought in new delivery partners for major construction and wastewater maintenance projects, which began in April 2025. We've now rolled out our customer promise training and co-located teams, improving the customer journey. We expanded our education programmes and continued community engagement through initiatives like our Your Water Matters customer drop-in sessions. This interaction with customers allows us to gather feedback as well as share information about our services and plans. To reduce the impact of rising bills, we introduced automatic enrolment onto our social tariff and a benefits maximisation tool — extending support to 30,000 additional customers. We also increased our Hardship Fund and the number of people receiving support through our Priority Services Register.	• Modernising systems – we're continuing to replace outdated systems and invest in smart metering technology to improve service and efficiency. • Enhancing digital experience – we're upgrading the 'Your Account' platform to make it easier to use and more helpful for customers. • Improving key processes – we're redesigning our most important customer journeys to reduce effort and deliver a smoother experience. • Focusing on service – we're delivering our vulnerability strategy, strengthening service through key partnerships, and supporting the needs of developers. • Driving cost efficiency – we're keeping our running costs low so we can reinvest in improving our network and services.	→ Read more about how we're understanding and supporting our customers and communities on pages 51 to 62. → Read more about how we ensuring a supply of high-quality water for the future on pages 44 to 50.

Principal risks and uncertainties continued

Risk climate



Improving



Stable



Deteriorating

Financial risk

4 Financial

We're committed to managing the financial position of the company to ensure sufficient liquidity to meet our funding requirements and maintain service delivery for our customers. Failure to do so could impact our credit ratings, which could in turn increase our interest costs, reduce the availability of new capital and breach of our licence conditions.

Executive accountability:
Chief Financial Officer

Risk climate:

The UK water sector is under increased scrutiny and Ofwat has elevated its concerns about the financial performance of several utilities it regulates. This has increased market instability and curbed potential new investor interest and capacity. It's also impacted our ability to raise finance from new sources to fund the capital investment programme and refinance debt maturities.

In recent years macroeconomic volatility has increased the pressure on our operating and capital budgets and created significant cost control issues leading to a prolonged financially uncertain outlook. Additional cost control pressures have arisen from our incident response activities. This has negatively impacted our current business plan's financial performance and funding.

In November 2024, Moody's Ratings downgraded our credit rating from 'Baa3' to 'Ba1' and placed the ratings on review for a downgrade. This was followed by downgrades by Fitch Ratings from 'BBB' to 'BBB-' with a Ratings Watch Negative outlook and S&P Ratings from 'BBB+' to 'BBB-' with a CreditWatch negative outlook for similar reasons.

In July 2024 Moody's Ratings raised its outlook to stable, from review for a downgrade. The assessments from Fitch Ratings and S&P Ratings remain unchanged. We therefore continue to be at risk of a credit rating downgrade as a result of our performance and views regarding our ability to deliver and finance our Business Plan 2025–30, see page 105.

In October 2023, funds managed by Macquarie Asset Management (MAM) invested an additional £550 million of equity funding into the group, of which £375 million was injected into Southern Water Services to support our turnaround and also manage the impact of high inflation and interest rates on operating, maintenance and funding costs. Following that equity injection, we successfully issued new bonds, totalling £1,088.0 million and made loan repayments of £420.7 million as part of our overall financing to plan to support our new capital investment programme.

In July 2025 we announced that funds managed by MAM have made a legally binding equity commitment of £655 million provided on the terms of an equity commitment letter and confirmation of intent to provide up to a further £545 million — and with a minimum of £245 million — by December 2025 to support our capital investment for the regulatory period (2025–30).

At £8.5 billion, the 2025–30 plan is our most ambitious to date, doubling in size from the £4 billion 2020–25 plan. Ofwat issued its Final Determination in December 2024. After careful consideration, we announced our Board's decision, in February 2025, to request Ofwat to it for independent review by the Competition and Markets Authority.

The continued regulatory uncertainty is a key factor for the going concern and long-term viability assessment and impacts our ability to deliver the environmental and performance improvements and new infrastructure as part of our proposed 2025–30 capital investment programme.



Mitigating strategy:

- Liquidity testing and reporting is carried out on a regular basis, forming part of the 'going concern' assessment.
- Sufficient cash and facilities are maintained to mitigate risks.
- Detailed budgetary scrutiny of operational and capital spend.
- Improved operational performance.

Cross reference:

→ Read more about our **financial performance** on pages 94 to 105.

Principal risks and uncertainties continued

Risk climate



Improving



Stable



Deteriorating

Corporate risk

5 Compliance

As a regulated industry, we're committed to meeting a high standard of compliance with regulatory and corporate legislation. Failure to comply can result in enforcement, fines, legal action and, in the worst case, the loss of our licence to operate.

Executive accountability:
Chief Financial Officer and
General Counsel

Risk climate:

The regulatory compliance environment in which we operate is rapidly evolving and becoming increasingly complex to manage across the business at all levels. Changes in regulation impact our work process as well as our permit conditions.

We remain under continued scrutiny by our regulators. We continue our work to resolve a number of prior-year investigations by the Environment Agency (EA) for wastewater permit breaches and sampling processes. We continue to assist the EA with its ongoing investigations into these legacy issues and with their national investigations into flow compliance.

The Drinking Water Inspectorate (DWI) and the EA continue to monitor our delivery of regulatory schemes (either as part of the Water Industry National Environment Programme or as part of DWI Final Enforcement Orders and notices). We're working with our regulators to prioritise the delivery for those key sites, and have detailed supporting work plans in place.

We've completed the five-year programme of work on our S19 undertakings with Ofwat – these relate to work on flow compliance and are currently in discussion with Ofwat on the closure of the undertakings. We're working closely with Ofwat in their ongoing investigations into flow compliance, with a focus on our obligations as part of the Urban Wastewater regulations and Section 94 of the Water Industry Act. This work is intrinsically linked to our compliance with our regulatory and statutory obligations.



Mitigating strategy:

- Delivery of key transformation and training programmes in both water and wastewater operations.
- Ensuring appropriate governance through the embedding of a robust three lines of defence compliance model.
- A compliance framework with internal monitoring and assurance and an ethical business framework.
- Statement of Compliance self-assessment every six months.
- Transparent and timely communication with our various regulators.
- A yearly review of our licence of appointment with Ofwat.
- Quarterly meetings of the Executive Compliance Committee to increase our focus and mitigation activities on regulatory compliance, regulatory change and legal and compliance obligations.

Cross reference:

→ Read more about our **three lines of defence** on page 113.

Principal risks and uncertainties continued

Risk climate



Improving



Stable



Deteriorating

Corporate risk

6 Climate change

We're committed to understanding the impacts of climate change and appropriately adapting our business operating model to ensure reliable continuity of service to our customers, while protecting our natural environment and resources. Failure to do so will impact our ability to deliver a sustainable supply of water to meet the growing demands of our customers, and our ability to effectively manage the capacity and capability of our assets and sewer network. We must be resilient to both the physical effects from extreme or prolonged weather events, and from transition risks including changes in policy, regulation and markets. The former could lead to flooding, pollution or damage to operational sites from coastal erosion or subsidence.

Executive accountability:
Chief Executive Officer

Risk climate:

Extreme weather events are becoming more frequent. Severe winter storms and heavy rainfall impact our ability to effectively manage flooding and pollution events. Extended periods of dry weather greatly reduce the reliable availability of water supplies. We're challenged to balance the limitations of our stringent abstraction licences with our ability to meet customer demand, while protecting our natural resources and the environment.

We're a long-term business and as such we're required to produce strategic plans that include consideration of the long-term management and resilience of our water and wastewater assets. This ensures that they continue to be available to provide services to customers and adapt to the changing environment we live in.

These include our Water Resources Management Plan, which sets out how we'll balance supply and demand for water in the future out to 2075, and our Drainage and Wastewater Management Plan, which analyses the key wastewater challenges and solutions in each of our drainage catchments over the next 25 years.

Our operational emissions have significantly reduced over time due to external factors like the decarbonisation of the electricity grid. We've also made significant progress in implementing measures to further the transition, including the use of renewable energy and process and operational efficiencies that have significantly contributed to the reduction of emissions from our operations. However, we've started to include other categories in the Scope 3 emissions within our carbon accounting reporting, including, business travel, chemicals and disposal of waste and this is slightly increasing our overall emissions.

We've delivered our climate change risk assessment reports (CCRA) which identified potential climate impacts to 23 Southern Water sites arising from the changing climate variables identified by the Environment Agency, such as, summer and winter temperature, rainfall, sea level rise, drier summers, river flow, and storms. These reports were submitted to the Environmental Agency in April 2024.

We also submitted our Climate Change Adaptation Report (ARP4) to Defra in 2024. This report represents the fourth round of Climate Adaptation reporting, the last being published by Southern Water in 2021. The report was produced in accordance with Defra requirements.

Our Business Plan 2025–30 outlines the investment required to ensure the resilience of our assets and services, including mitigating and adapting to climate change risk.



Mitigating strategy:

- Net zero transition plans, including energy and fleet plans.
- Water Resources Management Plan.
- Water for Life – Hampshire programme, including the Hampshire Water Transfer and Water Recycling Project.
- Drainage Wastewater Management Plans.
- Target 100 water-saving customer engagement programme.
- Drought Plan.
- Operational resilience plans.
- Bioresources strategy.
- Clean Rivers and Seas Task Force interventions.
- Water Industry National Environment Programme for water and wastewater, including catchment and nature-based solutions.
- Research and innovation projects.
- Climate change risks assessments reports (CCRA).
- Climate Change Adaptation Report (ARP4).

Cross reference:

- Read more about our **approach to tackling climate change** on pages 66 to 85.
- Read our [Climate Change Adaptation Report](#).

Principal risks and uncertainties continued

Risk climate



Improving



Stable



Deteriorating

Corporate risk

7 Delivery

We're committed to deliver our planned programme of work on schedule, providing an excellent service to our customers. Failure to do so could result in an inability to fulfil our regulatory obligations and commitments.

Executive accountability:
Managing Director – Water and Managing Director – Wastewater

Risk climate:

We've just started our largest and ambitious planned programme of work to support the commitments we made in our Business Plan 2025–30. It's more than double the size of our previous programme and will deliver the single biggest enhancement investment in our environment in our history, and one of the largest in the sector, at £3.3 billion.

Overall, we'll invest £3.4 billion on our water services between 2025–30, an increase of 90% over the 2020–25 period. This includes spending £320 million modernising our four largest water supply works. We'll also design and plan the longer-term infrastructure we need including a new reservoir, water recycling plants and transfers from other regions.

We'll invest £4.1 billion in our wastewater services between 2025 and 2030, an increase of 29% over the 2020–25 period. This includes £682 million to reduce our use of storm overflows across 179 priority sites by 40% compared with 2020 levels. We're also investing £600 million to upgrade 38 wastewater treatment sites to improve the recycling of wastewater to remove harmful nutrients and improve the quality of water we put back into the environment.

We await the outcome of an appeal to the Ofwat Final Determination that is currently with the Competition and Markets Authority. This is a known uncertainty to our ambitious plans.



Mitigating strategy:

We know delivering investment at this scale and pace will be a challenge – and that our performance and delivery has not been where it needs to be. To address these challenges we've put in place four strategies:

Supply chain strategy: We're establishing strong relationships and agreements with suppliers. This includes additional delivery partners to facilitate the required step up in our scale of investment.

Portfolio delivery and performance management: We've enhanced our programme management capability and capacity to track performance, implement the plans and oversee delivery.

Portfolio execution plan: We've developed clear plans and priorities across the portfolio, aligning planning, delivery, and other business areas to ensure efficient execution and resource allocation.

Strategic workforce: We're committed to retaining, finding and training the right people.

- Risk and value are considered at each step of the investment cycle to provide best value for money to our customers.
- Monitoring the delivery of our 2020–25 business plan obligations, continually assessing our financing status.
- Procurement and planning process are underway and on track to support the 2025–30 business plan delivery.
- Embedding our managing director model to ensure greater focus on delivery in our water and wastewater operations.

Cross reference:

→ Read more about our **five-year delivery strategy** on pages 11 and 12.

Principal risks and uncertainties continued

Risk climate



Improving



Stable



Deteriorating

Corporate risk

	Risk climate:	Mitigating strategy:	Cross reference:
8 Digital We're committed to maintaining the resilience of our operational and corporate digital networks and systems. Failure to do so could have a significant impact on our business continuity, and the resilience and capability of our operational assets. Executive accountability: Chief Digital and Transformation Officer	We continue to strengthen the resilience of our digital and operational technology environments to protect our services, systems, and data in an ever-evolving cyber threat landscape. Over the past year, we've delivered improvements across several areas to reduce digital risk and build capability across the organisation. We've strengthened digital and operational technology to better protect systems and data from cyber threats. This follows a cyber-attack that took place in late 2023. Work has focused on protection of our corporate network and improvements in our operational network technology, that is subject to scrutiny from the DWI as part of our NIS obligations. We introduced new enterprise systems for asset and geographic information management, improving the quality and control of asset data. We've also made continued progress in remediating legacy technologies, replacing older platforms where appropriate, and implementing mitigation strategies where immediate replacement is not feasible. Connectivity has been significantly enhanced at several sites, using a range of technical solutions to improve support for our field workforce. In parallel, we've continued to upgrade and remediate operational technology (OT) communications, ensuring robust and secure data transfer between sites and enterprise systems. Similarly, investments in OT systems and platforms have provided a more secure and resilient environment for critical services. Our Operational Control Centre has undergone substantial improvements, including an upgraded alarm management system that has delivered increased physical security, enhanced power and networking reliability, a more robust security perimeter, better access controls, and greater capacity. These changes support more effective and resilient operational management. We've also made significant strides in modernising our digital estate. Our public website has been migrated to a more secure, flexible and modern platform. We've enhanced our digital channels, enabling more customers to self-serve, and introduced a new system to manage customer incidents more efficiently. We've also completed an upgrade of our Laboratory Information Management System (LIMS), improving data accuracy and system resilience. The formation of the Digital Business Management Office has enabled a more embedded and structured approach to risk management within the department, coordinating risk identification, ownership, and mitigation to ensure a consistent and proactive approach to risk.	- Continuing to upgrade our productivity and collaboration tools supporting all employees to work effectively and securely. - Completing the final stages of our OT communications remediation programme by removing all remaining PSTN-based connections in favour of secure, digital alternatives. - Progressing the migration away from legacy reporting tools to fully exploit our modern data platform, enabling better insight and decision-making.	→ Read more about our improvements to customer services on pages 51 to 62.

Principal risks and uncertainties continued

Risk climate



Improving



Stable



Deteriorating

Corporate risk

9 Resources

We're committed to appropriately protecting the resilience of our contractor network and supply chain. Failure to do so could lead to significant business interruption and result in an inability to deliver our commitments to our customers and stakeholders.

Executive accountability:
Chief Financial Officer

Risk climate:

We're committed to maintaining a sustainable, resilient, outcome-based supply chain for the provision of essential works, goods and services. This not only supports the delivery of our business plan, it also helps us to adapt to market shocks. These include the supply of engineering, construction and asset management advice to support our capital delivery programme; repair and maintenance services; chemicals, fuel, and spare parts to ensure continuity of service across our network and operational sites; and the energy required to power our operations, at a commercially viable price.

During the year we've been impacted by the rising costs of works, goods and services due to inflation and delays or failures in the global supply chain. While inflation rates did reduce from the highest in 2023, they remained high in 2024–25, with most suppliers continuing to feel financial pressure. The UK construction market continues to be saturated with infrastructure development for the next five years.

During the year we've established major operational and capital delivery frameworks to enable resilience in the supply chain, supporting our large investment plans. Regardless of the outcome of our appeal to the CMA, we're continuing to ensure the supply chain is robust to support the business plan submitted. As such, we've expanded the number of suppliers and contractors on our major frameworks and standardised and simplified our contracting approach to drive supply chain collaboration and earlier contractor involvement. We've introduced a balance scorecard to drive our corporate priorities into the supply chain. These changes are designed to attract and secure key contractors and suppliers, balancing business need with appropriate commercial risk providing us with the flexibility to cope with uncertainty.

We've mitigated some of the impact on our operational costs and our capital programmes and projects delivery through improvements in our processes, budgeting and long-term planning. We've focused on cost management and where possible we're using hedging strategies to mitigate the effect of market fluctuations.

In February 2025, we implemented the Procurement Act 2023. The act aims to streamline and modernise public procurement, making it more accessible, transparent, and flexible for suppliers. Key benefits include simplifying bidding processes, making commercial frameworks more open, and reducing bureaucratic burdens for smaller businesses. The act also encourages innovation and supports a more diverse supply chain and helps us secure value for our customers and the environment. These procurement and planning processes are designed to attract and secure key contractors and suppliers.



Mitigating strategy:

- Hedging strategy is in place for energy cost fluctuations/increases to manage impact to end customers.
- Enhanced processes have been implemented, focused on efficiency and effectiveness when interacting with suppliers.
- Major operational and capital delivery frameworks have been secured to ensure a robust supply chain in 2025–30.
- Renegotiation of terms and conditions (including risk provisions).

Cross reference:



Read more about our **suppliers** on page 64.

Principal risks and uncertainties continued

Risk climate



Improving



Stable



Deteriorating

Corporate risk

10 Health and safety

We're committed to ensuring the health, safety, security and wellbeing of our colleagues and the public. The nature of our work requires that our colleagues and contractors undertake activities or use equipment which, if uncontrolled, have the potential to cause significant harm. Failure to comply with our Health and Safety Management System and associated procedures could result in death, serious injury or adverse health effects.

Executive accountability:
Chief People Officer

Risk climate:



The safety of our communities, colleagues, and supply chain partners remains our highest priority. We've concluded our programme of work designed to support our company-wide Health, Safety, Security and Wellbeing Transformation Programme. The plan has implemented a robust framework for health, safety and wellbeing, which is based on risk management and complies with our legal obligations to ensure everyone is safe and well every day. This has already delivered a 50% reduction in our Lost Time Incident Accident Frequency Rate experienced over the past three years and an increase in our cultural maturity.

Our approach to security is being strengthened. We've started a security transformation programme to review and update our policies and procedures, ensure assets are specified to mitigate risks and embed a security mindset into our company-wide culture.

Mitigating strategy:

- An overarching framework for health and safety built on behaviours, golden and lifesaving rules. This is supported by empowerment cards to stop unsafe work activities.
- Complete review of all health and safety risks to understand and manage any gaps.
- A new health, safety, wellbeing and security management system with completely updated policies and procedures.
- The roll-out of a new, application-based, online safety reporting system to improve information flow, awareness and the management of hazards and incidents.
- Investment in our in-house health, safety, security and wellbeing team capability and size which has grown by a third in the last year.
- Improving the safety of our colleagues when conducting physical work, through the use of a new mobile AI-based point-of-work risk assessment safety application.
- Replacement of all personal gas monitors for Operational employees with best-in-class monitors which include lone-worker functionality
- Delivery of a safety leadership programme 'Stop Think Safe!', including an actor-led away day, a revised site audit and inspection plan, enhanced manager health and safety training and a mandated senior leadership visit programme.
- A continued focus at Board level with a Health and Safety and Operational Risk Committee.
- Embedded an ethos of collaboration and continual improvement with our supply chain partners through forums and increased clarity of our requirements.
- Moved our compliance and assurance activities onto a digital application.
- Leadership site visits by senior managers continue.
- Continuation of our site pride award scheme to drive improvements in site safety and housekeeping.
- Creation and implementation of a wellbeing strategy which initially focuses on mental health
- Training and supporting more mental health first aiders throughout the business.

Cross reference:

→ Read more about our **health and safety performance** on page 63.

Principal risks and uncertainties continued

Risk climate



Improving



Stable



Deteriorating

Corporate risk

11 Corporate affairs

We're committed to engaging in regular and transparent communication with our customers, stakeholders and regulators, and are positioned to monitor, adapt to, and influence any changes in our political and regulatory frameworks. Failure to do this may impact our relationships and reputation with our customers, stakeholders and regulators, and may result in business disruption or regulatory fines.

Executive accountability:
Director of Corporate Affairs

Risk climate:

Our relationships with customers and stakeholders are closely connected to our operational performance and wider national sentiment about the water industry. During the year we were challenged by several significant service disruption incidents, which resulted in an increase in incident-related customer complaints, negative media coverage and critical stakeholder contact.

The year also included a general election, in which 32 of the 52 parliamentary constituencies we serve elected a new MP – many of whom had campaigned specifically on a platform pledging to hold us accountable for storm overflows, the quality of water in rivers and the sea, and water supply resilience. The new government has enacted a number of significant policy changes in the year, including new primary legislation and the launch of an independent commission to review the water industry and its regulatory framework.

We've engaged in open conversations with our customers, political representatives, community leaders, activists and regulators about storm overflows, pollution incidents and the impact of our abstractions on the natural environment. We provide timely reporting of storm overflow releases and (much rarer) pollution events, sharing causes, impacts and future mitigation to minimise the likelihood of recurrence.

We're committed to improving our performance and accountability to rebuild our connection with our communities and, consequently, trust. The approval of our Business Plan 2025–30 signals a significant increase in investment to reduce storm overflows, improve the quality of river and sea water, and develop resilient new water supply arrangements in the face of environmental challenges, volatility caused by climate change, and the most rapid population growth in the UK.



Mitigating strategy:

- Work with our customers to understand their service delivery needs and expectations.
- Monitor developments in requirements from all of our regulators on key issues.
- Maintain close dialogue with government, Ofwat and other regulators on key issues.
- Build relationships with MPs, local authorities and councillors across our region to build understanding and mitigate risk of public criticism.
- Continue to engage constructively with all of our regulators and relevant stakeholders with regards to water scarcity challenges.
- Continue to invest in, and report the successes of, projects to improve our storm overflow performance.
- Work with our regulators to demonstrate that we have listened, understood and addressed our customers' needs in setting the targeted outcomes of our business plan for the period 2025–30.
- Use stakeholder and influencer insight to inform the development and delivery of a reputation recovery strategy, focused on cutting storm overflows, improving environmental water quality, and developing more resilient water supplies.

Cross reference:

➔ Read more about our **five-year delivery strategy** on pages 11 and 12.

Principal risks and uncertainties continued

Risk climate



Improving



Stable



Deteriorating

Corporate risk

12 People

We're committed to attracting and retaining a workforce with the right skills for the role and ensuring a diverse and inclusive environment. Failure to do so could significantly impact our ability to maintain the company's agility and adaptability to change to successfully deliver our business objectives.

Executive accountability:
Chief People Officer

Risk climate:



Mitigating strategy:

Cross reference:

Making sure we have the right people, in the right place at the right time will enable us to deliver our business objectives. There are several key activities, including, attracting and retaining a workforce with the right skills for their roles, upskilling and developing our colleagues and actively maintaining succession planning for key roles.

We continue to manage challenges in relation to talent attraction and retention, especially in technical and STEM roles. Our recruitment efforts are also impacted in part by our geographic location and, more recently, by the increasingly competitive employment environment. Our Terms and Conditions implementation hinders securing resources out of hours and creates a perception of inconsistency and unfairness.

Adopting a decision-making process which balances ethical, legal and commercial risk means we must: ensure a diverse and inclusive environment that promotes employee engagement, create a culture that demonstrates the desired conduct and behaviours that align with our values, implement processes and procedures that support, protect and manage our people and provide a fair and transparent reward and recognition programme.

There has been a significant increase in employee relations cases linked to bullying and harassment. Our processes and policies are cumbersome to review and understand.

- We've hired a specialist workforce planner to help us analyse the skills needed to deliver our plans; this will enable us to ensure we hire and use talent across the business.
- Ongoing talent management programmes driving strong performance management.
- Talent and succession planning programme.
- Maintaining an attractive total rewards package, based around the midpoint of the market.
- Review of recruitment strategy.
- Contingency plans for supporting the business in a major infrastructure outage.
- Teams are aware of company policies, processes and need to escalate to manage key risks, for example, conflict of interest, fraud and hospitality.
- Training given on 'Doing the right thing' and mandatory training is completed.
- Concerns can be raised by colleagues either via the Grievance process or a confidential helpline 'Speak up'.
- Reviewing and delivering an Equality, Diversity and Inclusion strategy.
- Our annual engagement surveys assess our employee satisfaction with remedial action plans developed by teams.
- Offering equal opportunities regardless of age, cultural background, disability, gender, marital status, nationality, political belief, race, religion or sexual orientation.
- All processes operating within the directorate are in the process of being reviewed to ensure they are accessible, easy to use and suitable for the audience.
- A phased approach to addressing the terms and conditions challenge has started targeting fair compensation for those working out of hours.

→ Read more on our **people** on pages 63 to 65.

Viability statement

Southern Water Services (SWS) is a regulated utility which is characterised by a long-term investment horizon, over multiple price-control periods with stable revenues. Ofwat sets price-controls for five-year periods, which reduces the potential for variability in revenues from the regulated business. The company benefits from a rolling 25-year operating licence.

Ofwat regulates the water industry in England and Wales and has a statutory obligation to ensure that water and wastewater companies can finance their functions. In addition, Ofwat has a primary duty (under the Water Industry Act 1991 as amended by the Water Act 2014) to ensure that water and waste companies have the long-term resilience to meet the needs of customers.

In preparing the long-term viability statement (LTVS), SWS has conducted an assessment covering the period up to the end of March 2035, which firstly aligns to the current price control cycle (PR24/AMP8) and then the next price control period (PR29/AMP9). The analysis has taken into account current performance, planned performance improvements, funding of the defined benefit pension scheme and the principal risks that affect the business as documented in the Strategic Report on pages 118 to 130.

“Severe but plausible” downside scenarios were developed with reference to an estimated quantification of the financial effects of specific risks incorporated in the principal risks faced by the business, and the recovery of additional expenditure incurred during the current five-year period, in the next five-year period, through the appropriate regulatory mechanisms. These risk scenarios were then tested both individually and in combined scenarios. An overview of this analysis is provided on the following

pages. Mitigating actions and the effectiveness of these actions were also considered.

The analysis has also considered the long-term financing needs of the business, including the maturity profile of existing debt, which extends to 2056. Future financing plans assumed for the LTVS include new equity commitments of at least £900 million, £550 million of new finance raised in the year to March 2025, plus around £5 billion of projected new finance used to fund the capital investment programme and the repayment of more than £2 billion of debt maturities and inflation-linked accretion repayments during the period 2025–30.

Assessment period

For the LTVS, the Board continues with a forward-looking term up to 31 March 2035:

- SWS has adopted the commitments and customer promises in the Final Determination for 2025–30 (PR24) and the Board has since agreed a business plan for the period to 31 March 2030. However, SWS has, however, appealed the Final Determination to the Competition and Markets Authority (CMA).
- This Business Plan 2025–30 has been used as the basis for the long-term viability assessment.
- The LTVS period has then been extended to 2035 using certain longer-term information included in the price review submission for PR24 or where this data does not currently exist, prudent management estimates of the spend for the period 2030–35 based on the end of AMP8 cost levels.

Stress tests

The ‘principal risks’ identified, pages 118 to 130, are recognised as the key risks facing SWS and those that will have the potential greatest impact on the business. These

are regularly reviewed by the Board. Based on the principal risks, the following risk factors are considered to have the potential for a negative impact on the financial position of SWS and have been used as the basis for severe but plausible stress testing scenarios:

- **Outcome Delivery Incentive (ODI). Performance Commitment (PC) or other regulatory penalties:** These may materialise as a result of under-performing on performance commitment targets set by Ofwat, or other statutory obligations, which carry a financial consequence.
- **Increased expenditure:** Increased expenditure has been considered in light of the challenging cost allowances set in the PR24 Final Determination, as well as unexpected costs arising from high energy prices, high inflation, operational incidents, and/or maintaining service during periods of severe weather.
- **Outturn inflation is different to forecast:** SWS’s financial projections are exposed to inflation scenarios given the index-linked nature of business cash flows and a number of credit metrics which include inflation adjustments (SWS uses inflation forecasts published by HM Treasury). SWS has in place inflation linked debt and derivatives to mitigate some of this risk.
- **Outturn interest rates are different to forecast:** SWS’s financial projections make assumptions about future levels of interest rates when assessing net interest payable. SWS has in place interest rate derivatives and issues fixed rate debt to mitigate some of this risk.

The likely individual financial impact of these risks has been estimated and then used in the construction of severe, but plausible, downside scenarios. In developing these scenarios, we have considered combinations of risk factors and the potential correlations between risk factors.

Viability statement continued

Stress test	Link to principal risks	Severe but plausible scenario
ODI penalty	Operational risks	Significant, one-off penalty in year with lowest headroom.
Increased expenditure	Operational risks Corporate risks	Increased expenditure as compared to the allowances assumed in our plan (+5% p.a.).
Macroeconomic shock – low inflation	Financial	Inflation forecasts reduced by 5% across the plan.
Macroeconomic shock – high inflation	Financial	Inflation forecast increased by 5% across the plan.
Macroeconomic shock – higher interest rates	Financial	Interest rates increase by 1% from current assumptions.
Combined operational scenario	Operational risks Corporate risks	5% overspend to 2030 combined with the financial penalty, and high inflation.
Combined operational scenario	Operational risks Corporate risks	5% overspend to 2030 combined with the financial penalty, and low inflation.

Assessment of results and mitigating actions

There is limited financial flexibility within the assessment period to 2030, although headroom is projected to improve based on our assessment of the period to 2030–35. The 2025–30 assessment is primarily the result of a continuing significant mandated level of planned expenditure to improve resilience of SWS assets, to accommodate population growth in the South East, and to reduce the impact on the environment from the treatment and processing of water and wastewater. As we move into 2030–35 these are based on longer-term assessments of continuing required investment.

For the period to 31 March 2025, SWS spent an additional £1.5 billion above the Final Determination to improve asset resilience whilst also incurring significant unexpected costs arising from high energy prices, high inflation, operational incidents, and maintaining service during periods of severe weather. The majority of this was funded through equity received in the period.

For the period to 31 March 2030, should a severe weather event occur (or a greater number of severe events in close succession), management believes that the costs of this can be accommodated in the plan proposed, although it (or any other significant one-off cash cost) may require rephasing of borrowing and spending plans.

The additional investment to 2025 has improved operational resilience for the period 2025–30 and this has been recognised by its regulators, government and other key stakeholders. The requirement for further investment will, however, result in limited financial flexibility as the 2025–30 investment plan is around 50% larger than the plan determined for the period to 2025.

For 2025–30 there are no dividend payments forecast to be made, any allowance associated with dividends will be reinvested into the business, with an early assumption that dividends will be resumed in the next five-year investment period (subject to necessary licence and covenant conditions being met).

At the time of writing, the company has secured an additional binding equity commitment of £655 million, with £505 million due in October 2025 and the balance by the end of March 2026, with a further amount of at least £245 million to be committed by the end of December 2025. This is a total of at least £900 million, as previously announced.

In addition, shareholders have indicated their intention to raise up to a further £300 million (not yet factored into the LTVA), to take the total commitment to £1.2 billion.

SWS remains in a credit rating trigger event as a result of current credit ratings as well as in debt covenant trigger event under its debt documents. It is also in licence lock up. There is a risk of a further credit rating downgrade if SWS is unable to continue delivering its improvement to operational performance and business efficiency. SWS also expects the debt covenant trigger event to continue for the remainder of the current regulatory period, as a result of the impact on financial ratios of significant additional expenditure without the equivalent regulatory allowances.

Credit ratings and financial ratios are expected to recover during the period from 2025–30 as a result of improved operational performance from the significant additional expenditure incurred in the period to 2025, ongoing equity support plus the natural reset associated with a new five-year regulatory period, including the cessation of customer reparations from 2025.

However, SWS does expect to be in a credit rating trigger event for the period 2025–30, absent a redetermination and improvement in revenues as a result of the CMA appeal.

A trigger event (see page 105 for further explanation) results in restrictions on the payment of dividends and the requirement for SWS to prepare a plan on request, for the Security Trustee, of how it plans to recover from

Viability statement continued

trigger. SWS obtained a waiver from its lenders in 2021 to permit continued access to financial indebtedness, and to also continue to finance the business in a credit rating trigger event or a financial ratio trigger event to March 2025. A further waiver to extend this period to March 2035 was secured as part of the group's new equity raise in 2023.

A default event (see page 105 for further explanation) does not materialise in any of the scenarios tested as a primary consequence of the stress testing. However, absent successful mitigation could cause a rating downgrade, which under the terms of its financing documents would cause an event of default. If the £900 million equity commitment were not to be received (noted as a material uncertainty in our going concern disclosure), there is a likelihood that a ratings downgrade and subsequent event of default would occur.

For each of the scenarios tested, we have identified appropriate mitigating actions if stress tests would result in projected metrics deteriorating materially. These mitigating actions are set out in the tables opposite, and on the following pages.

Severe but plausible scenario assessed	Potential impact on viability (pre-mitigants)	Possible mitigants available
Significant, one-off penalty in year with lowest headroom	Cashflow impact which increases net debt, increasing gearing, no breaches forecast.	Equity support. Review dividend assumptions. Manage short-term working capital. Review spend profile of capital programme. Consider new sources of debt funding. Close out derivative financial instruments in asset positions to generate cash. Engage with ratings agencies and banks to discuss the short-term nature of the impacts and renegotiate/obtain waivers for covenants.
Increased expenditure as compared to the allowances assumed in our plan (+5% p.a.)	Cashflow impact which increases net debt, increasing gearing. Potential breach of covenants and pressure on credit ratings without mitigants.	Equity support. Review dividend assumptions. Manage short-term working capital. Review spend profile of capital programme. Cost reduction programme, with a focus on discretionary/non-essential items. Consider new sources of debt funding. Close out derivative financial instruments in asset positions to generate cash. Engage with ratings agencies and banks to discuss the short-term nature of the impacts and renegotiate/obtain waivers for covenants.
Inflation forecasts reduced by 5% across the plan	Cashflow impact, index linked debt/derivatives and RCV will reduce. Due to proportionately higher RCV exposure to inflation, gearing increases. Potential breach of covenants and pressure on credit ratings without mitigants.	Equity support. Review dividend assumptions. Manage short-term working capital. Review spend profile of capital programme. Cost reduction programme, with a focus on discretionary/non-essential items. Consider new sources of debt funding. Close out derivative financial instruments in asset positions to generate cash. Engage with ratings agencies and banks to discuss the short-term nature of the impacts and renegotiate/obtain waivers for covenants.

Viability statement continued

Severe but plausible scenario assessed	Potential impact on viability (pre-mitigants)	Possible mitigants available
Inflation forecast increased by 5% across the plan	Cashflow, index linked debt/derivatives and RCV will increase. Due to proportionately higher RCV exposure to inflation, gearing decreases. Potential pressure on cashflow related credit ratings without mitigants.	Equity support. Review dividend assumptions. Manage short-term working capital. Review spend profile of capital programme. Cost reduction programme, with a focus on discretionary/non-essential items. Consider new sources of debt funding. Close out derivative financial instruments in asset positions to generate cash. Engage with ratings agencies and banks to discuss the short-term nature of the impacts and renegotiate/obtain waivers for covenants.
Interest rates increase by 1% from current assumptions	Increase in new debt cost, cashflow impact, offset in part by interest receivable. Limited impact due to high proportion of fixed rate debt.	Equity support. Review dividend assumptions. Manage short-term working capital. Review spend profile of capital programme. Proactive pre-hedging of new debt issuance.
5% overspend to 2030 combined with the financial penalty, and high inflation.	Cashflow, index linked debt/derivatives and RCV will increase. Due to proportionately higher RCV exposure to inflation, gearing decreases. Potential pressure on cashflow related credit ratings without mitigants.	Equity support. Review dividend assumptions. Manage short-term working capital. Review spend profile of capital programme. Cost reduction programme, with a focus on discretionary/non-essential items. Consider new sources of debt funding. Close out derivative financial instruments in asset positions to generate cash. Engage with ratings agencies and banks to discuss the short-term nature of the impacts and renegotiate/obtain waivers for covenants.

Viability statement continued

Severe but plausible scenario assessed	Potential impact on viability (pre-mitigants)	Possible mitigants available
5% overspend to 2030 combined with the financial penalty, and low inflation.	Cashflow, index linked debt/derivatives and RCV will increase. Due to proportionately higher RCV exposure to inflation, gearing increases. Potential pressure on cashflow related credit ratings without mitigants.	Equity support. Review dividend assumptions. Manage short-term working capital. Review spend profile of capital programme. Cost reduction programme, with a focus on discretionary/non-essential items. Consider new sources of debt funding. Close out derivative financial instruments in asset positions to generate cash. Engage with ratings agencies and banks to discuss the short-term nature of the impacts and renegotiate/obtain waivers for covenants.

Viability

The Board has assessed the viability of SWS to the period 31 March 2035. In doing so, it has considered SWS's current financial and operational position, the principal risks facing the company and resulting stress tests, and the impact of mitigating actions, the most material being further equity commitment and potential upside from the CMA process.

The other companies in the wider Greensands group are principally in place to support the viability of the regulated business. The Board has taken into consideration the activities of other group companies, pages 108 to 111, as well as the overall group structure and is satisfied that they pose no additional risk to the financial flexibility of SWS.

In making their assessment, the directors have assumed that the capital markets will be available to provide funding for the significant ongoing capital investment programme as well as for the refinancing of debt, credit facilities and financial derivative maturities when they fall due. The directors anticipate the ability to efficiently raise new finance and a stable and supportive regulatory environment, although as noted in the going concern disclosure, these factors have material uncertainties associated with them at the time of writing.

The Board is satisfied that it has sufficient information to judge the viability of the company and has a reasonable expectation, based on the assumption that it will be possible to raise additional debt that the company will be able to continue to operate and meet its obligations over the period to 31 March 2035.

Governance and assurance

The Board has reviewed the company's medium-term plan and reviews the company's principal risks from a strategic perspective, which form the basis of the stress tests modelled.

The Audit Committee supports the Board in reviewing the results of the analysis as part of its normal procedures.

The Strategic Report, including the directors' Section 172(1) Statement on pages 08 to 135, was approved by the Board of Directors and signed on its behalf by:



Richard Manning
General Counsel and Company Secretary

15 July 2025

Chair's overview



Keith Lough
Chair



We must ensure value for customers, secure continued shareholder support, protect the environment, and listen to our many stakeholders.”

It's been my privilege to lead the Board of Southern Water for a fifth year.

A recent review of our Board's effectiveness concluded that “The Board as a whole seems united on a mission to turn around the company's performance.” As Chair, I was proud of this recognition. It reflects how seriously the Board takes its role.

We hold a vital position; shaping the company's long-term direction and holding the Executive team accountable. We must ensure value for customers, secure continued shareholder support, protect the environment and listen to our many stakeholders. These priorities can be difficult to balance, but doing so is central to our role and to good governance.

In my introduction to this Annual Report, I highlight key milestones from the past year. Many of these were shaped by close work between the Board and Executive. This work took place amid major external developments, including a new government and the Water (Special Measures) Act. We also welcomed the launch of the Independent Water Commission, which may help simplify the complex regulatory framework in which we operate. We hope this leads to clearer priorities and better regulation.

For our part we know that we're on a turnaround mission, and there's a big agenda ahead of us to get our performance to where it needs to be and to create resilience for the future.

Last year, the Board focused heavily on preparing our 2024 Price Review submission. This year, we decided to challenge Ofwat's Final Determination and appeal to the Competition and Markets Authority (CMA). This process will continue into 2025 and will remain a key focus. At the same time, we're strengthening the business to deliver a major capital programme over the next five years.

The Board also agreed a new five-year strategy. This gives the Executive a clearer framework for delivery and allows us to hold them to account more effectively. It should help sharpen performance and focus our efforts on what matters most to customers, shareholders, and the environment.

Our shareholders continue to support this strategy, making substantial investments in the business, significantly over and above levels set by regulators, while receiving no dividends. A further equity commitment of £655 million has been made for the current investment period to 2030, involving a reduction in holding company debt and a simplification of our group structure. Nevertheless, we maintain significant focus on our financial resilience.

Our strength as a Board lies in our people. I want to thank my colleagues for their dedication, insight, and the thoughtful way they approach complex decisions.

Dame Gillian Guy, Mike Putnam and Phil Swift stepped down during the year. We gained much from their experience, challenge, and judgment. Dame Gillian brought fresh thinking and a strong focus on consumers. She was an excellent Senior Independent Director and ESG Committee Chair. Mike brought deep construction and board experience and led our Health and Safety Operational Risk Committee with great skill. Phil brought an incisive questioning to the Board and contributed strongly to the Health and Safety Operational Risk and ESG committees.

Chair's overview continued

We welcomed Neil McArthur to the Board. He brings broad experience from capital-intensive industries and non-executive roles and now chairs our Health and Safety and Operational Risk Committee. Future Board recruitment will be shaped by the company's challenges – especially the oversight of our capital programme. Christèle Delbé has become Chair of the Remuneration Committee, which makes complex decisions within a tight regulatory framework. To support this work, we also appointed independent expert advisers.

In past reports, we've discussed our efforts to improve company culture. Strengthening that culture remains a top Board priority. This year we reviewed the employee survey results and reflected on how our own behaviour and focus can set the tone for leadership.

As this section shows, we're committed to high standards of corporate governance, aligned with Ofwat's Board Leadership Transparency and Governance Principles, the Water (Special Measures) Act and accepted best practice.

During the year, we appointed Stanton Marris Consultants to carry out an independent review of the Board's effectiveness. They had previously worked with the Board, including conducting a review three years ago. The Board trusted them to give an honest, objective view and offer clear, practical suggestions for improvement.

Later on in this report we outline the findings from their review, see pages 162 to 164. It confirmed we're effective but could improve by being smaller, more focused, and more constructively challenging of the Executive. I welcome these findings and, working with the Executive, we'll implement the recommendations.

The report assessed Board membership, skills, and experience. It concluded that recent retirements had created a better balance with four independent non-executive directors (INEDs) and three investor directors. However, it recommended keeping the option open to appoint another INED to meet future skill needs or support succession. The relationship between INEDs and investor-appointed directors was described as healthy.

It also highlighted that the Board appeared united in its mission to turn around the company's performance.

Other key recommendations included:

- Focusing on fewer priority areas and exploring them in more depth, guided by the company's strategic plan.
- Helping the Board better understand complex technical issues and the assurance work done before meetings.
- Further developing meeting formats, building on strategy days, deep dives, and site visits.
- Refocusing the ESG Committee on environmental matters, with most governance and sustainability issues going directly to the Board.

£8.5bn
Business Plan
2025–30
investment

£655m
equity already
committed from
funds managed by
Macquarie Asset
Management

 Read about our
Board composition
on page 146.

- Reviewing the Board's position on risk appetite and clarifying the roles of the Board and committees in managing risk.
- Increasing informal engagement by the Chair with directors, such as through review meetings.
- Encouraging the Board to be more constructively challenging of the Executive, while continuing the positive working relationship.
- Making small improvements to governance processes.

Toward the end of the review, the Board held a detailed discussion of the findings and agreed to take forward the recommended actions.

Keith Lough,
Non-executive Chair

15 July 2025

Governance at a glance



85%
of colleagues responded
to the last engagement survey.

4%
increase in engagement
with the survey.



It has been another full agenda for the Board this year.

Operational performance



- Tracking progress as we concluded our Turnaround Plan.
- To deliver improved water quality and resilience at four key sites.
- To deliver the company's leakage target.

The environment



- Overseeing performance on flow monitoring and compliance.
- Approving 2025 Pollution Incident Reduction Plan to drive improved performance.
- To deliver resilience through our Water for Life – Hampshire programme, Water Resource Management Plan and Drought Plan.

Vision, purpose and strategy



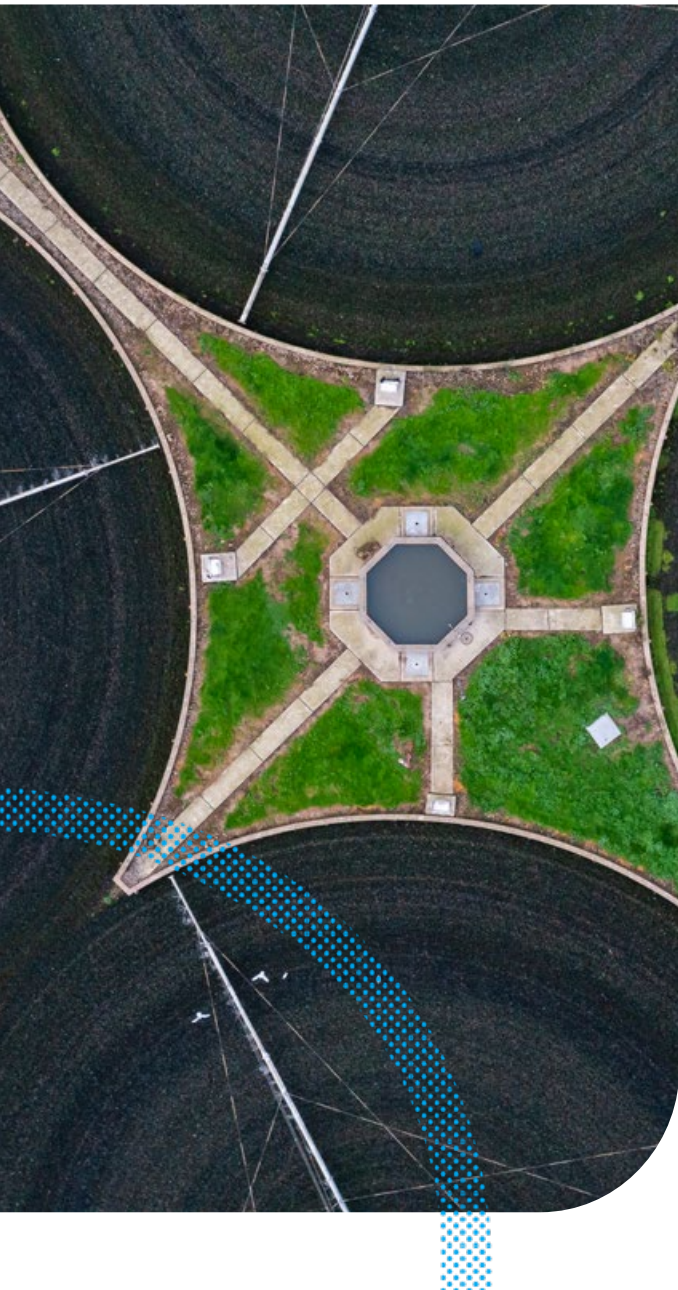
- Approving the company's new vision and strategy. Amending the company's Articles of Association.

Regulation



- Responding to the Draft Determination.
- Decision on referral of the Final Determination.
- Engaging with the Independent Water Commission.
- Water (Special Measures) Act.

Governance at a glance continued



How we're becoming a more resilient organisation and ensuring long-term success

Our journey of delivering better outcomes for customers

As a provider of essential water and wastewater services to customers in the South East, our focus is on improving performance to deliver for our customers. Owing to the nature of our business and the 25-year licence to supply services, the Board and company must take a long-term view to make sure services are available in the future within a challenging and changing environmental, demographic and regulatory context.

Delivering operational performance improvement

To support the delivery of our 2020–25 business plan, the Board has overseen and approved the next phase of our transformation, through the development of the turnaround plan. This plan delivered a short, sharp, ambitious improvement in performance so we were ready to deliver our long-term plans.

Water resource planning that's fit for the future

In addition to considering and supporting the development of our long-term water resource management plans, the Board endorsed the development of a programme of work to reduce risk at four strategic water sites. This work was about improving water quality and supply resilience for customers in the short, medium and long term.

The Board has spent a significant amount of time on the response to the regulatory determination of our plans for 2025–30. This meant conducting a thorough review of priorities and customer insight to create an affordable plan that protects vulnerable customers.

Listening to our customers and stakeholders

Having approved a number of additional investments last year to improve our environmental performance, the Board has continued to listen to customers and stakeholders and has maintained a focus on the reduction of storm overflows.

➔ Read about the **Board's committees** on page 151.

Overview of corporate governance

This section sets out an overview of requirements on the Board and its compliance with those requirements. The Board has monitored developments in corporate governance during the year and always aims to improve its processes and practice.

Ofwat's Board Leadership, Transparency and Governance Principles

Our starting point is Ofwat's four high-level principles:

1 Competence and independence

Boards and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high-quality decisions that address diverse customer and stakeholder needs.

Committees and associated ad-hoc working groups have given the Board the ability to exercise oversight carefully and deeply across all aspects of the business. Each committee has a strong independent director component. The Board and its committees demand and receive high-quality analysis and proposals from the Executive. Board members are also able to bring to bear their own experience and background and ensure there is a wider knowledge base to draw on, to enhance the quality of decision-making.

2 Purpose, values and culture

The regulated company board establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

The Board's key strategy activity during the year continued to be its engagement with the Price Review process for the investment period 2025–30. The Board expanded our vision, to be explicit that customers, communities and the environment are key components. The Board approved a new strategy as we move into the next five-year period. The Price Review involved extensive stakeholder consultation and listening. The Board has maintained its focus on reinforcing a strong ethical culture as a bedrock of the business and a condition of trust with our customers, our regulators and other stakeholders.

3 Effectiveness

The regulated company has an effective board with full responsibility for all aspects of the regulated company's business for the long term.

The Board has worked effectively during the year. It provides a forum in which the views of executive directors, non-executive shareholder directors and independent non-executive directors can debate issues clearly and transparently and come to agreed decisions. Through its committees the Board has a direct view of all aspects of the regulated business and is able to hold executives to account for different aspects of performance.

4 Transparency and accountability

The board's leadership and approach to transparency and governance engenders trust in the regulated company and ensures accountability for their actions.

The Board aims to ensure strong openness and transparency. This report sets out who Board members are, skills and qualifications for the job, ways of working and the key issues examined during the year. We believe that the combination of skills and experience, including a majority of non-executive members gives the Board a strong and independent perspective on our governance.

Overview of Corporate Governance continued

Financial Reporting Council Corporate Governance Code

During 2024, the Financial Reporting Council (FRC) issued updated Corporate Governance Code Guidance. As the FRC states, the guidance is very much a prompt for boards to examine their own competence and improve their effectiveness. There are a number of issues to which the Board will be giving its attention, for example the consolidated good practice guidance for the successful management of committees and guidance on performance reviews and the reporting of any material gaps in key controls.

Board effectiveness and Chair evaluation

The Board conducted an evaluation led by the Nomination Committee.

➔ See pages 162 to 164.



Board of directors

Key

A Audit Committee

N Nomination Committee

RI H&S and Operational Risk Committee

E ESG Committee

RE Remuneration Committee

● Committee Chair



Keith Lough
Chair

Non-executive independent: On appointment

Committee membership:

* until 31/07/2023



Date of appointment: 01/08/2019

Experience:

Keith has extensive experience in the natural resources and energy sectors in both finance and leadership roles, including as finance director of British Energy plc between 2001 and 2004, during a period of major restructuring.

In addition, Keith served as non-executive chair of Gulf Keystone Petroleum plc and led the successful debt restructuring.

Immediately prior to his appointment to the Board of Southern Water, Keith was a non-executive member of the Gas and Electricity Markets Authority (Ofgem), where he was chair of the audit and risk assurance committee, having served on the board since 2012.

Keith holds an MA in economics and an MSc in finance and is a Fellow of the Association of Chartered Certified Accountants.

External appointments:

Keith is Senior Independent Director of Hunting plc.



Lawrence Gosden
Chief Executive Officer

Executive independent: No

Committee membership: N/A

Date of appointment: 01/07/2022

Experience

Lawrence joined Southern Water in May 2020 and was appointed to the Board on 1 July 2022 when he became the company's Chief Executive Officer.

Lawrence brings significant experience to the Board having worked in the water sector for over 30 years. He has a track record for successful operational and capital programme delivery and a wealth of experience delivering major infrastructure programmes, asset management, customer service and operational transformation alongside the provision of impactful and inclusive strategic leadership.

Prior to his return, to Southern Water, Lawrence spent 12 years at Thames Water in a variety of senior executive and leadership positions. Notably, he was managing director for wastewater and subsequently chief operating officer.

Lawrence was also a non-executive director at National Highways where, among other things, he chaired their health and safety committee.

Lawrence gained a first-class honours degree in engineering before starting his career as a graduate at Southern Water.



Stuart Ledger
Chief Financial Officer

Executive independent: No

Committee membership: N/A

Date of appointment: 03/01/2023

Experience

Stuart joined Southern Water as Chief Financial Officer in January 2023.

He has held senior positions both inside and outside the water sector. Stuart was previously the CEO at Affinity Water and the CFO for Affinity for the four years prior to that. Stuart's extensive experience in the industry also includes nine years at Thames Water as the CFO of the retail business and as group financial controller. Prior to this, he was financial controller at Wolseley, following almost eight years at EDF Energy.

External appointments:

Stuart is a director of Landlord Tap Limited, which is a website that gives details to water companies of those responsible for paying water or wastewater charges for their tenanted properties. He is also a trustee of Rett UK, a charity supporting sufferers of Rett Syndrome, as well as their families and carers.

Board of directors continued

Key

A Audit Committee

N Nomination Committee

RI H&S and Operational Risk Committee

E ESG Committee

RE Remuneration Committee

Blue circle Committee Chair



Malcolm Cooper
Independent
non-executive director

Non-executive independent:	Yes
Committee membership:	A RE RI
Date of appointment:	23/12/2019

Experience

Malcolm joined the Board in December 2019 and was appointed as Chair of the Audit Committee.

Malcolm worked for around 30 years at National Grid plc, British Gas plc and other companies. He was a member of the board of both National Grid Gas plc and National Grid Electricity Transmission plc.

Malcolm was previously a non-executive director of St. William. He is also a past president of the Association of Corporate Treasurers and was a member of the Listing Authority Advisory Panel of the FCA.

Malcolm has a degree in Pure Mathematics and is both a Fellow of the Association of Chartered Certified Accountants and the Association of Corporate Treasurers.

External appointments:

Malcolm is a non-executive director at MORhomes plc, where he is chair and chairs the socially responsible investment committee; Local Pensions Partnership Investments Ltd, where he chairs the audit and risk committee; and Custodian Property Income REIT plc, where he chairs the audit committee.



Christèle Delbé
Independent
non-executive director

Non-executive independent:	Yes
Committee membership:	E RE
Date of appointment:	31/05/2023

Experience:

Christèle Delbé is a sustainable business director with more than 18 years pioneering strategic initiatives and shifting behaviour to unlock tangible commercial benefits across food, consumer goods, technology and non-profit sectors. She is an issues expert on responsible supply chains and consumption, carbon, waste, packaging and human rights.

Christèle was head of innovation and partnerships for Bonsucro, where she shaped and secured £1.5 million in funding for seven multi-stakeholder impact programmes. She has also advised organisations including UNICEF, Solidaridad, RNIB and Producers Direct on developing strategic partnerships with the corporate sector. As supply chain solutions director at KSAPA, she is co-creating solutions for smallholder-led agriculture value chains with organisations including GPSNR, Reckitt Benckiser and Coca-Cola.

Previously, as head of sustainable innovation for the Vodafone Group, Christèle pioneered a programme that created four mobile products for Unilever, Nestle, Danone and Anglo American to address supply chain, community and water challenges in Africa and Asia. As group head of sustainability at Orange Group, Christèle embedded global sustainability strategy, ethics and reporting frameworks into seven countries.

External appointments:

Her current portfolio includes lecturing with the Cambridge Institute for Sustainability Leadership (CISL); consulting with KSAPA on smallholder value chain partnerships; trustee and interim chair at Producers Direct.



Kerensa Jennings
Independent
non-executive director

Non-executive independent:	Yes
Committee membership:	A E
Date of appointment:	31/05/2023

Experience

Kerensa Jennings is an award-winning digital leader and adviser who has held senior leadership positions in the private, public and charitable sectors. Selected by Computer Weekly among the most influential tech leaders in the UK, she has served on a range of boards including commercial companies, social enterprises, charities and government committees.

A former director at the Royal Household where she was CEO of a Royal social enterprise, based at Buckingham Palace, she was previously the BBC's head of strategic delivery and BT group director of data platforms. Kerensa is also a professionally qualified executive coach, a bestselling author, and as CEO of Inglenook Global Ltd advises and coaches a range of businesses on change and growth.

External appointments:

Her current portfolio includes non-executive adviser and board member at Knight Frank, a global limited liability partnership; trustee at Sir John Soane's Museum; board member at Founders4Schools, visiting professor of Media, Strategy and Communications at University of Huddersfield; Fellow RSA; and advisory board member at Digital Leaders, Noon, Trove, Digital Boost and Balance the Board.

Board of directors continued

Key

A Audit Committee

N Nomination Committee

RI H&S and Operational Risk Committee

E ESG Committee

RE Remuneration Committee

Blue circle Committee Chair



Neil McArthur
Independent
non-executive director

Non-executive independent:	Yes
Committee membership:	RI
Date of appointment:	01/10/2024

Experience

Neil joined the Board in October 2024 and was appointed chair of the Health and Safety and Operational Risk Committee. Neil has extensive experience in major capital intensive industries across the energy/natural resources value chains and utilities. As an executive, he was the former chief executive and chairman of the executive board of Arcadis N.V., a global leader in water, infrastructure and environmental design consulting; executive board member of Booz & Company; partner at Oliver Wyman. He started his career as a capital projects director at Shell.

External appointments:

He is chairman of the Supervisory Board of Sif Holdings N.V. and a non-executive director of AFRY AB.



Steve Fraser
Non-executive director

Non-executive independent:	No
Committee membership:	N/A
Date of appointment:	01/05/2022

Experience

Steve has over 20 years' experience of managing and transforming infrastructure businesses latterly as chief operating officer and a main board director of the FTSE100 water and wastewater company United Utilities and now as Chief Executive of Cadent Gas the largest distributor of Energy in the UK.

He has a degree in Management Studies and a Master's in Engineering Management from UMIST and also holds a diploma in Advanced Management from Harvard University.

After leaving education, Steve trained in utilities operations working across water, electricity, and latterly high-pressure gas pipelines.

He became a director of Bethell Group where he worked to establish them as a leading player in the energy services sector prior to joining United Utilities in 2005 to run the global outsourcing division energy and contracting services working across the UK, Europe and the Middle East.

External appointments:

Steve is the CEO at Cadent Gas, accountable for serving c.11 million customers across four gas distribution networks by operating the system and maintaining it safely as well as running the National Gas Emergency Number on behalf of all distribution networks.



Will Price
Non-executive director

Non-executive independent:	No
Committee membership:	N RE
Date of appointment:	08/09/2021

Experience:

Will joined the Board in September 2021.

Will joined Macquarie in 2007, and heads the Utilities and Networks team for Macquarie Asset Management in EMEA.

Will has been involved in several acquisitions, on behalf of Macquarie-managed funds, including Thyssengas, Czech Grid Holding, EP Infrastructure, E-Redes, MEIF Power Romania, National Gas and Last Mile Infrastructure. Will currently serves as a director on the board of National Gas and EP Infrastructure.

Will has a Bachelor of Science in Economics and Politics from the University of Bristol, UK. He also holds a Master of Finance from INSEAD Business School, France.

External appointments:

Will is currently a director on the board of National Gas and EP Infrastructure.

Board of directors continued



Neil Corrigan
Non-executive director

Non-executive independent:	No
Committee membership:	A E
Date of appointment:	29/11/2023

Experience

Neil is an operating partner for Macquarie Asset Management (MAM).

Prior to joining MAM, Neil held multiple leadership roles at Severn Trent Plc covering regulation, strategy, business development, M&A and corporate finance. Most recently he had full P&L and operational accountability for the group's diversified renewables division, Severn Trent Green Power, covering biomethane production from waste, onshore wind, solar and hydro power. Before that, Neil was a management consultant at McKinsey & Company focusing on utilities, energy and infrastructure, and at Coca-Cola as a strategy analyst. He also previously served as a non-executive director for Czech Grid Holdings, the largest gas distribution business in the Czech Republic. He has an undergraduate degree in Industrial Engineering and holds an MBA from London Business School.

External appointments:

Neil serves as a non-executive director on the board of Cadent Gas.



Richard Manning
General counsel and company secretary

Committee membership:	Secretary to all Committees
Date of appointment:	24/07/2018

Experience

Richard joined Southern Water in July 2018 as General Counsel and Company Secretary and has overall responsibility for risk, internal audit, corporate governance and assurance alongside his legal and Board governance roles. He is a member of the Executive Committee.

He has held similar roles in a number of listed and private companies including GCap Media plc, JJB Sports plc and Waterstones, and brings a wide experience of legal and governance matters.

Richard holds a law degree and an MBA and is a qualified solicitor.

External appointments:

Richard is chair of the Wells Festival of Literature, a registered charity.

Key

A Audit Committee

E ESG Committee

N Nomination Committee

RE Remuneration Committee

RI H&S and Operational Risk Committee

● Committee Chair

Board of directors continued

Our Board's composition (as at 15 July 2025)

Board composition

There have been a number of changes to the composition of the Board during the year. After six years on the Board, Gillian Guy stepped down as an independent non-executive director on 31 March 2025. Phil Swift resigned as a non-executive director on the same date.

Keith Lough has served as Chair since 1 August 2019.

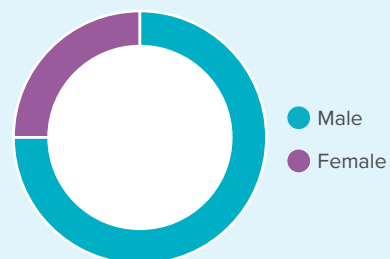
As at 31 March 2025, women made up 25% of the Board (three out of 12 directors). We are committed to having a diverse workforce that reflects the communities we operate in.

We publish a Gender Pay Gap Report. Our report showed that the median pay gap remains in favour of female employees at -0.03%. In terms of the bonus gap, we saw a small decrease to 23.40% in favour of male employees. While the Executive team welcomed more women in the year, the timing of the bonus payment meant that this missed the calculations for the 2023–24 period.

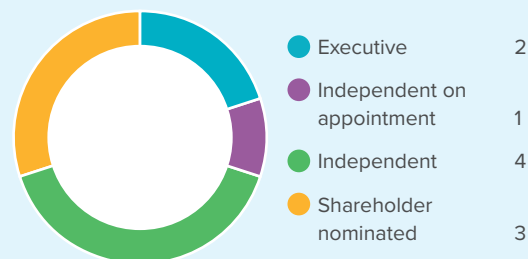
We are committed to supporting the aspirations of our talented female workforce and have implemented plans to address the gender pay gap. Read the full [report](#).

In accordance with good governance practice, the roles of the Chair and Chief Executive Officer are separate.

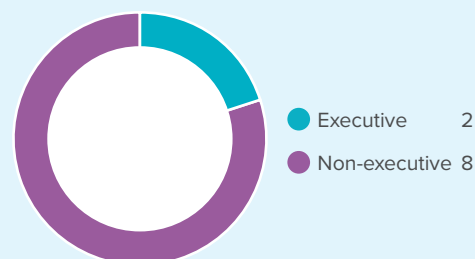
Board gender profile



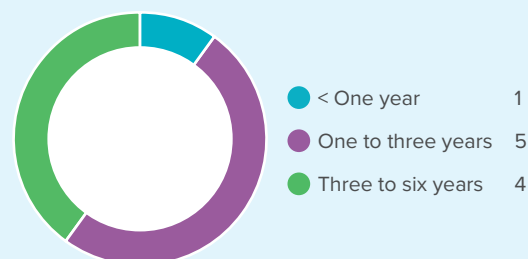
Board independence



Executive and non-executive directors



Board tenure



➔ Read about **how we're planning for the future** on pages 11 and 12.

Corporate governance report

as at 31 March 2025

1 Competence and independence

Boards and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high-quality decisions that address diverse customer and stakeholder needs.

Overview of the Board's responsibilities

The Board's role is to:

- Establish the company's purpose, strategy and values,
- Develop and promote the company's purpose in consultation with a wide range of stakeholders;
- Determine overall strategic aims and direction consistent with the company's purpose;
- Monitor and assess the company's values and culture to ensure that behaviour throughout the business is aligned with its purpose;
- Have full responsibility for all aspects of the company's regulated business in the long term;
- Ensure obligations to, and interests of, all company stakeholders are known and met appropriately;
- Provide effective leadership and collective responsibility for the long-term success of the company for the benefit of its members, taking into account the interests of a wide range of stakeholders, including customers, local communities, employees, suppliers and the company's impact on the environment;
- Ensure that sufficient resources are available to the CEO and his team to operate, manage and develop the business appropriately; and
- Ensure that appropriate and effective processes and controls are in place to assess and appropriately manage risk.

Greensands Holdings Board (at 31 March 2025)

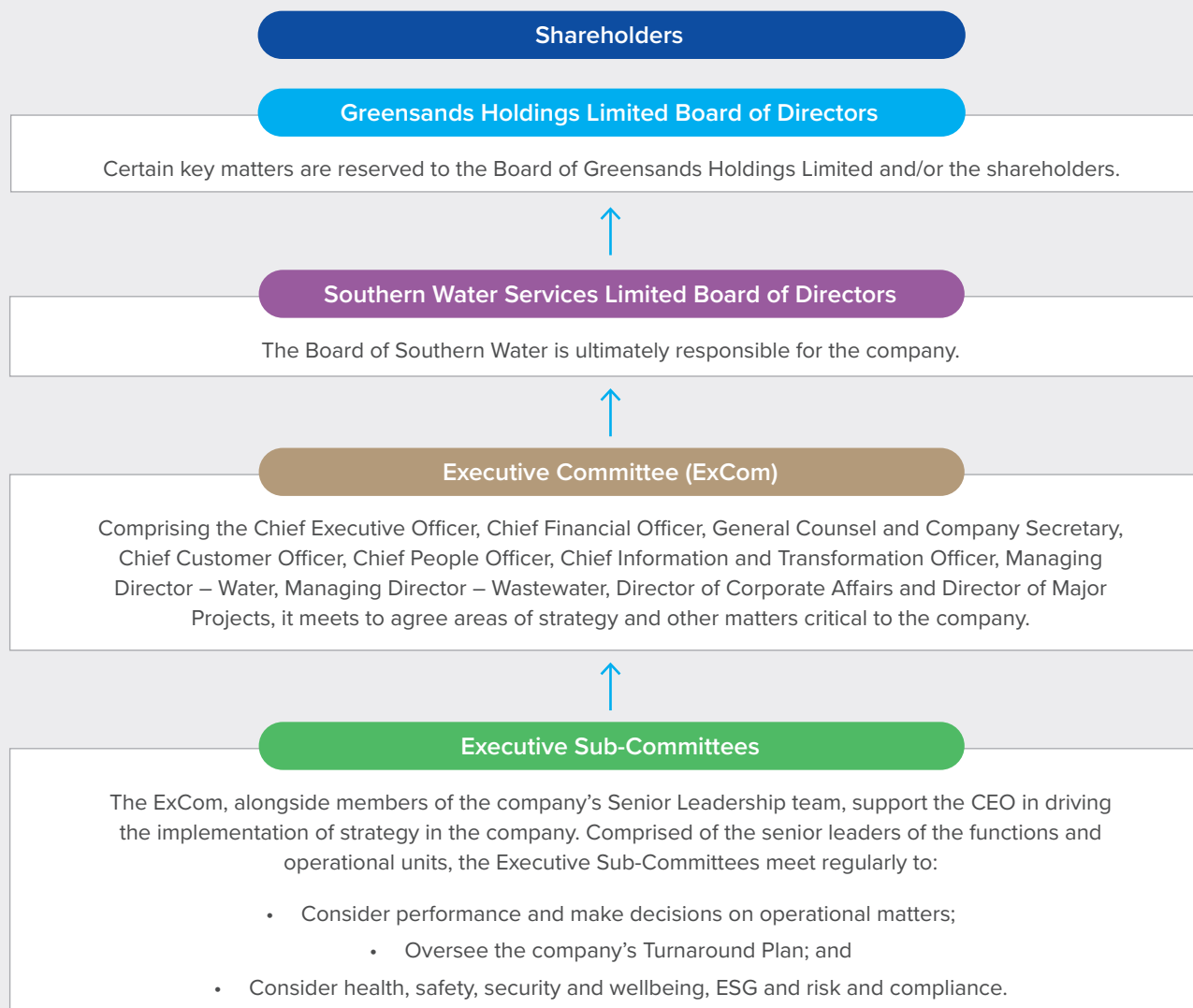
The shareholders' agreement of our parent company, Greensands Holdings Limited reserves certain matters by exception to the Board and shareholders of that company. This includes the company's dividend policy, which can be found on page 101. While the policy governing dividends is subject to shareholder approval, the decision whether or not to recommend payment of a dividend from Southern Water Services Limited sits with the Southern Water Board. A schedule of those matters reserved to Greensands Holdings Limited is published [on our website](#).

During the year 2024–25, a number of matters required shareholder and/or Greensands Board approval. These included approval of the annual budget.

➔ See note 36, post balance sheet events for details of **changes to our structure after 31 March 2025**.

Corporate governance report continued

1 Competence and independence continued

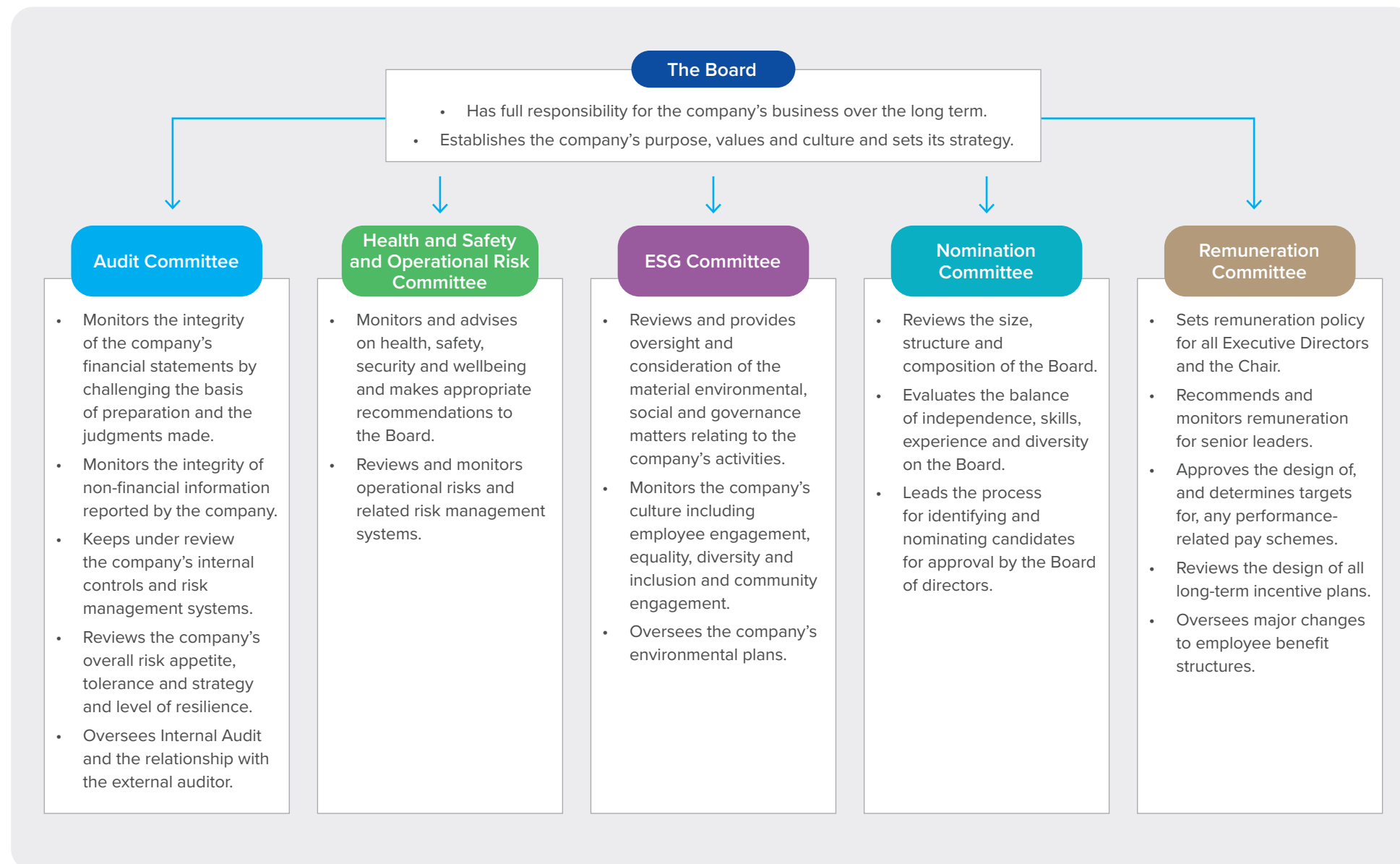


→ Read about the **Board's priorities during the year** on pages 150 and 151.

→ See note 36, post balance sheet events for details of **changes to our structure after 31 March 2025**.

Corporate governance report continued

1 Competence and independence continued



Corporate governance report continued

1 Competence and independence continued

What the Board has done during the year

Key areas of focus	The Board's focus	Matters considered during the year (examples)
Set company purpose, strategy values and goals	The Board devoted considerable energy and time during the year to responding to the determination of the company's 2025–30 business plan (PR24). A Board working group supported the Board in crafting its response to the Draft Determination and the considerations made in deciding to seek a referral of the Final Determination to the Competition and Markets Authority (CMA). The Board spent a dedicated strategy day refreshing the company's vision, objectives and key results. The Board also considered the target culture of the company. In parallel, a Board Committee oversaw preparations for the new five-year investment period.	• Draft and Final Determinations • Vision and strategy • Water Resources Management Plan • Drought Plan • Smart Metering • Water for Life – Hampshire schemes • Amending Articles of Association
Monitor values and culture	The Board continued to monitor the values and culture of the company. The Board was presented with an externally facilitated culture diagnostic and the framework to develop a Culture Blueprint for the organisation, delivery of which will be monitored by the Board going forward. The Board continues to believe that a strong culture among all our employees and the wider community who work with us, is vital to our future business success and to avoiding some of the issues that have caused damage in the past. The main instruments for the Board's monitoring of culture have been through the colleague survey and Employee Voice groups and will now be supported by the Culture Blueprint. Attention was given to a number of underpinning policy statements, e.g. Code of Ethics and modern slavery policy. In parallel the Health and Safety and Operational Risk Committee is focused on safety culture and the role it plays in keeping everyone safe, with the Audit Committee reviewing Speak Up (Whistleblowing) reports.	• Colleague engagement results • Reports from ESG Chair • Code of ethics • External culture diagnostic • Safety culture • Speak Up (whistleblowing) reports
Engage with stakeholders	The Board takes part in a number of engagement activities, formal and informal. Its ability to connect, listen to and to translate into action views from our customers, our employees and our much wider stakeholder community is a critical strength on which to base our decisions about the future of the company. The process, which went into the PR24 submission, involved formal engagement with customers and wider stakeholders in our region. The Board has continued to hear insight from customers and stakeholders since submission of the business plan and gave particular attention to the position of customers less able to pay their water bills.	• External stakeholder engagement review • Chairs of ICEG and CCCG • External liaison activities • Regulators to the Board
Hold the Executive to account for performance	The Board has had a major focus on the Turnaround Plan. It looked in detail at some of the causes of poor performance and of pollution incidents. It held the Executive to account for remedying performance, both through short-term measures and consideration of the longer-term investment needed. The Board held 'deep dives' on a number of matters, including monitoring of leakage and pollution incidents. It recognised that progress has been made against key targets but noted that there is much further to go. The Board is constantly seeking to secure improvements in these critical aspects of the company's performance.	• CEO, CFO and operational performance reports • Turnaround Plan • Leakage reports • Deep dive on pollution and C-MeX • Review of Hastings Incident • Investigation report of Testwood loss of supply incident • Performance reporting in the months where there is no meeting

Corporate governance report continued

1 Competence and independence continued

Key areas of focus	The Board's focus	Matters considered during the year (examples)
Ensure that resources are deployed according to priorities	The Board maintains a continuous dialogue with its investors, not least through investor representation. The Board's task is to secure a balance between the interests of investors, including their right to expect a return for their investment, and the interests of the company in ensuring the vital investment needed to secure the future of its services. The Board believes that the company does enjoy financial resilience and will continue to use all its efforts to secure the trust of its investors and the proper interests of the company, its stakeholders, its customers and the environment.	- Shareholder engagement - Condition P
Oversee the management of risk	The Board considers risk as part of its cycle of meetings. The Board Health and Safety and Operational Risk and Audit Committees are the Board's principal mechanism for the detailed consideration of risk. The ESG Committee oversees the company's net zero plans.	- Reports from Audit Committee - Reports from HSOR Committee - Reports from ESG Committee - Risk deep dive
Ensure that the right processes and controls are in place	The Board considers processes and controls of substantive issues. It seeks to make improvements where it identifies the need. Following the criminal attack on our IT systems in 2023–24, the Board has continued to monitor the company's post-incident activities. The Audit Committee also monitors key processes and controls for the Board.	Cyber

Board committees

In line with both the Board Leadership, Transparency and Governance Principles published by Ofwat and the UK Corporate Governance Code, as well as best practice, the Board has established a number of standing committees with specific responsibilities. These committees are responsible for:

Audit

The Audit Committee has oversight of financial reporting matters, both internal and external auditors, and procedures for whistleblowing, internal controls and risk management systems.

Health and Safety and Operational Risk

The Health and Safety and Operational Risk Committee has responsibility for monitoring and advising on operational risks and reviewing and monitoring health, safety, security and wellbeing performance.

ESG

The ESG Committee oversees the material environmental and social matters relevant to the company's activities and supports the company in delivering its desired longer-term ambitions, plans and governance in key areas.

Nomination

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board and assessing the balance in terms of independence, skills, experience, expertise and diversity on the Board. The committee leads the process for identifying and nominating candidates to fill independent non-executive director vacancies.

Remuneration

The Remuneration Committee has the responsibility for setting the remuneration policy and structure of the executive directors and senior executives. It is also responsible for setting the remuneration of the Chair.

These committees assist the Board by monitoring and reviewing performance and issues within their respective scopes. Specific responsibilities have been delegated to these committees.

Each committee has written [Terms of Reference](#), which are reviewed at least annually.

In addition to the established committees, the Board constituted a committee to oversee the response to the Price Review 2024 and other regulatory submissions, including the Water Resource Management Plan.

Other committees are constituted if and when required for specific matters.

Corporate governance report continued

1 Competence and independence continued

Board meetings and attendance

A total of six* Board meetings were scheduled to take place during the year. The attendance at scheduled Board meetings during the year was as follows:

Member	Attendance
Keith Lough	6/6
Mike Putnam ¹	2/2
Gillian Guy	6/6
Malcolm Cooper	6/6
Kerensa Jennings	6/6
Christèle Delbé	6/6
Neil McArthur ²	4/4
Phil Swift	6/6
Steve Fraser	6/6
Will Price	6/6
Neil Corrigall	6/6
Lawrence Gosden	6/6
Stuart Ledger	6/6

* Short-notice Board meetings were called for approvals and other matters, outside of the scheduled meetings. These are not included in the table above.

¹ Resigned as a director on 31 July 2024.

² Appointed 1 October 2025.

The agenda and papers are sent to Board members in advance of each meeting. A monthly performance report is distributed for the months when there is no scheduled meeting.

The Board usually holds its meetings at the company's head office in Worthing. The Board also holds some meetings at an operational site during the year. In addition to the scheduled Board meetings, the Board holds a strategy day each year in order to provide an opportunity to discuss the company's future strategy and plans.

Where a director has a concern over any unresolved matter, they are entitled to require the Company Secretary to record that concern in the minutes of a meeting. Should the director later resign over the issue, the Chair would bring it to the attention of the Board.

All members of the Board were, and are, able to allocate the necessary time to the company in order to be able to discharge their responsibilities effectively.

→ Read more about the **role of Board members** on pages 153 and 154.

Corporate governance report continued

1 Competence and independence continued



Chair

The role of the Chair is to lead the Board in its shared responsibilities, to encourage and facilitate the contributions of its members and to ensure adherence to the governance principles and processes of the Board. Keith Lough has served as the company's Chair since 2019. In line with the Ofwat Board Leadership, Transparency and Governance Principles as well as the UK Corporate Governance Code, Keith was viewed as independent on appointment.

The Chair discusses and agrees Board meeting agendas with the Chief Executive Officer and Company Secretary, although any director may sponsor an item to be included on the agenda. The Chair has authority to act and speak for the Board between its meetings, which includes engaging with the Chief Executive Officer. The Chair reports to the Board, chairs of its committees and individual directors as appropriate on decisions and actions taken between Board meetings. The Chair also meets with the non-executive directors, without the executive directors present, to consider the performance of the executive directors and to provide feedback.

The Chair is not a member of the Greensands Holdings Limited (the company's ultimate parent company, at 31 March 2025) board.



Chief Executive Officer

The Chief Executive Officer is a member of the Board and has all the responsibilities of a director of the company. Lawrence Gosden has served as the company's Chief Executive Officer since July 2022. In his executive role, responsibility has been delegated to him to deliver the company's strategy. He is empowered to take all decisions and actions that further the company's strategy and which, in his judgment, are reasonable within the Chief Executive Officer's limits set out in the company's internal controls and matters reserved to the Board. The non-executive directors, led by the Chair, appraise his performance annually.



Chief Financial Officer

The Chief Financial Officer is a member of the Board with all the responsibilities of a director of the company. Stuart Ledger was appointed as the company's interim Chief Financial Officer in January 2023. In his executive role and reporting to Lawrence Gosden, he has the responsibility for managing the company's financial affairs and assisting the Chief Executive Officer in the delivery of the company's strategy. His performance is reviewed annually by the Chief Executive Officer.



Senior independent non-executive director

Malcolm Cooper is the senior independent non-executive director. He is the chair of the Audit Committee and is also a member of the Health, Safety and Operational Risk Committee.

As senior independent non-executive director, Malcolm will chair Board meetings in the event that the Chair, Keith Lough, is unable to do so. In the capacity of senior independent non-executive director, he will be available to discuss matters or concerns with investors as required.

Gillian Guy was the senior independent non-executive director for the reporting period and announced her intention to step down from the Board, and resigned as a director on 31 March 2025.

Corporate governance report continued

1 Competence and independence continued



Independent non-executive directors

The largest group on the Board are the independent non-executive directors (which include the senior independent non-executive directors) in accordance with the Ofwat principles and as a matter of good governance practice. The number of independent non-executive directors is also in accordance with the company's licence conditions, which require at least three independent non-executive directors on the Board.

They provide independent advice and perspectives and review and challenge decisions and reporting on behalf of all stakeholders, including customers and employees. The independent non-executive directors have been appointed for their external expertise and experience in specific areas, such as customer service, the environment, operations, procurement, capital project delivery, regulation, transformation and general corporate management.

The non-executive directors also appraise the Chair's performance.

Read the standard [terms and conditions](#) for the appointments of independent non-executive directors.



Shareholder representative non-executive directors

Under the terms of the Shareholders' Agreement, certain investors have a right to nominate for appointment non-executive directors to the Board of Southern Water. As a statutory director, such an individual has all the duties, obligations and rights of a director of Southern Water and, as such, must act in accordance with the directors' duties set out in the Companies Act 2006. This includes those set out in section 172, to promote the success of the company for the benefit of its members as a whole, having regard to the long term and the interests of the company's stakeholders.



General counsel and company secretary

All directors have access to the advice and services of the Company Secretary, Richard Manning, and the Company Secretariat team. The Company Secretary is responsible for ensuring that the Board operates in accordance with the adopted governance framework and that there are good information flows to the Board and its committees and between senior executives and the non-executive directors. The appointment and removal of the Company Secretary is a matter reserved to the Board.

Directors are also able to obtain appropriate independent professional advice in connection with the performance of their duties.

Corporate governance report continued

1 Competence and independence continued

Board independence

In accordance with the Board Leadership, Transparency and Governance Principles published by Ofwat, the majority of non-executive directors have been independent and independent non-executive directors were the largest single group on the Board throughout the year.

Following listed company best practice, the Board takes into account those matters listed in Provision 10 of the UK Corporate Governance Code as well as any other relevant circumstances or considerations in forming its assessment of the independence of directors.

The Board considers that the independent non-executive directors were independent in character and judgment, and persons of standing with relevant experience. Collectively they have connections with, and knowledge of, the company's area and an understanding of the interests of our customers, communities, workforce, suppliers and the environment, and how these can be respected and protected.

Conflicts or potential conflicts are governed by the Companies Act 2006. The Board does not have power to authorise conflicts under the company's Articles of Association. If a conflict should arise, the director in question takes no part in discussions and may not vote on that issue. During 2024–25, no director declared a material interest at any time during the year in any contract of significance with the company.

Balance of skills and experience of the Board (as at 15 July 2025)

The Board, as a whole, has an appropriate balance of skills, experience, independence and knowledge of the company, and the Board provides independent support and advice as well as new ideas and healthy challenge. The number of directors with significant and/or material skills, knowledge and experience related to the key areas necessary to deliver the company's strategy is summarised below.

Board skills matrix

	1	2	3	4	5	6	7	8
Capital programmes	●	●	●	●	●	●		
Operations	●	●	●	●	●			
Customer	●	●	●	●				
Environment	●	●	●	●	●	●	●	
Governance	●	●	●	●	●	●		
Regulation	●	●	●	●	●	●		
Financing	●	●	●					
Transformation	●	●	●	●	●			
Digital and technology	●	●	●					
Utilities sector	●	●	●	●	●	●	●	

Moving towards creating a resilient water future for our customers

In order to be able to deliver for our customers and the communities we serve, the Board requires a diverse range of skills and experience. The table above shows the current Board members in terms of their primary skills and experience.

➔ Read more about the **skills and experience of the Board** on pages 142 to 145.

Corporate governance report continued

1 Competence and independence continued

Board report

Introduction

The Board takes full responsibility for setting the company's strategy and holding the executive to account for performance.

The Board plays a critical role in setting the tone of the company and acting as interface with key stakeholders – the company's customers and shareholders, communities, government, regulators.

The Board works through, and with, its committees to ensure proper oversight of the company's business. The role of each committee is described on page 151. Each committee makes its own report setting out its responsibilities and the key areas it has addressed during the year. This report of the Board's activities sets out the areas on which the Board has focused during the year.

Setting long-term strategy

A key focus for the Board in 2024–25 has been the response to the Draft and Final Determinations of the company's investment plan for the next five-year investment period 2025–30, and whether to seek a referral to the Competition and Markets Authority (CMA). With a focus on the company's plans for 2025–30, the Board met in October 2024 to discuss and consider the company's vision and strategy. This highlighted the company's focus on protecting the environment and providing a sustainable supply of high-quality drinking water in partnership with communities, together with supporting strategic themes to deliver the company's key results.

Aligning purpose, values and culture

The Board continues to prioritise culture, monitoring key indicators whether directly or through its committees. A new culture diagnostic was presented to the Board, outlining a framework to develop a new culture framework. Results of the latest colleague engagement survey were shared with the Board and form part of the continuing work on culture.

The Board updated the company's Articles of Association to state that customers, communities and the environment are key considerations.

Our purpose: To provide water for life to enhance health and wellbeing, protect and improve the environment and sustain the economy.

Our vision: We're working together to provide sustainable water and protect the environment today and for future generations.

Monitoring performance

The Board continued to focus on monitoring and challenging the company's performance and delivery against its published Turnaround Plan. In parallel, the Board has overseen the development of the company's objectives and key results for the next five years.

There has been continued scrutiny on water companies throughout the year on the operation of their storm overflows and management of discharges to the environment. The Board has continued to monitor the company's compliance performance, including flow and spill compliance performance. The Board approved the company's 2025 Pollution Incident Reduction Plan, building on the previous year's plan.

The Board supports the company's continued focus on meeting water quality standards, building on the development and delivery of the strategic plans and Turnaround Plan. The Board tracked delivery of the water plan against both leading and lagging indicators. The Board approved expenditure to deliver significant improvements at four key Water Supply Works (Burham, Hardham, Otterbourne and Testwood).

Within the reporting year, several significant operational incidents have occurred, impacting the supply of water to some of our customers. The Board ensures that it's kept up to date during these events, challenging and supporting management to ensure that key learnings are identified and acted upon, including the support provided to customers both during and after the event. The Board received a lessons-learned update following the Hastings burst main and the investigation report on the Testwood loss of supply.

Turnaround Plan

The company concluded its Turnaround Plan which had focused on improving 13 specific performance commitments, aligned to four key priorities. The Board continued to monitor performance against the plan and welcomed the targets achieved, noting that there is still more to be done in some areas. Following the cyber attack in December 2023, the Board has continued to oversee the post-incident actions and mitigations.

Corporate governance report continued

1 Competence and independence continued

Long-term resilience

The Board has continued to focus on both the operational and financial resilience of the company. In addition to the response to the Draft and Final Determinations of the company's investment plan, the Board has overseen plans to improve resilience in its water resources, approving schemes in the Water for Life – Hampshire programme. Alongside the development and submission of the Business Plan 2025–30, the Board has overseen the Water Resources Management Plan (WRMP).

In its commitment to innovative solutions the Board has provided feedback on the company's Wetland Strategy and Sustainable Urban Drainage Framework.

The Board has continued to support both shareholders and management in strengthening the company's financial resilience and welcomed the further equity injection announced in June 2025.

Holding the company to account for performance

The Board dedicates considerable time to the monitoring of performance. As will be seen from individual committee reports, they keep activities within their remit under review. The Board carries out its monitoring and oversight role as follows:

- Each committee chair reports matters considered by the committee at Board meetings
- At each meeting the executive presents a reporting suite, including updates from the CEO and CFO, an outcome delivery incentive and operational performance report of key KPIs and delivery against the company's Turnaround Plan
- In addition to its core meetings, the Board conducts deep dives into specific topics, with matters considered in the year including
 - Cyber security
 - Culture
 - Customer initiatives
 - Pollution reduction
 - Risk
- The Board conducts periodic site visits to enable it to get a first-hand feel for issues and to hear the views of employees.

Where performance falls below levels expected, the Board will always interrogate the facts and background to the issue and will seek to give firm support to the executive in ensuring appropriate remedies.

Sustainability

The Board received regular updates from the ESG Committee and continues to have oversight of sustainability.

Other key matters considered during the year

- Views of stakeholders
- Environmental water quality compliance
- The company's response to interruptions to supply
- Preparations for the next investment period, including key commercial contracts
- Vulnerability Strategy
- Diversity and inclusion
- Customer service
- Code of Ethics review.

Stakeholder engagement

The Board sees itself at a pivotal point between stakeholders and the company. Individual Board members are actively engaged in outreach to customers and communities. The Chair and CEO in particular play an important role with investors, regulators, the wider industry and government.

→ Read more about the **company's pollutions performance** on page 36.

→ Read more about **operational performance** on pages 32 to 85.

Corporate governance report continued

2 Purpose, values and culture

The regulated company Board establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

////////////////////



Our new company vision supports our strategy and puts our customers and the environment firmly at its heart."

Keith Lough
15 July 2025

Our purpose:

To provide water for life to enhance health and wellbeing, protect and improve the environment and sustain the economy.

Our vision:

We're working together to provide sustainable water and protect the environment today and for future generations.

Laying the foundations for success

As reported last year, the five-year delivery strategy and focused Turnaround Plan are guided by our long-term vision to create a resilient water future for our customers in the South East. Through our Turnaround Plan we've committed to delivering four key priorities that support our purpose to provide water for life to enhance health and wellbeing and to protect and improve the environment. Our core values then provide the foundation and ethical decision-making framework by which we operate.

The company's vision and values have evolved since 2019 and a new vision and strategy were approved by the Board in March 2025.

Embedding and monitoring culture

During 2020–21 the company re-established an Employee Voice group. Employee Voice members attend a quarterly company-wide session with members of the Senior Leadership team, to engage in meaningful conversations and agree key decisions and actions. Our workforce non-executive director Neil Corrigan, engages with the Employee Voice group, enabling insight into the culture of the organisation and the extent to which the purpose and values are embedded.

The health, safety, security and wellbeing of our people is an overriding value and a core pillar of our strategy on how we make a behavioural shift to make sure we're always working with care. Colleagues continue to attend our company-wide immersive training event with Board members also attending the programme.

A culture diagnostic was undertaken and presented to the Board by Walking the Talk, socialising the draft target culture and explaining the development of a Culture Blueprint.

This year, the company undertook a Pulse Engagement Survey, with the ESG Committee receiving a deeper dive into the result.

All of the Board members continue to sign up to the Code of Ethics, which has been personally endorsed by the Chair and Chief Executive Officer.

The Board has further continued to monitor the company's culture through the review of metrics including:

- Employee engagement scores
- Gender hourly pay gap and bonus pay and gender distribution
- Safety observations raised
- Speeding events
- Pollution incidents and self-reporting
- Water quality compliance
- Customer satisfaction (C-MeX) and complaints
- Speak Up (whistleblowing) reports.

The ESG Committee receives regular reports on people and culture, including equality, diversity and inclusion, colleague engagement and development.

The Health and Safety and Operational Risk Committee receives regular reports on health, safety and wellbeing matters, including the number and nature of incidents/accidents and the culture of health and safety in the company.

Corporate governance report continued

2 Purpose, values and culture continued

Stakeholder engagement

Throughout the year, the Board has been kept informed of the views of the company's stakeholders, including its regulators, suppliers, investors and government. The company's Chair and Chief Executive Officer regularly attend meetings with government bodies such as Ofwat, the Department for Environment, Food and Rural Affairs, the Environment Agency and Drinking Water Inspectorate.

The Chief Executive Officer also regularly attends meetings and other events with Water UK in respect of matters relevant to the water sector as a whole.

Employee engagement

In accordance with the UK Corporate Governance Code, and in support of the Board's duty under section 172(1) to consider the interests of the company's workforce as well as part of the Board's role in its monitoring and assessing of culture, Neil Corrigan is the appointed non-executive director with the remit of communicating the views of the company's workforce (as defined in the UK Corporate Governance Code) to the Board.

The scope of this role includes:

- Obtaining and communicating to the Board the views of the company's workforce in respect of matters, including pay and conditions; health, safety and wellbeing; working environment; and culture. This enables the Board to give appropriate consideration of the interests of the workforce. Communication methods include: regular meetings with the company's workforce representatives, the Chief People Officer and Director of Health, Safety, Security and Wellbeing; attendance at workforce events; attending Employee Voice groups, and visits to operational sites and offices.
- Providing regular reports to the Board.
- At least annually, meeting with the Chair of the Remuneration Committee to enable the committee to take into account the conditions of the workforce when setting executive remuneration policy (in accordance with the UK Corporate Governance Code).

Board listening approach

Board listening channels	What this channel brings
Non-executive director for workforce engagement	This provides an opportunity for the Board to obtain information about the views of the workforce directly as opposed to via management.
'Company Conversations'	These provide an opportunity for all employees to directly ask questions of, and communicate their concerns to, the CEO and CFO.
All-employee surveys	The all-employee surveys give the Board an insight into the engagement and satisfaction levels of employees as well as insight into the culture and ethics of the organisation.

➔ Read more about the company's section 172(1) Statement on pages 89 to 91.

Corporate governance report continued

2 Purpose, values and culture continued

A message from Neil Corrigan



Neil Corrigan
Non-Executive Chair

Since the changes introduced by the UK Corporate Governance Code in 2018, one of the suggested methods for the Board to obtain a clearer understanding of the concerns of the workforce is to assign a non-executive director with the remit of engaging with employees and reporting to the Board.

The period 2025–30 requires a scaling up of our engineering and capital investment delivery teams, both internally and through our supply chain contractors. Progress has been made in a large scale recruitment drive along with an improved onboarding process. After extensive market engagement, the business has welcomed a wide range of new contract partners to help us deliver our plan, with more expected in 2025–26.

One theme throughout engagement with our employees has been to improve the digital infrastructure of the business. I have been pleased to see how implementing core systems such as IBM Maximo has simplified processes and is providing the front line with better analytics to improve performance. Work continues to improve the digital experience for our front line teams with positive take up of digital and AI-enabled apps, such as FYLD.

Progress continues to be made in embedding more effective health and safety processes and the associated cultural change. The rollout of Blackline Safety gas detection and lone working monitors was well received by employees, improving the safety of remote working practices. Unfortunately there continue to be security situations when colleagues feel threatened or intimidated in the field due to broader concerns about

the performance of the water sector. Management continue to show commitment to ensure that everyone should be safe at work.

There are extensive discussions around the board table about the scaling up to deliver our ambitious investment plan and the implications for our employees and supply chain partners.

Neil Corrigan
Non-executive director

15 July 2025

→ Read more about
**employee
engagement** on
page 64.

Corporate governance report continued

2 Purpose, values and culture continued

Board activities

During the year, the Board reviewed and considered a number of key matters as part of implementing the company's strategy.

Area	What was reviewed and considered?	Link to our strategy
Business strategy The Turnaround Plan to deliver against the business plan 2020–25.	The Board tracked progress of delivery against the plan. The Board approved the company's response to the determination of its largest ever Business Plan 2025–30 and referral to the CMA. The Board approved the company's vision and strategy. The Board reviewed and approved key submissions for the company's Water for Life – Hampshire programme. The Board reviewed and approved the company's Water Resources Management Plan.	 
The environment Impact on the environment.	The Board approved the company's 2024 Pollution Incident Reduction Plan. The Board, through the ESG Committee, considered management's approach to its Wetlands Strategy. The committee also approved the Environment and Carbon policies.	
Our customers Delivery for our customers.	The Board, through the ESG Committee, considered the company's Vulnerability Strategy. The Board reviewed the company's response to the supply interruption events together with mitigating and preventative actions. The Board reviewed the approach to improving customer service and customer satisfaction.	 
Our finances Ability to continue to operate as a going concern and deliver its strategy.	The Board welcomed the further equity injection by the company's majority shareholders, funds managed by Macquarie Asset Management. The Board considered and approved key financing activities to support the financial resilience of the company.	 
Our people The health, safety, security and wellbeing of our workforce.	The Board reviewed progress against the company's Health, Safety, Security and Wellbeing Transformation Plan.	

Key

-  Deliver great service
-  Fit for the future
-  Protect and improve the environment
-  Use water wisely

Corporate governance report continued

3 Board effectiveness and Chair evaluation

The regulated company has an effective Board with full responsibility for all aspects of the regulated company's business for the long term.

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An effective Board should always open itself up for scrutiny and be willing to adapt.”

Keith Lough
15 July 2025

Board evaluation

In line with the UK Corporate Governance Code and the Ofwat principles, there is an annual evaluation of the Board in terms of its performance and effectiveness.

During the year we appointed Stanton Marris Consultants to carry out an independent review of the Board's effectiveness.

The 2025 evaluation found that the Board was effective, with an opportunity to benefit from the smaller size resulting from recent retirements, with the possibility of appointing a further independent non-executive director (INED) to provide required skills or to facilitate succession. The report noted that there was a healthy and productive relationship between INEDs and investor-appointed non-executive directors, and with executive and non-executives.

The evaluation shows a numbers of areas, again mainly process, in which improvements can be made.

The Board also conducted an evaluation of the chair, led by the senior independent non-executive director.

Corporate governance report continued

3 Effectiveness continued

The 2024 evaluation was based on a number of key areas to be assessed. A summary of key findings under these areas is below. Besides these issues, the Board also looked at the functioning of committees, effectiveness of Board members at meetings and relationships with investors.

Area	Findings
Board composition The review asked about the composition of the Board, in terms of size, skills, and diversity and its fitness to meet challenges of the future.	The review concluded that there was a good balance of skills across operational performance, finance, customer, regulation, technology, network management and ESG. However, it could consider whether experience around major capital projects needs to be enhanced in the future. With two recent retirements, the Board agreed with the review's recommendation that the Board could be kept at the smaller size, although this could increase by one independent non-executive director to meet future demands or the needs of succession. The review updated the skills and experience of Board members. The Board secretariat will continue to keep a log of Board skills and experience.
Strategy The review asked how effective the Board was at setting strategy.	The review observed that the Board had significant engagement with strategy through the PR24 process and through its autumn strategy day. It also discussed and agreed the company's strategic framework and integrated business plan together with a new company vision. The Board has continued the practice of 'deep dives', which has enabled it to take a more strategic look at some of the bigger and longer-term issues facing the company. The Board continued to spend time and give focus to performance monitoring. A key task facing the Board is the ability to balance multiple demands in a complex stakeholder and regulatory environment. The review observed that the Board was effective in understanding and carrying out its task here. The Board secretariat will continue to find ways to enable the Board to continue to focus on strategic issues.
Leadership The review asked whether the Board gave sufficient clarity of leadership to the company's direction, strategy, culture and values.	The Review concluded that the Board had given a strong lead on direction while at the same time empowering the executive to deliver. The Board continued to monitor the culture of the company, including through direct engagement with employees and scrutiny of the engagement survey and other metrics, together with a focus on safety culture. The Board will continue to monitor the culture and values of the company closely.

Corporate governance report continued

3 Effectiveness continued

Area	Findings
Conduct of Board meetings Board members were asked to give their views on the preparation for and conduct of Board meetings.	- Board members believe that their meetings are productive and are run effectively. - They think that papers and presentations are generally of good quality and that they receive the information they need to discharge their role effectively. - They point to some improvements in process, e.g. around length and advance circulation of papers. - Board members comment on their engagement with risk management and believe that they play an effective role. They want to put their future focus on 'fewer, bigger' risks. The secretariat will incorporate these and other process improvements in to Board policy and practice.
Communication Board members were asked about the quality of communication with leadership, management, employees and key stakeholders.	Board members believe that levels of communication are in general strong, having a strong relationship with the Executive team in particular. They welcome direct engagement with regulators. They will welcome further opportunity for employee engagement. The company secretariat will seek opportunities to further develop Board engagement with key groups.

Board development and training

As in previous years the Board also has access to professional development, provided by external bodies and by the company's professional advisers. At the chair's annual appraisal of the non-executive directors, he discussed individual training and development needs. The Board members individually also carry out their own training and development, such as by attending relevant seminars and workshops to ensure that their knowledge is kept up to date. There is also a programme of induction for new Board members.

The Board will continue to focus on its development in the coming period, looking in particular to ensure its engagement with big strategic issues/risks and its role in leading the company's culture and values. The secretariat will put into action the various points for improvement that arose in the 2024 evaluation.

Corporate governance report continued

3 Effectiveness continued

Nomination Committee Report



Keith Lough
Chair of the
Nomination
Committee

Attendance 1/1

Committee membership



Gillian Guy¹
Committee member
Attendance 1/1



Will Price
Committee member
Attendance 1/1



Malcolm Cooper²
Committee member

It has been another full year for the Nomination Committee.

Notwithstanding it only met formally once, the committee has had a focused year, steering the Board through an external assessment, led by Stanton Marris, as well as managing Board and Executive succession planning.

As noted elsewhere in this report, Mike Putnam retired on 31 July 2024, with Gillian Guy and Phil Swift retiring on 31 March 2025. Following an external recruitment process, managed by the committee, Neil McArthur was appointed to the Board on 1 October 2024.

The Board assessment, and its outcomes, are reported elsewhere. The committee has supported the CEO in his continued effort to develop and strengthen the Executive team.

Keith Lough
Chair of the Nomination Committee

15 July 2025

Key activities undertaken

- Conducting an externally facilitated Board and Chair review.
- Recruitment and onboarding of a new independent non-executive director.
- Promotion of Board and Executive diversity.

Priorities for 2025–26

- Follow up the recommendations from the Board assessment.
- Focus on succession planning at the Board and Executive.
- Internal Board effectiveness review.

¹ Until 31 March 2025

² From 1 April 2025

Corporate governance report continued

3 Effectiveness continued

Our role is to ensure an effective Board

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board and, based on the results of this review, for assessing its balance in terms of independence, skills, experience, expertise and diversity, and making appropriate recommendations based on this assessment. The committee leads the process for identifying and nominating candidates to fill independent non-executive director vacancies.

Board appointment process

The Nomination Committee leads the appointment process for a new independent non-executive directors, based on criteria for skills, experience and knowledge determined as a result of the committee's review of the Board's composition. The committee, typically supported by an external search firm with no connection to the business, would produce a role specification and then lead the search for appropriate candidates. The preferred candidate would be selected through a series of meetings between Board members and the candidate(s).

When the committee is satisfied with its preferred choice, it would then recommend the appointment to the Board for approval. The candidate is also required to meet with Ofwat under the provisions of the Board Leadership, Transparency and Governance Principles. Once the candidate has met with Ofwat and, subject to receipt of approvals by the Southern Water Board and under the terms of the Shareholders' Agreement between investors in Greensands Holdings Limited, the individual would be appointed as a director based on [our published terms](#).

The Board, as a whole, supported by the Nomination Committee, appoints those individuals nominated by investors under the terms of the Shareholders' Agreement.

The current chair would not oversee the committee if it was considering his succession.

Director induction

On appointment to the Board, induction scope is agreed with each appointee and then an appropriate, comprehensive and individualised induction is provided. This will include access to, and time with members of the executive and other key employees, information on the company structure, the regulatory framework of our business, customer service and the operation of assets, strategic plans, financial reports, business plans and our governance framework and Holding Group structure. In addition, the appointee will meet with the company's external advisers as appropriate. The appointee will also be afforded the opportunity to visit the company's sites.

Board diversity

Diversity of views and opinions in a decision-making body ensure that proposals face sufficient scrutiny and challenge and that decisions are made based on a broad range of perspectives.

Diversity and different perspectives facilitate innovation, which is of great importance for any business. Therefore, the composition of the Board is made up of individuals from a diverse range of backgrounds, industries and professions to encourage this. Furthermore, a board must also reflect the communities and other stakeholders served by a business and there should be representation of different genders and of different ages, ethnic and social groups.

The Board continues to be supportive of greater representation of those historically under-represented in senior leadership positions and seeks to, as a minimum, meet the expectation applicable to listed companies that at least 25% of Board members are female. As at 31 March 2025, three out of 12 (25%) directors were female.

Corporate governance report continued

3 Effectiveness continued

Approach to succession planning

A considered and thorough assessment of the skills and expertise on the Board and what will be required in the future is of great importance for the long-term resilience of an organisation. The Board, assisted by the Nomination Committee, has reviewed its current array of skills and expertise, as well as what is required, in order to ensure that the Board continues to be effective.

Conflicts of interest and time commitments

As a matter of law, as well as being able to function effectively, directors must be free of conflicts between the interests of the company and their own interests, or, where such conflicts are unavoidable, appropriate mitigations must be in place. Directors are required to declare any external interests that they, or persons closely connected to them, might have which could, reasonably, conflict with the interests of Southern Water. Under its Articles of Association, the Board of Southern Water is not permitted to authorise conflicts of interest.

The Board is aware of the potential for conflicts of interest in respect of the directors nominated by the investors and closely monitors this. As statutory directors, these individuals must manage any conflicts arising from their position in accordance with the provisions of the Companies Act 2006.

It is accepted that most directors will also have appointments on other boards (or similar bodies) or, in the case of non-executives, potentially also have full-time executive positions in other companies

This is viewed positively, as it allows for a breadth of experience and enables Southern Water to take advantage of perspectives and expertise from other industries and sectors. However, the director must be able to devote sufficient time to their role at Southern Water and be able to discharge their duties effectively. Therefore, the number of external appointments of each director is kept under review. Under their terms of appointment, independent non-executive directors are expected to devote at least 24 days per year to their role at Southern Water.

The Board is satisfied that all directors were able to devote sufficient time and attention to their role at Southern Water throughout the year.

→ Read more about the **different roles within the Board** on pages 150 and 151.

Corporate governance report continued

4 Transparency and accountability

The Board's leadership and approach to transparency and governance engenders trust in the regulated company and ensures accountability for their actions.

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As we move into the new investment period we are increasing our focus on internal controls in line with new UK corporate governance requirements. This will allow us to manage the financial and non-financial risks the company is facing and will set the scene for our assurance programmes which will ensure the information published continues to be both transparent and accurate.”

Malcolm Cooper
15 July 2025

The Board is there to make sure that the company provides clear, timely and accurate information on its performance to its customers, regulators and other key stakeholders.

Good governance and rigorous assurance processes supports the company in ensuring transparency and accuracy in the publication of both financial and non-financial statements. The Audit Committee plays a key role in ensuring that the company's processes are fit for purpose and follow corporate governance requirements.

The committee is supported in its work by both internal and external auditors who can give independent assurance of the information presented by management.

Companies must also be clear on the risk landscape within which they operate. The Board needs to set the level and type of risk that is acceptable, ensuring that it aligns with the company's overall strategy and that there are strategies and mitigations to address. The Audit Committee supports, oversees and advises the Board on the current risk exposure of the company and future risk strategy.

Corporate governance report continued

4 Transparency and accountability continued

Audit Committee Report



Malcolm Cooper
Chair of
the Audit
Committee

Attendance 4/4

Committee membership



Kerensa Jennings
Committee member
Attendance 4/4



Neil Corrigan
Committee member
Attendance 4/4

The Audit Committee continues to monitor the integrity of the company's financial information, focusing on the interim and annual reports.

The committee oversees the company's reporting non-financial information, supported by external assurers.

During the year, it approved the internal audit plan, receiving updates on a quarterly basis. The committee has continued to receive regular updates on the effectiveness of the company's Speak Up (whistleblowing) service, challenging management actions where appropriate. Reports on the company's environmental and water quality compliance are presented at each meeting, together with progress against the obligations, commitments and undertakings of the company to its regulators.

Management presented an external post-incident assessment following the cyber incident.

Malcolm Cooper
Chair of the Audit Committee

15 July 2025

Areas of focus this year

- Annual and interim financial statements.
- Assurance of our business plan for the period 2025–30.
- Progress on undertakings and commitments given to our regulators.
- Compliance and controls.
- Review of Licence of Appointment.
- Going concern.
- Billing and collections
- Condition P.

Priorities for 2025–26

- Going concern.
- Compliance and controls.
- Assurance of our 2025–30 delivery plans.
- Control work on Corporate Governance Code obligations.
- Enterprise risk.

Corporate governance report continued

4 Transparency and accountability continued

Introduction

The Audit Committee provides effective oversight and governance of the company's internal control and risk management processes. The committee focuses on the monitoring and review of the company's internal controls in respect of its financial and non-financial data and reviews the controls put in place to address risk within the business in areas.

In addition to overseeing the relationship with the company's external auditor, the committee reviews and approves the annual internal audit plan, receiving updates and monitoring and reviewing the effectiveness of the actions taken by management to implement recommendations made by the internal audit function on progress and audits undertaken.

The company's approach to risk management is included at page 112 to 117 of this report. The Board has overall responsibility for setting risk appetite and ensuring that there is an effective risk management framework in place. The committee, in supporting the Board, reviews the company's enterprise risk framework, the enterprise risk profile and the principal risk position with the company, including emerging risks.

A primary area of focus is the company's annual and interim financial statements. This includes reviewing, assessing and recommending to the Board related areas including any relevant judgments and accounting treatments, going concern and long-term viability statement and 'fair, balanced and understandable' assessments. It also conducts a review and assessment of the company's non-financial reports such as the Annual Performance Report.

In addition to reports from the Head of Internal Audit, the water quality and environmental compliance leads attend

the committee to provide updates to the committee on key areas of compliance. The Head of Group Accounts, Chief Financial Officer and the company's external financial partners are also all regular attendees at meetings of the Audit Committee. The committee also has access, as appropriate, to external professional advisers.

Work of the Audit Committee during the year

Throughout the year, the committee received regular updates on financial reporting, risk, internal audit and the company's regulatory framework.

During the year, the work of the Audit Committee focused on the following key areas:

- The company's annual and interim financial statements and going concern and viability statements.
- Non-financial regulatory reporting and improvements in processes and controls, including oversight of external assurance.
- Internal controls and effectiveness on regulatory obligations and the identification of risk.
- Corporate governance matters.
- Compliance with Licence Condition P.
- Annual review of Licence.
- Internal audit reports and plans.
- Oversight of internal and external audit.
- Compliance with the company's legal and regulatory obligations in relation to financial and non-financial reporting.
- External assurance of the company's post cyber event actions.
- Water and wastewater regulatory compliance.
- Speak Up (whistleblowing).
- The undertakings given to Ofwat as part of the regulatory settlement.
- The assurance for regulatory submissions.
- The ongoing investigations by the EA and Ofwat and the associated accounting considerations.
- The level of non-audit fees paid to the external audit firm.

Corporate governance report continued

4 Transparency and accountability continued

Financial statements

The Audit Committee received and reviewed the financial statements, including the key areas of judgment and estimation uncertainty set out in note 2, and the external audit report from Deloitte regarding the year-end financial statements. It considered any items of significant judgment that have been made and any comments on the control environment. There were no new significant issues raised by Deloitte. The company continues to take steps to address the matters raised by Deloitte's audit and the committee will monitor progress.

Revenue

The estimation of the measured income accrual, for consumption that has yet to be billed to customers, is a key judgment within the reported revenue.

How this issue was addressed

The Audit Committee reviewed the estimation made for unbilled revenue made at March 2025 which is a key accounting judgment given its gross value of £286.3 million and noted that there had been no changes to the overall approach from the previous year given the accuracy of the estimate made at March 2024. See page 221.

Contingent liabilities

The investigation by the Environment Agency (EA) into wastewater sampling compliance and the separate industry-wide investigations by Ofwat and the EA wastewater treatment works are ongoing.

How this issue was addressed

The Audit Committee has considered the status of these investigations along with advice from internal and external legal advisers to assess whether it would be appropriate to make a provision or disclose the matters as a contingent liability. Given the status of the investigations, the committee concluded that it was appropriate to disclose them as a contingent liability. See note 33 to these accounts.

Going concern and viability statement

How this issue was addressed

The committee reviewed the company's liquidity position for the going concern period and was provided with an update on the process to secure the additional equity requirement. Given the risks that remain to securing the equity the committee concluded that there were material uncertainties to the going concern assessment. See page 199 for further detail.

The committee also reviewed the viability assessment and agreed for this to be made for the period to 2035 for this year. Please see page 131 for our statement.

Impairment of trade receivables

The company's policy for providing for bad debt, based on customer segments and the age of outstanding debt, has not changed in the year. The methodology used last year was applied, on a consistent basis, to calculate the base underlying provision charge for the full-year accounts.

How this issue was addressed

Over the past three years, additional judgments have been applied to recognise the impact of the general economic conditions on the likely recoverability of the outstanding debt.

As the bad debt model now includes the cash collection performance over this period of challenging economic conditions, no additional overlay has been made for these at March 25.

The Audit Committee reviewed the overall provision and discussed the potential impact of the increase in water charges in 2025–26 on the provision. The committee agreed with management's assessment that an additional provision of £3.0 million should be made to reflect the risk that there may be an impact on the recoverability of debt from some customers not yet billed in full for 2024–25, included in the unbilled revenue accrual.

Provisions

The Environment Agency has started prosecution proceedings against the company for events in the Margate and Broadstairs area between January 2019 and December 2021 and the company has pleaded guilty to the charges raised.

How this issue was addressed

The Audit Committee has considered the status of this prosecution along with advice from legal advisers to assess whether it would be appropriate to make a provision or disclose the matters as a contingent liability.

Given the guilty pleas, the committee concluded that it was appropriate to make a provision, see note 26 to these accounts for further details.

Capitalisation of overheads

The capitalisation of overheads is a key accounting judgment given the significant scale of the capital investment programme.

How this issue was addressed

The committee noted that the company's policy for capitalisation of overheads remained consistent with the prior year and that the level of overheads capitalised was consistent with the increase in the size of the capital programme from the prior year.

Corporate governance report continued

4 Transparency and accountability continued

Our Ofwat performance commitments

The company has an external non-financial assurer to independently assure its non-financial reporting to Ofwat. It also provides assurance that there is a robust system of internal controls in place for non-financial regulatory reporting, such that information in the Annual Performance Report fairly represents the company's progress and delivery of its promises. The assurer attends meetings of the Audit Committee and formally reports its results.

Section 19 undertakings

As part of the regulatory settlement reached with Ofwat in 2019–20, the company agreed to certain undertakings to implement improvements in culture and robustness of non-financial reporting, as well as to recompense current and former customers. The Audit Committee is responsible for monitoring and reviewing the controls and assurance put in place by management in respect of these undertakings. It receives regular reports from them about the progress against the agreed action plans and from the company's external assurers in respect of such progress.

Internal controls

The committee monitors the internal financial control systems of the company, including progress against the IT and general control deficiencies previously identified. It also monitors other internal control and risk management systems and receives regular reports from both Internal Audit, external audit and any external assurers appointed by the company. Remediation of any deficiencies in internal control will be an area of key focus over the next year.

The committee receives a regular report of any incidents of fraud or bribery, including the actions taken to investigate and respond to them. It also received information on potential incidents of wrongdoing under investigation.

The committee is provided with updates on matters identified via the company's Speak Up policy. There were no material incidents reported via Speak Up during the year.

The committee is also aware of the need to ensure that the group complies with sanctions placed on individuals and organisations in Belarus and Russia, following the invasion of Ukraine.

Oversight of internal audit and external audit

The Audit Committee is responsible for overseeing both the work of the Internal Audit function and for the management of the relationship with the external auditor and external non-financial assurer. The committee reviews the performance of external auditors on an annual basis to ensure that they remain effective.

In accordance with best practice, the committee held discussions with both the internal and external auditors in the absence of management and the Audit Committee will continue this practice.

Step 1 – Developing key themes

The initial themes and structure for the Annual Report are developed, taking into account feedback from Ofwat and other stakeholders as well as a 'best practice' review.



Step 2 – Drafting content

Subject matter experts are identified to provide the detailed information used to draft the content for each section of the Annual Report.



Step 3 – Review

The draft content is reviewed by the subject matter experts, the project team, legal team and members of the Executive.



Step 4 – Assessment

The content of the report is reviewed to determine which statements are 'positive' and which are 'negative'. These are then extracted and provided to the Audit Committee organised by section and/or subject for it to review the key areas of the report for fairness, balance and understandability.



Step 5 – Decision

Based on the content provided to it, as well as their own reading of the draft Annual Report, the Audit Committee members make their decision whether or not to advise the Board that the Annual Report, taken as a whole, is fair, balanced and understandable.

Corporate governance report continued

4 **Transparency and accountability** continued

Internal audit

The Head of Internal Audit and the team report on a day-to-day basis to management on the effectiveness of the company's systems of internal controls and the adequacy of these systems to manage business risk and to safeguard the company's assets and resources.

The committee received regular reports throughout the year from Internal Audit in respect of its work in accordance with the internal audit plan agreed with the committee at the beginning of the year. The reports from Internal Audit are a material element of the assurance received by the committee on the company's controls. If changes are required to internal audit action dates for medium and high priority actions, the action owners are required to attend the committee and explain why such changes are required and to seek the committee's approval.

The committee reviews, at least annually, the level of resources and the budget of the Internal Audit function. The Head of Internal Audit is able to raise any issues with the committee or its Chair at any time during the year.

Fair, balanced and understandable

At the request of the Board, the committee has considered whether, in its opinion, this Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and whether it provides the information necessary for shareholders to assess the company's position, performance, business model and strategy.

Risk

During the year, the Audit Committee, alongside the Health, Safety and Operational Risk Committee, was responsible for overseeing and challenging the effectiveness of Southern Water's approach to risk management. This included responsibility for monitoring the effectiveness of the company's systems of internal controls and for endorsing an internal audit plan that is informed by principal risk exposures, including overseeing targeted reviews of key risk and control areas. The Audit Committee is responsible for monitoring and reviewing the company's risk appetite and tolerance and for more 'strategic' risks.

The committee is also responsible for maintaining an assurance landscape that has integrity, independence and reliability.

External auditor

Deloitte LLP was appointed as the company's external auditor for the financial year ending 31 March 2024. During the year the audit partner Lucy Openshaw was replaced by Makhan Chahal.

The Audit Committee reviews the external auditor's effectiveness, seeking views from the committee and management, and would report to the Board any concerns over the continuation of the appointment.

The committee undertakes an annual review of the external auditor's independence and objectivity within the context of the applicable regulatory requirements and professional standards. This includes an assessment of the impact of any non-audit work carried out by the audit firm on the auditor's independence and objectivity. In the committee's view, the external auditor met these criteria. The committee also monitored the ratio of audit fees to non-audit fees and approved non-audit services and fees paid to Deloitte during 2024–25.

Details of the amounts paid to Deloitte for these services are provided in note 6 to the financial statements.

In accordance with listed company practice, the external audit contract will be put to tender at least every 10 years. A tender process would also be initiated if there were any concerns about the quality of the audit or the independence and objectivity of the auditor. There are no contractual obligations that act to restrict the Board's choice of external auditor, although the Board is mindful of non-audit services currently being undertaken by other potential external audit providers.

 Read about **how we manage risk** on pages 112 to 130.

Corporate governance report continued

4 Transparency and accountability continued

Health and Safety and Operational Risk Committee Report



Neil McArthur¹
Chair of the
Health and
Safety and
Operational
Risk Committee

Attendance 2/3

Committee membership



Malcolm Cooper
Committee member
Attendance 4/4



Phil Swift²
Committee member
Attendance 3/4



Neil Corrigan³
Committee member

The committee has continued to oversee the company's health and safety transformation plan, with a focus on safety and risk culture and the prevention of high-potential events.

In addition to regular updates on safety performance, including both leading and lagging indicators, a number of deep dives were presented including, protective security, wellbeing and business continuity management.

The committee received updates on the company's operational risk management framework, risk profile and practices and the company's high impact, low-likelihood events (HILLs).

As the company concluded its Turnaround Plan the committee turned its focus to the development of the Health, Safety, Security and Wellbeing Plan for the next investment period.

Neil McArthur
Chair of the Health and Safety and Operational Risk Committee

15 July 2025

Areas of focus this year

- Delivery against the Health, Safety, Security and Wellbeing Transformation Plan.
- Safety culture.
- Operational safety risks.
- Wellbeing.
- Impounding reservoirs.
- Health and safety risks.
- Power outages and resilience.
- Wellbeing.
- Risk perception and safety culture.

Priorities for 2025–26

- Process safety.
- Delivering progress against the Health, Safety, Security and Wellbeing Plan.
- Risk perception and safety culture.
- Key operational front line risks process.
- Safety risks.

¹ Neil McArthur joined the committee and became its chair in November 2024

² Phil Swift resigned 31 March 2025, his last meeting was 21 November 2024.

³ Appointed 25 June 2025.

Corporate governance report continued

4 Transparency and accountability continued

Introduction

The Health and Safety and Operational Risk Committee has responsibility for monitoring and advising on operational risks, reviewing and monitoring health, safety, security and wellbeing performance, and continues to provide appropriate advice and recommendations to the Board in this area.

Health, safety, security and wellbeing

A deep dive on the company's new approach to developing a culture that prioritises wellbeing across the business was presented to the committee. Management updated the committee on its Protective Security Transformation Programme and the results of its Controller of Premises review and the plan to address any gaps. The committee received an update on the company's strategy to protect colleagues from and deal with abuse.

Risk

During the year the committee received reports from management on the company's risk profile, risks in respect of the Turnaround Plan and HILL (high impact, low likelihood) events and specific health and safety risks.

Operational risk deep dives on key areas were presented to the committee, including spills, power outages and resilience, toxic gas and resilience risks arising from work on Bewl reservoir.

The committee was updated on the company's business continuity arrangements and the programme of work to strengthen them. A deep dive on Health, Safety and Wellbeing Risk was presented to the committee.

The Chair of the Audit Committee is a member of the Health and Safety and Operational Risk Committee to ensure that there are no gaps in the remits of the two committees.



Corporate governance report continued

4 Transparency and accountability continued

ESG Committee Report

Committee membership



Kerensa Jennings
Committee member
Attendance 4/4



Christèle Delbé
Committee member
Attendance 4/4



Neil Corrigan
Committee member
Attendance 4/4



Phil Swift¹
Committee member
Attendance 4/4

¹ Phil Swift resigned 31 March 2025, his last meeting was 25 March 2025.

The committee reviewed its priorities for the reporting year agreeing net zero and climate adaptation, nature and biodiversity, environment water quality outcomes, culture and EDI and vulnerable customers.

The ESG Committee received an update on how the company's WINEP programme supports river and coastal water quality. The committee challenged management's Wetlands Strategy to reduce its reliance on storm overflows.

The committee once again welcomed the Chair of the company's Independent Climate and Environment Group (ICEG) and heard from the Chair of the Customer and Communities Challenge Group.

The committee considered the company's approach to the call for changes to the Articles of Association of water companies to make the interests of customers and the environment a primary objective.

Areas of focus this year

- Net zero plans.
- Vulnerable customers.
- Feedback from Customer Challenge Groups.
- Clean rivers and seas.
- Equality, diversity and inclusion and colleague engagement.
- Environment strategy including net zero carbon.
- Biodiversity and nature.
- Feedback from Chairs of Independent Climate and Environment Group and Customer Challenge Groups.
- Vulnerability strategy.
- Culture and engagement.

Priorities for 2025–26

- Culture.
- Nature and biodiversity.
- Equality, diversity and inclusion strategy.
- Environmental water quality.
- Culture and ED&I strategy.



Corporate governance report continued

4 **Transparency and accountability** continued

Introduction

The ESG Committee has again received updates on a broad spectrum of ESG-related topics, challenging and supporting management on the development of the company's plans.

Environment

The committee again heard directly from the Chair of the Independent Climate and Environment Group, who provided insight into stakeholder views and the importance of co-creation of customer plans. The committee oversaw the development of the company's environment and wetlands strategies. The committee received an update on biodiversity and nature, to understand current risks and opportunities and the company's updated environment and carbon policies.

The committee received an update on how the company is meeting the challenge of adapting to climate change. Read more about the company's approach to climate change on pages 66 to 85.

Culture

The committee welcomed a fresh approach to action and outcomes. The culture strategic framework was presented at the Board strategy day. Management reported on performance against ED&I targets including female workforce representation and the steps being taken to improve performance. The committee received an update on the results of the Engagement Pulse survey results which was delivered through Culture AMP. The participation level was high, at 85%, with an increase in the engagement score from the engagement survey that took place in January 2024. Face-to-face Quarterly Business Reviews with all managers from across the company took place throughout the year.

Management presented regulator feedback on the company's draft vulnerability strategy, detailing how the company helps customers who need additional support. The committee heard directly from the Chair of the Customers and Communities Group (CCCG) and the importance of hearing the customer voice.

Our approach to governance

Ofwat Board Leadership, Transparency and Governance Principles

In 2019, Ofwat published its Board Leadership, Transparency and Governance Principles and, subsequently, in July 2019, amended the licences of water and wastewater companies to require such companies to meet the objectives set out in them.

The principles are a major update on those previously published in 2014 and include many of the principles and provisions of the Financial Reporting Council's (FRC) UK Corporate Governance Code. Accordingly, Southern Water seeks to apply both the Ofwat principles and those in the UK Corporate Governance Code in terms of its approach to corporate governance.

Ofwat's principles are based around four objectives (set out on the following pages), each of which is supported by a number of provisions designed to assist companies in demonstrating that they are meeting the relevant objective.

1 Competence and independence

Boards and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high-quality decisions that address diverse customer and stakeholder needs.

Objective/provision	Compliant	Page
i. Boards and board committees have the appropriate balance of skills, experience, independence and knowledge of the company. Boards identify what customer and stakeholder expertise is needed in the boardroom and how this need is addressed.	Yes	142 to 145, 146, 151, 153 to 154, 155, 162 to 167, 165 to 167
ii. Independent non-executive directors are the largest single group on the board.	Yes	145 to 145, 146, 153 to 154, 155
iii. The chair is independent of managers and investors on appointment and demonstrates objective judgment throughout their tenure. There is an explicit division of responsibilities between running the board and executive responsibility for running the business.	Yes	153
iv. There is an annual evaluation of the performance of the board. This considers the balance of skills, experience, independence and knowledge, its diversity, how stakeholder needs are addressed and how the overarching objectives are met. The approach is reported in the annual report and any weaknesses are acted on and explained.	Yes	162 to 163
v. There is a formal, rigorous and transparent procedure for new appointments, which is led by the Nomination Committee and supports the overarching objective.	Yes	165 to 167
vi. To ensure there is a clear understanding of the responsibilities attached to being a non-executive director in this sector, companies arrange for the proposed, final candidate for new non-executive appointments to the regulated company board to meet Ofwat ahead of a formal appointment being made.	Yes	165 to 167
vii. There is a majority of independent members on the Audit, Nomination and Remuneration Committees and the Audit and Remuneration Committees are independently led.	Yes	142 to 145, 165, 169, 181

Our approach to governance continued

2 Purpose, values and culture

The regulated company board establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

Objective/provision	Compliant	Page
i. The board develops and promotes the company's purpose in consultation with a wide range of stakeholders and reflecting its role as a provider of an essential public service.	Yes	5, 89-91, 138, 140, 147, 149, 150, 156, 158-159, 176
ii. The board makes sure that the company's strategy, values and culture are consistent with its purpose.	Yes	89-91, 138, 140, 147, 149, 150, 156, 158-159, 176
iii. The board monitors and assesses values and culture to satisfy itself that behaviour throughout the business is aligned with the company's purpose. Where it finds misalignment it takes corrective action.	Yes	4, 29, 63, 90, 114, 137, 140, 147, 149, 150, 156, 157, 158-159, 163, 164, 172, 174-175, 176, 176-177, 181-195
iv. Companies' annual reporting explains the board's activities and any corrective action taken. It also includes an annual statement from the board focusing on how the company has set its aspirations and performed for all those it serves.	Yes	89-91, 136-137, 138-139, 140, 147, 149, 150-151, 156-157, 158-159, 160, 161, 162-163, 169-177, 181-195

3 Effectiveness

The regulated company has an effective board with full responsibility for all aspects of the regulated company's business for the long term.

Objective/provision	Compliant	Page
i. The regulated company sets out any matters that are reserved for shareholders or parent companies (where applicable), and explains how these are consistent with the board of the regulated company having full responsibility for all aspects of the regulated company's business, including the freedom to set, and accountability for, all aspects of the company's strategy.	Yes	147, 148
ii. Board committees, including but not limited to Audit, Remuneration and Nomination Committees, report into the board of the regulated company, with final decisions made at the level of the regulated company.	Yes	140, 148, 149, 151
iii. The board of the regulated company is fully focused on the activities of the regulated company; takes action to identify and manage conflicts of interest, including those resulting from significant shareholdings; and ensures that the influence of third parties does not compromise or override independent judgment.	Yes	142-145, 146, 147, 148, 151, 153-154, 155, 165-168

Our approach to governance continued

4 Transparency and accountability

The board's leadership and approach to transparency and governance engenders trust in the regulated company and ensures accountability for their actions.

Objective/provision	Compliant	Page
The board's leadership and approach to transparency and governance engenders trust in the regulated company and ensures accountability for their actions.	Yes	136-195
Regulated companies publish the following information in a form and level of detail that is accessible and clear for customers and stakeholders:	Yes	108-111
i. An explanation of group structure;		
ii. An explanation of dividend policies and dividends paid, and how these take account of delivery for customers and other obligations (including to employees);	Yes	101-102, 108-111
iii. An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed;	Yes	112-116, 117-131
iv. The annual report includes details of board and committee membership, number of times met, attendance at each meeting and where relevant, the outcome of votes cast; and	Yes	136-137, 142-145, 146, 152, 165-168, 169-173, 174-175, 176-177, 181-183
v. An explanation of the company's executive pay policy and how the criteria for awarding short and long-term performance-related elements are substantially linked to stretching delivery for customers and are rigorously applied. Where directors' responsibilities are substantially focused on the regulated company and they receive remuneration for these responsibilities from elsewhere in the group, policies relating to this pay are fully disclosed at the regulated company level.	Yes	181-195

Directors' Remuneration Report



Christèle Delbé
Chair of the
Remuneration
Committee

Attendance 5/5

Committee membership

during the period 1 April 2024 to 31 March 2025



Will Price
Committee member

Attendance 5/5



Malcolm Cooper
Committee member

Attendance 5/5



Mike Putnam
Committee member

Attendance 3/3

Note: Malcolm Cooper stood down as chair of the committee on 30 November 2024 and Christèle Delbé was then appointed as chair of the committee from 1 December 2024. Having resigned from the Board on 31 July 2024, Mike Putnam's last meeting attendance was in June 2024.

I am pleased to present the Remuneration Committee's report for the year to 31 March 2025.

The purpose of the Remuneration Committee is to put in place the incentive and retention structures that allow Southern Water to drive performance delivery and improvement across a broad and balanced set of outcomes. These outcomes are shaped to deliver benefits for our customers, community, the environment and shareholders, while encouraging employees to align with the company's high ethical values.

The committee follows good governance practice, as well as regulations imposed by law and by Ofwat. With the benefit of external advice and support from Ellason LLP, the committee aims to deliver fair and reasoned outcomes in accordance with its stated purpose.

Christèle Delbé
Chair of the Remuneration Committee

15 July 2025

Summary of the year

2024–25 was the second year of our ambitious Turnaround Plan, during which the management team, led by our CEO, Lawrence Gosden, and our CFO, Stuart Ledger, has continued to improve performance and deliver against a stretching change programme.

The Annual Bonus Plan (ABP) performance metrics for the year, agreed by the committee, applied equally to everyone in the business, and were designed to incentivise better outcomes for customers, the environment and our stakeholders alike. The metrics had a common ESG thread and were compliant with the undertakings we gave to Ofwat in 2019. The targets linked to those metrics were challenging. They were designed to align with the turnaround and to reward performance across the business, while holding it to account for performance that falls below the expectations of our customers and our stakeholders.

The committee recognises that performance in the year represented continued advances in a number of key areas, demonstrated by the outcomes shown in this report. However, it recognises and accepts that the Category 1 pollution incident experienced by the company in August 2024 is unacceptable.

Ofwat's Performance Related Pay Prohibition Rule (PRP Rule), which had been subject to significant consultation and followed the coming into law of the Water (Special Measures) Act 2025 on 24 February 2025, was published in its final form on

Areas of focus this year

- Setting and reviewing executive remuneration, objectives and KPIs.
- Reviewing Ofwat's PRP Rule.
- Gender pay gap and reporting.

Priorities for 2025–26

- Setting environmental and customer KPIs and objectives.
- Implementing incentives to achieve success during 2025–30.

Directors' Remuneration Report *continued*

6 June 2025, before the committee was scheduled to make its remuneration decisions. The addition into the PRP Rule of a condition relating to Category 1 incidents, which had not been included in the version subject to consultation, and the retrospective application of the PRP Rule means that the company is prohibited from paying an annual bonus for the 2024–25 year to either the CEO or the CFO.

The existing two-year Long-Term Incentive Plan (two-year LTIP), set in 2023 and relating to the 2023–25 period, was designed to incentivise our executives to progress the company's turnaround and for it to exit the 2020–25 investment period in a strong position to succeed over the next five years. The committee has recognised the significant progress made against the stretching targets, noting that a further year is required to confirm the company's EPA performance for 2025.

Although all future LTIP schemes will be subject to the PRP Rule, it does not apply to the historic two-year LTIP, which was introduced before 1 April 2024. As noted below, the committee has determined the outcomes under the existing two-year LTIP. The committee reviewed the formulaic outcome in the context of performance in the round and concluded it was fair, given the improvements and progress towards achieving its turnaround. Although the amounts that will fall due to the CEO and CFO are shown in full in this report, half of the payments are deferred for 12 months. There remains one outstanding element of the existing two-year LTIP scheme, which targets a 3* EPA rating by the end of the 2025 calendar year, which will be assessed at the end of that period. Any amount due, together with the balance of the amount already determined, will be paid in July 2026.

The committee has benefitted from independent advice. Ellason LLP, its appointed adviser, continues to provide support across a range of issues, including on the design and calibration of remuneration arrangements to reward

our executive directors at the right level, by reference to appropriate benchmarks, and to incentivise performance to deliver the largest and most complex plans ever undertaken by the company. The committee will be continuing to work with Ellason over the coming months to review its approach to rewarding the executive directors, including in light of the PRP Rule, now it has been published in final form.

Remuneration outcomes for 2024–25

Performance against the corporate objectives, applicable to all employees, resulted in an ABP outcome of 45.3% of maximum. Full details are set out later in this report. As in the previous year, the committee had applied a number of conditions which underpinned the principal metrics and targets, with an additional underpin applicable only to the Executive. These are important factors which adjust the corporate outturn for certain key matters, including in relation to serious pollutions. As a committee, we believe this structure is sector leading and meets the demands of our customers, the environment and regulators. It has been previously recognised as such by Ofwat.

As noted above, the effect of the PRP Rule is that no annual bonus under the ABP is payable to the executive directors for 2024–25. The amounts that would otherwise have been paid are as follows: CEO, £396,475; CFO, £335,442. Further details are set out later in this report.

The two-year LTIP focused on the key outcomes of the 2020–25 investment period. The committee has reviewed performance against the targets, with a resulting outturn of 48% of maximum against those. Full details of the payments due are set out later in this report. The total amounts payable, which are funded by shareholders, not customers, are as follows: CEO £691,200; CFO £534,240. Payment under the two-year LTIP will be made over two years, July 2025 and July 2026, providing an important retention element, as previously noted.

The all-employee annual pay review process is effective from April each year. The increase is market indicated and negotiated with the recognised union, UNISON. It is applied to all eligible employees. This year's increase amounted to 3.5% and has been applied equally to all eligible employees, including the executive directors.

Looking ahead to 2025–26

In setting incentive arrangements for the coming year, the Remuneration Committee will continue to follow best practice and guidance. The 2025–26 targets for the ABP, applicable to the executive directors, will continue to be the same as those applicable to the whole company, and will incentivise performance across key metrics in the first year of our 2025–30 plan. A new LTIP will be implemented with targets that will incentivise delivery of the plan, and the performance commitments to which the company will be held to account by its regulators. Both will closely reflect the imperative of delivery for our customers, the environment and our other stakeholders. Further details are set out in this report.

Remuneration policy

The committee reviewed the policy during the year, which is reflected in this report. It will conduct its annual review of the policy in the coming months with support from its advisers. This will include the rules of the company's incentive schemes and the base and variable pay arrangements for executive directors. This will ensure a competitive, motivating and retaining package for the 2025–30 delivery period.

Christèle Delbé
Chair of the Remuneration Committee

15 July 2025

Directors' Remuneration Report continued

Introduction

This report details the activities of the Remuneration Committee for the period to 31 March 2025. It sets out the remuneration policy and remuneration details for the executive and non-executive directors of the company. It has been prepared in accordance with the Corporate Governance Code, Ofwat's Board, Leadership, Transparency and Governance Principles, the guidance issued by Ofwat in Regulatory Accounting Guidance (RAG 3.14) and, where relevant for a non-listed company, has taken into account the requirements of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The Remuneration Committee of Southern Water

The Remuneration Committee has the responsibility for setting the remuneration policy and structure of the executive directors and senior executives. It is also responsible for setting the remuneration of the company's chair. The committee has defined terms of reference, which are published at southernwater.co.uk/board-committee-terms-of-reference. These have been reviewed and updated during the year.

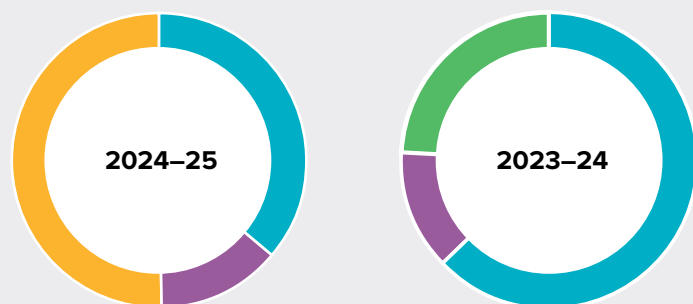
We recognise that the independent non-executive directors have an important role to play in determining and challenging remuneration policy and practice. In order to reflect this, the independent non-executive directors form a majority on the committee.

Only committee members are entitled to attend meetings, with the Chief Executive Officer, Chief Financial Officer and Chief People Officer attending by invitation. The Company Secretary acts as secretary to the committee and attends all meetings.

No attendee participates in discussions regarding their own remuneration.

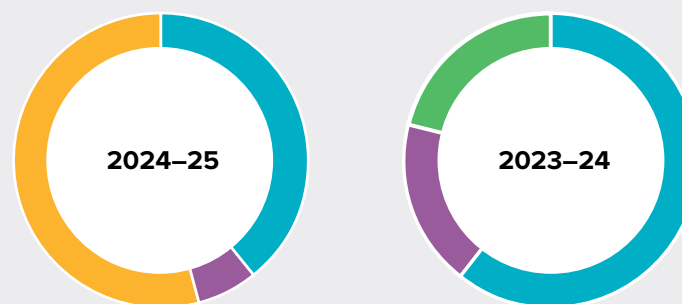
Remuneration at a glance

Lawrence Gosden



	2024-2025	2023-2024
Fixed	50%	76%
Base salary	36%	63%
Pension and other benefits	14%	13%
Performance linked	50%	24%
Annual Bonus Plan ¹	0%	24%
Two-year LTIP ²	50%	0%

Stuart Ledger



	2024-2025	2023-2024
Fixed	46%	79%
Base salary	39%	61%
Pension and other benefits	7%	18%
Performance linked	54%	21%
Annual Bonus Plan ¹	0%	21%
Two-year LTIP ²	54%	0%

- Base salary
- Pension and other benefits
- Annual Bonus Plan¹
- Two-year LTIP²

¹ No annual bonus has been paid owing to Ofwat's PRP Rule.

² Paid over two years.

Directors' Remuneration Report *continued*

Executive directors' remuneration policy 2024–25

Elements of executive directors' pay

Element	Aspects
Base salary	Attracts and retains executive directors of the quality required to deliver our strategy
Annual Bonus Plan (ABP)	Drives and rewards performance against stretching financial, customer and operational KPIs, which are directly linked to business strategy.
Two-year LTIP	Drives retention of the executive directors with a direct link to the delivery of the LTIP key performance indicators.
Pension	Defined contribution scheme.
Other benefits	Provides market competitive benefits.

Remuneration Policy applicable in year (unaudited)

Purpose

The Board of Directors has adopted the Remuneration Policy applicable to the executive directors at the recommendation of the Remuneration Committee. The policy applies to remuneration earned from 1 April 2024.

Providing transparent alignment between performance-related pay and quality customer outcomes

The policy reflects the Board's commitment to being open and transparent in respect of executive pay and to follow Ofwat and other relevant regulations and guidance, including the recently enacted Water (Special Measures) Act 2025 and related rules. The committee ensures that performance-related pay elements are demonstrably aligned to delivering stretching performance improvement, which is in the interests of customers and the environment, as well as providing sustained and long-term value creation for shareholders and other stakeholders by:

- setting stretching targets based on the business plan performance ambitions;
- ensuring that targets and metrics are aligned to stretching performance delivery and quality outcomes that reflect the interests of customers and the environment;
- transparently reporting how performance-related pay is linked to the underlying performance of the company;
- embedding behavioural competence built around company values to underpin a positive culture and instil a way of working that will increase employee engagement, productivity, environmental performance and permit compliance, without rewarding inappropriate behaviours;
- ensuring executive directors feel encouraged to create sustainable results and that a clear link exists between customers, shareholders and employees' interests;
- ensuring that performance payments do not compromise executive directors' compliance with undertakings given to Ofwat in 2019;
- aligning pay to the market-median position, recognising the need, from time to time, to implement specific arrangements for certain individuals;
- offering executive directors a competitive, market median package, which balances the fixed and variable remuneration components according to job role; and
- ensuring that we're able to attract and retain high-performing executive directors in a competitive market.

The table on page 187 summarises the elements of our executive directors' remuneration package.

Directors' Remuneration Report *continued*

Governance, risk management and rigorous application

The Board applies sound and effective risk management principles to ensure that the policy is rigorously monitored and applied through:

- the application of good corporate governance by taking into account regulatory requirements and, among others, the UK Corporate Governance Code and any corporate governance principles issued by its regulator, Ofwat;
- a stringent governance structure for setting relevant and stretching goals, which are aligned to customer outcomes, and communicating these goals to executive directors;
- clear alignment with our business strategy, company values, priorities and long-term goals;
- establishing the committee to consist of two independent non-executive directors (one of whom is chair) and one non-executive director. This avoids any conflicts of interest and aligns with the principle of protection of customers, the environment and investors;
- reviewing the committee's effectiveness through regular external and independent evaluation; and
- transparent reporting of executive pay within our Annual Report and Financial Statements, and any other channels, as appropriate in accordance with legal and regulatory requirements, including Ofwat's Board Leadership, Transparency and Governance Principles.

Applying stretching targets with weighted focus on customer outcomes

Annual Bonus Plan: The committee, with the support of the Board, sets stretching annual bonus targets linked to outcomes for customers and the environment. The same targets apply to the executive directors as to all employees. The Board is committed to setting more than 50% of bonus targets to be based on customer outcomes, which have additional benefits to the environment. For 2024–25 these included five ODI performance commitment outcomes (pollution incidents, internal flooding incidents, leakage, the customer satisfaction (CSS) element of C-MeX and water quality compliance notice delivery).

Customers would also have benefited from performance against the financial metric, designed to drive efficiency.

Ongoing health, safety, security and wellbeing initiatives, remain a key element of focus, with stretching targets.

All of the targets were subject to overall adjustment factors to reflect a focus on serious pollutions, safety performance and serious incidents. The committee considers these to be sector leading, and to further align the targets to customer and environmental outcomes, with an additional financial adjustment factor, applicable to the executives.

All metrics were used throughout the organisation so that all company employees are incentivised to achieve the same stretching levels of performance.

Long-term incentives: The committee, again with the support of the Board, set stretching targets for the two-year LTIP, which apply to the company's most senior executives. The targets, and the two-year LTIP, align the recipients of awards to longer-term business objectives and the interests of key stakeholders.

For the period from 1 April 2023 to 31 March 2025, the two-year LTIP targets were designed to reward progress with the Turnaround Plan and setting up the company for success into 2025–30. The targets covered EPA star rating (assessment of which has been deferred to 2026), Compliance Risk Index (CRI), C-MeX, financial metrics and the audit of the quality of the company's PR24 Price Review submission.

Executive director remuneration components

Executive director remuneration comprises both fixed and variable elements, with four components detailed as follows:

- Fixed remuneration (including fixed supplements, if any).
- Performance-based remuneration (variable percentage of salary).
- Pension schemes and contributions, where applicable.
- Other benefits in kind (e.g. car allowance, travel or accommodation and private medical cover).

The fixed remuneration is determined on the basis of the role and position of the individual executive director, including professional experience, responsibility, job complexity and local market conditions, and is benchmarked against industry peer groups.

The performance-based remuneration motivates and rewards those executive directors who contribute to sustainable results, perform according to set expectations for the individual in question, strengthen long-term delivery of quality outcomes for customers and the environment, and generate income and shareholder value.

The Board has determined a maximum percentage of performance-based remuneration relative to the base salary remuneration for executive directors. The table

Directors' Remuneration Report *continued*

below shows the maximum limit on variable remuneration under the ABP for the CEO and CFO for 2024–25, and under the two-year LTIP for 2023–25 as a percentage of base salary.

	CEO	CFO
Total range of variable remuneration under the ABP	0% – 150%	0% – 150%
Total range of variable remuneration under the two-year LTIP	0% – 300%	0% – 300%

Performance-based remuneration under the ABP is disbursed as a cash bonus, paid in the July following the end of the relevant financial year. The amounts that would have been payable, but for the PRP Rule, in respect of 2024–25 are detailed in the following sections.

Performance-based remuneration under the two-year LTIP is disclosed as a cash payment over two years, in July 2025 and July 2026. The amounts payable, in respect of the two-year LTIP, are detailed in the following sections.

Executive directors are covered by an insured four times salary 'death-in-service' lump sum benefit and a contribution to a personal pension arrangement. The CEO currently receives a 15% of base salary contribution rate and the CFO receives 11%. Each may choose to take this as a pay supplement, subject to the relevant tax and National Insurance deductions.

The policy is that remuneration should be market-competitive relative to other comparable companies, with a significant proportion being performance-related. This element is only paid out if stretching targets are achieved that benefit both customers and shareholders. In setting the policy for executive directors, the committee takes into account practices found in other UK companies of a similar

size or operating in the same sector. It also ensures that the remuneration arrangements for the executive directors are appropriate when compared with those for other senior executives and the wider workforce. Attracting and retaining first class leadership is vital to the success of the company.

In particular, the committee is kept informed on a regular basis of the following, which it uses to set executive remuneration policy:

- Level of salary increase for the employee population
- Benefit provision and any proposed changes
- Overall spend on management bonus
- The gender pay gap across the company.

An investor representative non-executive director sits on the committee and is involved in setting remuneration levels, monitoring the performance of the executive directors, agreeing payments and approving any changes to reward packages. This involvement ensures that shareholders play a key part in shaping policy and decisions. Along with the independent non-executive directors they ensure that the link between pay and performance is closely managed.

To ensure that our remuneration practices remain competitive, the committee periodically calls upon experienced specialist consultants.

New Executive appointments

Remuneration for new appointments will be structured in line with that for existing executive directors. Opportunities will be calibrated to reflect the circumstances. For external appointments, the committee retains discretion to make additional payments to buy out performance-related pay forfeited, on leaving a former employer. Any payment will reflect the fair value of the forfeited opportunity,

and other relevant factors such as the time to vesting, any performance conditions and the likelihood of these being met.

Malus and clawback

Payments and awards under the ABP and two-year LTIP are subject to market-standard malus and clawback. These provisions enable the recovery of performance-related payments, within two years of the relevant payment date, in the event of financial misstatement, calculation error, misconduct, reputational damage, regulatory censure or corporate failure of the company. These are under review.

Service contracts

Executive directors are appointed on rolling service contracts, which provide for 12 months' notice by either party. If the notice period is worked, no termination payment is payable, otherwise a payment up to a maximum equivalent to the notice period of fixed pay is payable. The treatment of performance-related pay components is discretionary rather than contractual and will follow the provisions set out in the relevant plan rules (including any available committee discretion to take into account all relevant considerations of the specific circumstances). The leaver provisions of our performance-related plans reflect accepted best practice.

As it does every year, the committee will review this policy over the coming months to ensure it continues to promote success for the company and its shareholders, to ensure the executive directors are appropriately remunerated, and to ensure compliance with laws, rules and regulations.

Directors' Remuneration Report continued

Executive director remuneration components 2024–25

Element of remuneration	Purpose and link to strategy	Policy and approach	Maximum opportunity 2024–25
Base salary	Takes into account experience and personal contribution to our strategy and performance. Attracts and retains executives of the quality required to deliver our strategy.	Reviewed annually with changes effective from 1 April, if applicable. Out of cycle reviews permitted. Consideration given to individual and company performance. General pay increases awarded to all employees taken into consideration. Aim to pay within a mid-market range, but may pay higher salaries to attract and retain executives of the right calibre or for out-performance by the individual or company. Referenced against UK companies of a similar size, utility companies and other water companies.	Base salary increases are applied in line with the annual review.
Annual Bonus Plan (ABP)	Drives and rewards performance against stretching financial, customer and operational KPIs, which are directly linked to business strategy.	Details of the operation of the plan are shown on page 188. Performance metrics and targets are established annually by the committee, making sure they are sufficiently stretching, while also recognising the nature and risk profile of the company. Differing percentages are allocated to each measure, with a threshold resulting in an award of 25% for that measure. 100% is awarded for achieving the actual target, with stretch targets creating 120% for achieving outstanding performance, subject to the overall maximum opportunity of 150%. In addition to market leading adjustment factors for serious pollution incidents, serious health and safety incidents (and for executives only, financial performance), the committee has discretion to amend or withdraw payments based on the consideration of other factors which could significantly affect business performance. Plan awards are disclosed on page 189.	150% of salary for the CEO and CFO.
Two-year Long-Term Incentive Plan (LTIP)	Drives retention of the executive directors with a link to the delivery of the overall LTIP key performance indicators.	Based on a two-year reference period of 2023–25, the plan awards an opportunity based on a percentage of base pay, multiplied by the overall outturn of the two-year LTIP targets. The earned payment is then paid in two equal instalments across 2025 and 2026. Note that assessment of one target (EPA star rating for 2025) has been deferred to 2026 and any payments due for performance against that target will be paid fully in July 2026.	150% of salary for the CEO and CFO per annum, 2023–25.
Pension	Defined contribution scheme removes the risk to the company associated with defined benefit pension plans.	A company contribution into a defined contribution scheme, and/or a cash allowance in lieu of pension. * Note: The CEO's contribution was set at the time of his appointment. All newly appointed executive directors receive the same opportunity as other employees.	CEO 15% of salary* CFO 11% of salary.
Other benefits	Provides market competitive benefits.	May consist of: Car allowance Health cover Disturbance or relocation allowances Travel or accommodation allowances.	Based on individual circumstances.

Directors' Remuneration Report continued

Notes to the policy table

Executive directors who served during the 2024–25 year are shown below:

Lawrence Gosden	Chief Executive Officer
Stuart Ledger	Chief Financial Officer

Details are given on page 189 of the amounts paid to them in respect of the year ended 31 March 2025.

Operation of the Annual Bonus Plan

Under the Annual Bonus Plan (ABP), participants had the opportunity to earn an annual bonus based on both performance against targets pre-determined by the Board and on achievement of personal objectives. Any resulting award is paid out to participants in cash in July 2025.

Measures used in the ABP

During the year, the Remuneration Committee identified and operated performance measures that support customer and environmental performance, health, safety, security and wellbeing and financial performance, including:

- pollution incidents;
- internal sewer flooding incidents;
- leakage;
- water quality compliance;
- customer satisfaction, as measured by the CSS element of our C-MeX performance;
- delivery against our Health, Safety, Security and Wellbeing Transformation Programme; and

- delivery of certain financial performance measures; with adjustment for factors including serious pollution performance and health and safety.

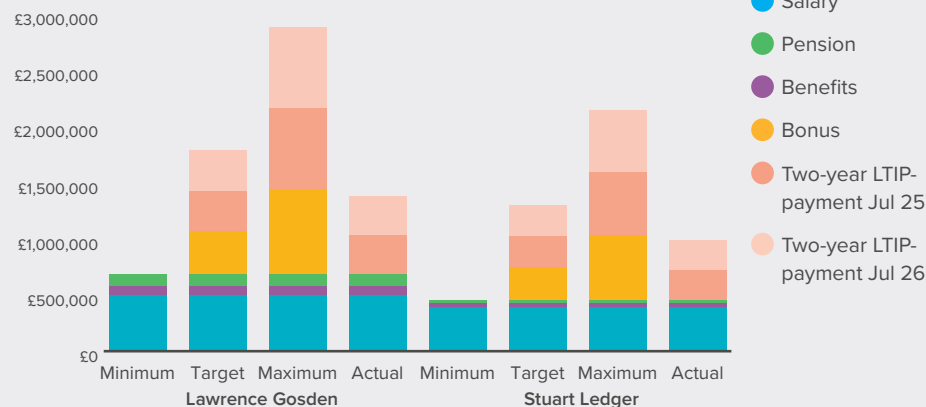
Two-year Long-Term Incentive Plan

An LTIP, covering a two-year period to 31 March 2025, had been put in place for the executive directors and certain key executives. The plan was designed to link company performance to a payment, half of which is deferred to drive retention of the key executive members into future years. The Remuneration Committee assesses the performance measures linked to the two-year LTIP for delivery of targets across water quality and customer, but with a Botex and PR24 Plan quality measure which differs from the Annual Bonus Plan. These targets include:

- EPA
- CRI
- C-MeX
- Botex measures
- PR24 Plan quality.

Remuneration scenarios for 2024–25

The following chart sets out the remuneration scenarios for each of the executive directors for various levels of performance as well as the actual remuneration for 2024–25.



Notes: 'Target' performance is the level of performance required for the annual bonus plan to pay out at 50% of maximum.

The two-year LTIP payments accrued over two years from 1 April 2023 to 31 March 2025 and are payable over two years in July 2025 and July 2026.

Directors' Remuneration Report continued

Annual remuneration report

Single figure of remuneration for 2024–25 (audited)

Details of the remuneration received by the executive directors are shown below. The figures shown are the amounts paid or awarded for each of these financial years. Base salary is generally reviewed in April each year.

£'000		Base salary paid	Benefits ¹	Annual Bonus Plan ²	Pension related benefit	Total	Two-year LTIP ³	Total including LTIP
Lawrence Gosden ⁴	2024–25	500.6	111.4	0.0	75.1	687.1	691.2	1,378.3
	2023–24	480.0	28.6	183.6	72.0	764.2	–	764.2
Stuart Ledger ⁵	2024–25	386.9	22.9	0.0	42.6	452.4	534.2	986.6
	2023–24	371.0	70.2	128.0	40.8	610.0	–	610.0

¹ Lawrence Gosden's benefits for 2024–25 comprise an accommodation allowance, which was payable monthly from 1 July 2024, private health care and a car allowance. Stuart Ledger's benefits include car and travel allowances, and in 2023–24 included an amount of £39,989 as compensation for loss of vested LTIP benefit from his previous employer in respect of periods prior to 1 April 2022.

² Annual Bonus Plan payments for 2024–25 are prohibited pursuant to the Ofwat Performance Related Pay Prohibition rule, owing to the single Category 1 serious pollution which occurred in August 2024. The amounts that the executive directors would have received in respect of the year, but for the Category 1 pollution, are CEO: £396,475; CFO: £335,442.

³ The Long-Term Incentive Plan outturn for the period to 31 March 2025 was assessed by the Remuneration Committee on 24 June 2025. The LTIP is payable by shareholders, subject to the rules of the plan, in two instalments in July 2025 and July 2026, and subject to final assessment of the EA's EPA rating for 2025–26. The committee reviewed the formulaic outcome assessed to date in the context of performance in the round and concluded that it was fair given the improvements made and significant progress of the company towards achieving its turnaround objectives.

⁴ Includes £345,600 deferred to the following year.

⁵ Includes £267,100 deferred to the following year.

Notes to the single figure of remuneration (unaudited)

Annual Bonus Plan

The performance measures agreed by the committee for 2024–25 were:

- Pollution incidents
- Internal sewer flooding incidents
- Leakage
- C-MeX – measuring customer experience
- Water quality compliance – notice delivery
- Health, Safety, Security and Wellbeing Transformation Plan
- Cash spend
- Role-specific personal objectives for the executive directors.

The following adjustment factors apply to the executive directors.

Additional award/penalty for pollution incidents:

- For every quarter with two or more Category 2 pollution incidents a -2.5% Annual Bonus Plan penalty applies, with a maximum -10% penalty for the year.
- For every quarter with one or more Category 1 pollution incidents a -5% Annual Bonus Plan penalty applies, with a maximum -20% penalty for the year.
- If there are no Category 1 or 2 incidents during the year, an extra +20% Annual Bonus Plan bonus applies.

If, at the financial year end, the 12-month rolling average Lost-Time Accident Frequency Rate is above 0.25 a 2.5% Annual Bonus Plan penalty applies. If it is above 0.30, the Annual Bonus Plan penalty increases to 5%. If it falls below 0.22, the company will make a charitable donation.

If there is an employee or contractor fatality, the Remuneration Committee has discretion to reduce the Annual Bonus Plan award to zero.

If the threshold cash is missed by 10% or less, there will be a 10% reduction to the overall bonus outturn. If it is missed by more than 10%, there will be a 20% reduction.

All targets were considered to be compliant with the company's section 19 Undertakings given to Ofwat in October 2019 and to drive positive compliance with environmental permits and performance more generally.

Directors' Remuneration Report continued

These performance measures apply to all employees throughout the company in relation to different bonus schemes.

The performance against the corporate objectives for 2024–25 was assessed by the committee in June 2025. Details of the maximum bonus achievable, targets and outturn percentage are shown in the tables below.

Annual Bonus Plan performance outturn, including personal objective adjustment	Maximum bonus achievable	Outturn %	Outturn as a % of salary
Lawrence Gosden, CEO	150%	52.8	79.2
Stuart Ledger, CFO	150%	57.8	86.7

These Annual Bonus Plan payments for 2024–25 are prohibited pursuant to the Ofwat Performance Related Pay Prohibition rule for the reasons as set out on the previous page.

Corporate objectives 2024–25		Threshold performance level (25%)	Target performance level (100%)	Stretch performance level (120%)	Performance	Weighting	Outturn of maximum
Pollution incidents	Number	234	224	200	269	15.0%	0.0%
Internal sewer flooding incidents	Number	396	335	274	274	10.0%	12.0%
Leakage	MI/day	107.5	104.0	97.0	97.5	10.0%	11.9%
Water quality compliance notice delivery	Performance	Satisfactory	Good	Excellent	Good	15.0%	15.0%
C-MeX	Score	64	69	72	63.4	10.0%	0.0%
Health, Safety, Security and Wellbeing Transformation Plan	Performance	Satisfactory	Good	Excellent	Good	10.0%	10.0%
Cash spend	£	-£751m	-£722m	-£691m	-£749m	30.0%	8.9%
Total						100.0%	57.8%
Adjustments ¹							-12.5%
Total awarded							45.3%

¹ There was a negative adjustment of 12.5% in the outturn due to there being one quarter where there was one Category 1 serious pollution incident and three quarters where there were two or more Category 2 serious pollution incidents.

Directors' Remuneration Report continued

Two-year LTIP 2023–25

The Long-Term Incentive Plan, for the period from 1 April 2023 to 31 March 2025, was also reviewed by the committee in June 2025. Details of the maximum award achievable, targets and outturn percentages are shown in the table below.

LTIP objectives	Description	Level/award	Threshold	Target	Stretch	Actual	Weighting	Award
EPA ¹	Achieve EPA 3* for 2025, to be assessed in 2026	Range	Discretion	Pass	n/a	TBC in 2026	25%	TBC
		Award		120%	n/a			
CRI	Achieve 3rd quartile water quality ranking by 31 March 2025	Range	Discretion	13th	11th	11th	20%	24%
		Award		100%	120%			
C-MeX	Ranking position compared to peers	Range	Discretion	14th	12th	16th	15%	0%
		Award		100%	120%			
Year five botex (a)	Total botex for 2023–24 and 2024–25	Range	£1,600m	£1,560m	£1,520m	£2,008m	10%	0%
		Award	25%	100%	120%			
Year five botex (b)	AMP8 entry run rate	Range	£197m	£192m	£187m	£222m	10%	0%
		Award	25%	100%	120%			
PR24 Final Determination	Board assessment of quality of Business Plan submission	Range	Satisfactory	Good	Excellent	Excellent	20%	24%
		Award	25%	100%	120%			
Total								48%

¹ The EPA for 2025 will be reviewed by the committee in 2026 to determine whether any award is due for this metric.

The two-year LTIP payment due to the executive directors, as per the terms of the plan, is payable in two instalments, in July 2025 and July 2026. These payments are funded by the company's shareholders, not customers.

Directors' Remuneration Report continued

Pension contributions

The pension contribution for the executive directors, for the 2024–25 year, is set out in the table below:

	Salary received (£'000)	Pension contribution as a % of base salary (%)	Cash allowance in lieu of pension (£'000)	Pension contribution to scheme (£'000)	Total Pension related benefit (£'000)
Pension					
Lawrence Gosden, CEO	500.6	15	75.1	–	75.1
Stuart Ledger, CFO	386.9	11	42.6	–	42.6

Following the closure of the company's defined benefit pension scheme to future accrual and the introduction of a new defined contribution scheme for the company's workforce, the Remuneration Committee reviewed the pension contribution payable to the executive directors. In doing so, it also considered the expectation in Provision 38 of the UK Corporate Governance Code that the pension contributions payable to the executive directors are aligned to that of the workforce. Accordingly, it was agreed that from 1 April 2020, the employer pension contributions offering for new executive director appointments would be aligned to the 'all employee' rate of 11%. Lawrence Gosden's pension contribution is based on the previous executive level, which was applicable at the time of his recruitment into the business in a different role and is, therefore, treated as a continuous term and condition of employment.

Non-executive director fees for the year (audited)

The chair and the non-executive directors each receive a fee and do not participate in any performance-related arrangements. Will Price, an investor-nominated non-executive director, does not receive any remuneration from the company.

The Board, as a whole, is responsible for setting the level of non-executive director fees and, in doing so, receives input from the Remuneration Committee.

Details of the emoluments received by the chair and non-executive directors are shown below. There has been no change in the base fees in the year:

£'000	2024–25			2023–24		
	Fees	Other	Total	Fees	Other	Total
Keith Lough (Chair)	290.0	17.5	307.5	290.0	15.8	305.8
Dame Gillian Guy DBE (Senior independent non-executive director) (Resigned 31 March 2025)	75.0	4.5	79.5	75.0	4.2	79.2
Malcolm Cooper (Independent non-executive director)	76.7	1.6	78.3	79.2	1.2	80.4
Christèle Delbé (Independent non-executive director) (Appointed 31 May 2023)	58.3	3.0	61.3	46.0	0.7	46.7
Kerensa Jennings (Independent non-executive director) (Appointed 31 May 2023)	55.0	2.3	57.3	46.0	1.0	47.0
Steve Fraser (Investor-nominated non-executive director)	55.0	2.7	57.7	55.0	1.5	56.5
Phil Swift (Investor-nominated non-executive director) (from 31 May 2023 to 31 March 2025)	55.0	5.2	60.2	46.0	2.6	48.6
Neil Corrigall (Investor-nominated non-executive director) (Appointed 29 November 2023)	55.0	3.7	58.7	18.6	0.8	19.4
Neil McArthur (Independent non-executive director) (Appointed 1 October 2024)	32.5	6.4	38.9	N/A	N/A	N/A
Will Price (Investor-nominated non-executive director)	–	–	–	–	–	–
Mike Putnam (Independent non-executive director) (Resigned 31 July 2024)	21.7	1.6	23.3	65.0	3.2	68.2
Mark Mathieson (Investor-nominated non-executive director) (from 8 September 2021 to 31 October 2023)	N/A	N/A	N/A	–	–	–

The base fees for the non-executive directors are £55,000.

The fees and responsibility supplements paid to the chair and independent non-executive directors were last reviewed in May 2022.

Directors' Remuneration Report *continued*

The table below provides details of applicable responsibility payments for 2024–25.

Committee/post	Chair	Dates of appointment	Supplement
Audit Committee	Malcolm Cooper	23 December 2019	£15,000
Health, Safety and Operational Risk Committee	Mike Putnam	1 July 2019 to 31 July 2024	£10,000
	Neil McArthur	1 October 2024	
	Malcolm Cooper	1 May 2023 to 30 November 2024	£10,000
Remuneration Committee	Christèle Delbé	1 December 2024	
ESG Committee	Gillian Guy DBE	1 April 2023 to 31 March 2025	£10,000
Senior independent non-executive director	Gillian Guy DBE	1 April 2023 to 31 March 2025	£10,000

The 'other' amounts payable to the non-executive directors include taxable expenses incurred in connection with attendance at Board meetings and shareholder events.

None of the directors who held office during the financial year had any disclosable interests in the shares of Southern Water or the group; there are no share options in place and no payments were made to them by any other group companies.

Gender pay (unaudited)

Creating an environment to enable a diverse and inclusive workforce will have a positive effect on our organisation and this is a key part of Southern Water's People Strategy.

This year our mean pay gap for the company has further improved to a score of 0.01%, This means the average pay gap has now equalised, meaning there is no pay gap between men and women. Our ambition is to increase female representation across the company to 35% by 2030. We aim to achieve this by continuing our focus on recruitment and retention practices and providing everyone the best possible opportunity to learn and grow their careers with us.

We always have a mix of male and female apprentices and graduates bringing in fresh ideas to the business.

Our median pay gap is -0.03%, meaning that it too has broadly equalised. The gap is a percentage calculated by looking at the middle hourly rate for women and the middle hourly rate for men. The median gives a strong indicator of 'average' earnings, as it is not skewed by a few individuals earning at a high or low level (which can be true of the mean).

For more information, see our [Gender Pay Gap Report](#).

Directors' Remuneration Report *continued*

Creating a workplace where all of our people feel they belong

Equality, diversity, and inclusion (ED&I) are not just ethical but business imperatives that are integral to our success. By fostering an inclusive and equitable workplace, we not only enhance our culture and colleague satisfaction but also improve our service delivery to our customer base. Our strategic approach will be dynamic and ensure that we build on current successes, address existing challenges, and remain agile in our efforts to promote ED&I. This will involve active leadership commitment, strategic alignment with broader initiatives such as wellness and culture, encouraging and acting upon data provision, and a robust education programme that encourages continuous learning and improvement.

We aim to make Southern Water a model of diversity, equity, and inclusion, driving better outcomes for our colleagues, customers, and stakeholders. We're recognised for doing so with external benchmarks and awards – such as our current position of no. 19 in the Top 50 inclusive companies awards. This sees a year-on-year improvement in our position, proving our efforts are impacting our business, and we remain diligent in our efforts to improve the ranking even further.

Executive pay gap reporting

From 2020 onwards, the Companies (Miscellaneous Reporting) Regulations 2018 require all publicly-listed companies with more than 250 UK employees to publish the ratio between their CEO's full-time equivalent remuneration and that of employees at the 25th, 50th and 75th percentile when total remuneration is calculated and ranked from lowest to highest.

Although not a listed company, Southern Water has chosen to publish this information in line with our commitment to providing information about pay diversity and fairness within our organisation.

The regulations set out three options for calculating the pay ratio.

- Option A – takes into account all forms of remuneration and payments (pension etc).
- Option B – uses the gender pay calculation figures.
- Option C – uses some other method.

Our ratio has been calculated using 'Option A' as this takes into account full remuneration and is, therefore, the most comprehensive comparison.

Year	Method	25th Percentile Ratio	50th Percentile Ratio	75th Percentile Ratio
2024	A	25.1:1	20.2:1	15.5:1
2023	A	22.6:1	17.9:1	14.1:1
2022	A	23:1	18:1	14.1:1

The pay ratio is based on total remuneration between April 2024 and March 2025 and has increased slightly from the previous year. This movement is largely due to the bonus payments made to our current CEO and CFO in 2024. In 2023 they declined the bonus payments due to them, resulting in a lower pay ratio.

The Remuneration Committee is responsible for setting and agreeing salary arrangements for the Executive team and ensuring that arrangements for this group are in line with the strategic direction of the organisation and managed fairly in the context of the organisation.

Executive director remuneration within Southern Water is in line with the structure of remuneration for the wider population. The main elements of remuneration are salary, bonus, car allowance, pension contributions and other health benefits.

Salary is benchmarked with the external market for all roles, including members of the Executive team. Salary increases for the Executive are made in line with the budget and principles applied in other areas of the organisation, subject to approval by the Remuneration Committee.

Directors' Remuneration Report continued

Implementation of policy for 2025–26 (unaudited)

Base salary

The base salaries for each executive director are as follows:

Base salary	Base salary for 2024–25 (£'000)	Base salary increase (%)	Base salary from 1 April 2025 (£'000)
Lawrence Gosden	500.6	3.5%	518.1
Stuart Ledger	386.9	3.5%	400.4

Annual Bonus Plan and Long-Term Incentive Plan

The Annual Bonus Plan and the LTIP are based on performance conditions designed to focus the executive directors on the areas of key strategic importance for the company. As such, the performance conditions are always strongly aligned with delivering customer and environmental outcomes and associated appropriate behaviours, while ensuring that the company continues to strengthen its financial position, in the interests of customers and stakeholders alike.

We've committed to comply with Ofwat's codes of practice and rules for executive remuneration and our Remuneration Policy sets out our policy:

- to provide transparent alignment between executive performance-related pay and stretching outcomes for all our stakeholders and, substantially, for our customers;
- to apply stretching targets linked to customer outcomes;
- to apply rigorous application of incentive scheme rules and provide independent governance of remuneration decisions, while taking into consideration risk management principles;
- for the LTIP, to link outcomes to performance measured over the medium to long term.

Our performance measures for 2025–26 will focus on positive outcomes for our customers and other stakeholders

In determining the performance measures for the ABP for 2025–26 and for the 2025–30 LTIP, the committee considered the expectation under the Ofwat principles that the company's performance-related elements should be linked to stretching delivery for customers, as well as the steps needed to further embed the Ofwat code of practice for executive remuneration. It was agreed that the following measures will be used to assess our performance:

Corporate objectives for the ABP

- EPA rating as determined by the Environment Agency.
- Four Ofwat PR24 ODI performance commitments (internal sewer flooding incidents; leakage; CSS score from C-MeX and water quality compliance – notice delivery).
- Volume of energy generated through self-generation biogas, measured by GWh/y.
- Health, Safety, Security and Wellbeing Transformation Plan actions.
- EBITDA and capex/capital investment.

These objectives align to the company vision and its objectives and key results.

Underpins will be put in place relating to serious pollutions, supply interruptions and health and safety. Awards, weightings, targets and adjustment factors, along with actual performance, will be fully disclosed in the 2025–26 Directors' Remuneration Report.

LTIP objectives applicable from 1 April 2025 to 31 March 2030

A new Long-Term Incentive Plan for executives within the committee's remit has been designed to span a five-year period to align with AMP8, with vesting in years three, four and five. For each measure, specific targets will be set to reward performance improvement, commencing 1 April 2025, applicable objectives are focused as follows:

- EPA
- WRMP delivery
- C-MeX
- Employee engagement
- Operating cashflow.

Further details of the awards will be disclosed in the relevant Directors' Remuneration Report.

Directors' Report

for the year ended 31 March 2025

The directors of Southern Water Services Limited (registered no. 02366670) present their report and the audited financial statements for the year ended 31 March 2025.

 Read about the **Going Concern** on page 199.

Principal activities

The principal activities of Southern Water Services Limited, herein after referred to as 'the company', also referred to as SWS, are the provision of water supply and wastewater services in the South East of England. The company is regulated by the Water Services Regulation Authority (Ofwat) and supplies water to over 2.7 million people and provides wastewater services to over 4.8 million people.

Strategic Report

The information that fulfils the requirement of the Strategic Report can be found in our Annual Report on pages 08 to 135 including the Section 172 (1) Statement on pages 89 to 91.

Future developments

The information regarding future developments of the company can be found in our Strategic Report on pages 11 to 12.

Post-balance sheet events

The company has been undertaking activities, subsequent to the balance sheet date, to improve its financial resilience. These are summarised below.

On the 1 April 2025 Southern Water made changes to some of its financial derivatives. The break clause in a swap with a notional value of £92.1 million was extended from November 2025 to June 2026 and accretion payments due in March 2026 associated with various swaps were extended to June 2026.

On the same date Southern Water agreed an £800.0 million committed facility, providing additional liquidity.

On 1 July 2025, Southern Water announced that it had secured an offer of equity support from a consortium led by funds managed by Macquarie Asset Management to support its 2025–30 investment programme, comprising a legally binding equity commitment of £655 million (the "Initial AMP8 Equity Commitment") provided on the terms of an equity commitment letter and confirmation of intent to provide further equity commitments of up to a further £545 million – and with a minimum of £245 million – by December 2025.

On 4 July 2025, Sandstone Bidco Limited acquired the issued share capital of Greensands Junior Finance Limited and Southern Water (Greensands) Financing plc from Greensands (UK) Limited, becoming the new ultimate indirect UK holding company of Southern Water, replacing Greensands Holdings Limited, the previous ultimate UK holding company.

On 8 July 2025, SWS announced that it had entered into a lock-up agreement with financing creditors of the SWS group representing more than 72% by value of the Class A indebtedness in support of certain proposals, including the ratings event of default amendment, (being one of the key conditionalities of the Initial AMP8 Equity Commitment).

In addition, on 8 July 2025 Southern Water confirmed that it had arranged a further £675.0 million of committed liquidity.

Results and dividends

The income statement on page 204 shows the company's results and loss for the year. Further details are also available in the Annual Report on pages 94 to 105.

No ordinary interim dividends were paid during the year (2024: £nil). No final dividend has been declared or paid for the year ended 31 March 2025.

Directors' Report continued

for the year ended 31 March 2025

Directors and their interests

Directors during the year ended 31 March 2025 and up to the date of signing the financial statements, were as follows (details on pages 142 to 145):

Keith Lough

Chair

Lawrence Gosden

(Executive director – Chief Executive Officer)

Stuart Ledger

(Executive director – Chief Financial Officer)

Gillian Guy

(Senior independent non-executive director)
(Resigned 31 March 2025)

Malcolm Cooper

(Independent non-executive director)

Michael Putnam

(Independent non-executive director)
(Resigned 31 July 2024)

Christèle Delbé

(Independent non-executive director)

Kerensa Jennings

(Independent non-executive director)

Neil McArthur

(Independent non-executive director)
(Appointed 1 October 2024)

Stephen Fraser

(Investor-nominated non-executive director)

Phil Swift

(Investor-nominated non-executive director)
(Resigned 31 March 2025)

Neil Corrigan

(Investor-nominated non-executive director)

Will Price

(Investor-nominated non-executive director)

None of the directors who held office during the financial year had any disclosable interests in the shares of the company or the group.

Research and development

Improvement of existing services and processes, together with the identification and development of new technology and solutions, are important aspects of the company's strategy to enhance the quality of service to customers and improve ways of working. Research and development expenditure charged to the income statement for the year amounted to £0.7 million (2024: £0.9 million).

Financial risk management

The Financial Risk Management Policy is included in the Strategic Report which can be found in the Annual Report on page 122.

Corporate governance

A description of the company's corporate governance arrangements for the purposes of Part 8 of Schedule 7 of the Large and Medium-

sized Companies and Groups (Accounts and Reports) Regulations 2008 as introduced by regulation 14 of the Companies (Miscellaneous Reporting) Regulations 2018 can be found in the Annual Report on pages 136 to 180.

Employees

The company recognises the importance of its employees and is committed to effective two-way communication and consultation.

The company has an established Employee Voice group to facilitate meaningful consultation between company management and employees through elected employee representatives. The group meets regularly at both a functional and company-wide level.

The company undertakes regular employee engagement surveys to help develop management action plans and provide insight into the views of employees. The company also conducts further surveys throughout the year on specific matters, the results of which are reported to management and/or the Board, as appropriate.

The company recognises the rights of every employee to join a trade union and participate in its activities. Southern Water has a single union agreement with Unison.

General information is posted on the company intranet and regular team briefing sessions are also held. The information in these publications and briefings covers a wide range of subjects that affect the business, including progress on business and capital projects, the impact of regulatory issues and wider financial and economic issues.

 Read about **health and safety performance** on page 63.

Directors' Report continued

for the year ended 31 March 2025

The company's executive directors and Executive Committee members as well as, occasionally, individual non-executive directors hold monthly 'Company Conversations', using video conferencing, to inform and engage with employees about the company's priorities, purpose and values. These sessions afford employees an opportunity to put questions to the Executive and Senior Leadership about anything regarding the business.

In line with the UK Corporate Governance Code, one of the company's independent non-executive directors, Neil Corrigan, has been given the remit of communicating the views of the company's workforce to the Board.

Further details of the company's employees and the company's engagement activities, as well as how the directors have had regard to employee interests, can be found in the Strategic Report on page 160.

Equal opportunity: The company's policy is to promote equality of opportunity in recruitment, employment continuity, training and career development. It takes full account of the needs of people with disabilities and follows set policies and procedures to support reasonable adjustments.

Health, safety, security and wellbeing: The health, safety, security and wellbeing of our people is our priority and colleagues are encouraged to challenge anything they believe may be wrong or potentially dangerous. Empowerment forms a crucial part of our safety strategy, as does making safety the first thing we consider when conducting any activity. Our policy statement provides clear direction from the CEO on how we approach health, safety, security and wellbeing within the business.

Our focus on prioritising safety is linked to the delivery of our Health, Safety, Security and Wellbeing Transformation Plan, which concluded in April 2025. This has delivered

a step change in our approach by embedding cultural, behavioural, process and system improvements. As we start the next investment period, we have set out a five-year 'Safe and Well Every Day' plan. It is tracked and regularly reviewed by the Executive Safety Committee to ensure our position, ambitions and initiatives are achieving our goal for all our employees, supply chain partners and everyone affected by our activities.

We continue to ensure that every employee receives training, instruction and supervision to deliver their role, proportionate to the specific level of risk. These requirements are frequently reviewed with the delivery of accredited NEBOSH and IOSH health and safety training, and the development of modern site safety instructions and supply chain training courses are recent examples of this.

Our well-established forums, including Employee Voice and our monthly Company Conversations, are used to share safety information and we distribute regular cascades and immediate safety alerts to ensure our colleagues are apprised of incidents and mitigations. In 2023 we implemented an online Safety Reporting System to further improve the flow of information.

The company provides an internal occupational health service for employees, including the provision of physiotherapy and support through the Employee Assistance line. During 2024, we offered an immersive training programme 'Stop. Think. Safe!' to everyone in the company to provide them with the tools and support to challenge unsafe situations.

Disabled employees: Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of an employee becoming disabled, every effort is made to

ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Speak Up: Employees are actively encouraged to Speak Up if they see things that are not quite right. This helps foster a culture where we ensure that we're always doing the right thing for each other, our customers, the environment and other stakeholders.

Engagement with customers, suppliers and others

The company recognises the importance of its suppliers to ensure the company's ability to continue to deliver an essential public service.

Further details of the company's engagement with its suppliers during the year can be found on page 64.

Due to the nature of its business and the regulatory framework in which the company operates, engagement with its customers is of key importance. The company undertakes extensive customer engagement activities throughout the year. Further details can be found on page 30.

As a private limited company, Southern Water Services Limited is not required to hold an annual general meeting.

The company, its senior executives and Board, regularly engage with the company's regulators, with local and national government as well as with relevant industry groups through meetings and other events.

The company's statement explaining how the directors have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006, and which provides

Directors' Report continued

for the year ended 31 March 2025

further detail in respect of how the directors have taken into account the interests of the company's employees, suppliers, customers and others during the year, can be found on pages 89 to 91.

Environmental issues

The company is committed to meeting or improving upon legislative and regulatory environmental requirements and codes of practice, and aims to contain the environmental impact of its activities to a practicable minimum.

The company is subject to ongoing investigations by the Environment Agency regarding wastewater performance and further details are disclosed in notes 26 and 33 to the accounts.

The company's environmental performance for 2024–25 is reported on pages 32 to 43. The company recognises its responsibility to operate within a framework that supports sustainable development and has established, where possible, indicator targets which are measurable. Performance against these targets is monitored and reported regularly.

Streamlined Energy and Carbon Report (SECR)

The Streamlined Energy and Carbon Report is included within the climate-related financial disclosures section of the Strategic Report on pages 86 to 88.

Political donations

No political donations were made.

Land and buildings

In the opinion of the directors, the market value of land is significantly more than its book value. However, it would not be practicable to quantify the difference precisely.

Going concern

The directors believe, after due and careful consideration, that it is appropriate to adopt the going concern basis in preparing the financial statements as they have a reasonable expectation that the company will continue in existence for at least the next 12 months from the date of approval of the financial statements (the 'assessment period'), subject to the material uncertainty as disclosed below.

In their assessment, the directors have identified the following material uncertainty related to a number of connected events that are outside the control of the Board and which may cast significant doubt on the company's ability to continue as a going concern:

- A future downgrade to a sub investment grade credit rating or a failure to meet our legal obligations could, depending on the circumstances and the approach of Ofwat, result in a breach of the company's Instrument of Appointment, which could possibly result in a consequent event of default under the terms of the company's financing arrangements.
- The company requires additional equity funding to finance the company through the going concern period, which as of the date of the report, has not yet been fully committed as it is subject to the completion

of a number of technical conditions. Until these have been met there is no guarantee this equity will be received.

- Failure to raise equity or debt funding, or significant operational under-performance could lead to a potential Post Maintenance Interest Cover Ratio (PMICR) covenant breach or ratings downgrade. A future downgrade to a sub-investment grade credit rating or breach of the PMICR covenant would result in an event of default under the terms of the company's financing arrangements.

Background to and basis of preparation of the going concern assessment

For the 12 months to 31 March 2025, the company made an operating loss of £17.4 million (31 March 2024: loss of £72.8 million). As of 31 March 2025, the company had cash on hand of £557.0 million and nil cash on deposit for over three months (31 March 2024: £413.5 million and £100.0 million respectively).

The company also had borrowings totalling £5,771.9 million at 31 March 2025 (31 March 2024: £4,970.4 million), for which the earliest repayment is £350 million in March 2026, with no further borrowings due for repayment until March 2027 (£300 million). There were no additional undrawn bank facilities at 31 March 2025 (31 March 2024: £350.0 million).

In assessing the going concern position of the company, the directors considered the cash flows over the 18 months to September 2026 (15 months from the signing date of the accounts), the capital structure of the company, and financing

 Read about **operational performance** on page 32 to 85.

Directors' Report continued

for the year ended 31 March 2025

needs for the period and beyond. The 18-month period was selected as it provides a good view of the liquidity in the following financial year, supported by the knowledge that there are no significant borrowing maturities for at least six months thereafter.

The directors have considered a base case and various sensitivities, as set out in the sections below. Forecast cash flows for the period to September 2026 are based on the company's latest Board approved business plan ("EP25"), which is based on the Final Determination received from Ofwat. It should be noted that the company has appealed its Final Determination with the Competition and Markets Authority (CMA). The outcome of this appeal is unknown but it could cause the budgeted cashflows for the following financial year to increase as a result. There is insufficient certainty to include any assumptions regarding the outcome within the company's current forecasts.

Forecast liquidity

The company has a significant level of expenditure planned to continue to enhance its assets, improve operational performance and begin delivering its plans for AMP8. As a result, the company has forecast net cash outflows (pre financing) for every month throughout the going concern assessment period of 15 months to September 2026. In preparing the forecasts, management has considered:

- The company's business activities, together with the factors likely to affect its future development, performance, and position. In particular, the company has considered the significant level of expenditure they are committed to under the PR24 price determination and the impact, where possible, of ongoing regulatory investigations (see contingent liability note 33).

- The financial position of the company, its forecast monthly cash flows, liquidity position, covenants and borrowing facilities.
- The potential continuing effects of recent high levels of inflation on costs such as energy, chemicals, and materials caused by recent macro-economic and political turbulence.
- Investment needed to continue to improve operational performance and reduce the impact on the environment from the treatment and processing of water and wastewater and mitigate the effects of climate change.
- The company operates in an industry that is largely subject to economic regulation rather than market competition. Ofwat, the regulator, has a statutory obligation to set price limits that it believes will enable the water companies to finance their activities.

Although the company has assumed no new debt financing beyond the committed £1,475 million for the purposes of the going concern assessment, it does have plans to raise additional debt funding. It has included the £900 million equity commitment in its assessment. Due to this, without raising new debt, the going concern forecasts show good liquidity headroom for the period.

Downside sensitivities to the cash flows have identified that total expenditure, over the going concern period, would need to be 22% higher (c. £623 million over the planned total expenditure), for the company to have insufficient liquidity for the going concern period.

The company does not foresee total expenditure exceeding their available liquidity, due to the detailed "bottom-up" forecasting process conducted, including identification of schemes and spend that could be rephased to support liquidity management. This provides

additional rigour to spending plans and takes into account the principal risks and uncertainties as set out on pages 118 to 130. We also note that management has contingency included in the budget, with regular management reviews conducted to ensure any variances are identified with sufficient time to employ mitigant action.

Financing needs

The directors consider that the EP25 plan is financeable, but it does assume additional debt funding of £5 billion and equity funding from its shareholder of £900 million (£655 million legally binding and a minimum additional commitment of £245m by 31 December 2025) will be received over the five-year term of AMP8. This is not fully committed at the date of this report, as it is subject to the completion of a number of technical conditions, principally in relation to removing the event of default in its financing documents that would result from failing to hold at least two Investment grade ratings.

The initial £655 million equity commitment is not conditional on the outcome of the company's ongoing appeal to the CMA. The additional funding aligns with the planned expenditure during AMP8 and, therefore, the company has some control over the timing of that expenditure, in order to match available funding. In assessing going concern, the directors have used a base case, which also assumes further committed liquidity of £1,475 million, which was agreed after the balance sheet date, although this cannot be drawn in the event of a default.

In the ordinary course of business, the company anticipates raising new debt funding in advance of it being required, to provide a further liquidity buffer. The directors anticipate being able to raise this debt, based on a history of successful fundraising in the past and after the balance sheet date.

Directors' Report continued

for the year ended 31 March 2025

Further, the company's plans for AMP8 include a confirmation of intent for additional equity funding of £300 million to be received in FY2026, but it is not yet committed. In planning for the future financing needs of the company, the directors have also considered the following information:

- The committed revolving credit facility of £350 million was fully drawn in the period to 31 March 2025 and proceeds were held as cash.
- Borrowings are generally at fixed interest rates but include certain inflation-linked loans and derivatives. The inflation-linked instruments are subject to inflation risk, which is expected to be offset by the inflationary movement of the Regulatory Capital Value ("RCV") and revenues.
- A £350 million bond is due to be repaid in March 2026 and net swap outflows of £585 million between October 2025 and June 2026, which have been included within the cashflows assessed above, although there is the intent to extend the date of the October 2025 swap mandatory break payment (£175 million notional), as we have done in the past with other transactions.

Forecast covenant compliance

The borrowings are subject to financial ratio covenants measured against full year financial projections/actual performance each year in March, (such reporting is updated semi-annually), as well as covenants relating to the credit rating of debt issued by the company and its subsidiaries. A breach of these covenants can result in either a trigger event (which among other things prevents the company from making distributions

– the company has been in trigger event since July 2023 and is forecast to continue to be so throughout the going concern period) or a default event (see below).

The adjusted interest cover ratio has negative headroom, which is expected to remain until at least March 2026 and, therefore, as a result of this and the initial downgrade from Fitch Ratings in July 2023, the company is in a trigger event and is expected to continue to be in a trigger event. The company obtained a waiver from its lenders in August 2023, which allows full use of available borrowing facilities, plus the raising of new finance, during a trigger event related to either a credit rating downgrade or a breach of a financial ratio. This waiver is in place until 2035, and the company also increased the associated debt/RCV limit to 75% while in a trigger event.

There is positive financial headroom across all default debt covenant ratios for the going concern period in the base case. The two key ratios that management have needed to manage closely in recent financial years have been the post maintenance investment cover ratio (PMICR) and gearing:

- The PMICR covenant requires that net cash flow from operating activities less capital maintenance expenditure divided by interest be greater than 1. It would be breached in FY26 if net cash flow from operating activities less capital maintenance expenditure were to exceed plan by £120 million (9.4% of the forecast operating costs in the base case); the consequences of this would be a default event. The gearing (debt/RCV) ratio which is

required to be under 75%. An increase in net debt of £180 million would cause a breach.

The company is required to maintain at least two investment-grade ratings (i.e. above Ba1/BB+/BB+). The company's credit ratings as at the publication of this report were Ba1/BBB-/BBB-, with recent changes principally as a result of a downward review of the sector's regulatory risk caused by Ofwat's Draft Determination publication. At the time of the annual report, all the credit ratings of Fitch Ratings and Standard and Poors (S&P) were investment grade, although the rating from S&P is subject to a credit watch negative, while the credit rating from Moody's is sub-investment grade. Both ratings agencies have stated the company's ratings could be downgraded if it faced difficulties in maintaining its forward-looking liquidity or if existing or new shareholders do not provide sufficient additional equity. A future downgrade from either monitored rating would result in an event of default under the company's common terms agreement.

Further any future downgrade would represent a breach of the company's Instrument of Appointment. Were this to occur, the company enters a 'standstill period' during which time creditors may not enforce their claims or accelerate any of the company's debt.

Committed funding of £190 million would become available to finance specific costs incurred by the business during this period (which are not included in the going concern base case, since they are only available in the event of a default event). However, there would be restrictions on

 Read about **forecast cash flows** on page 99.

Directors' Report continued

for the year ended 31 March 2025

the company's operations including the cessation of capital expenditure other than for essential maintenance.

The standstill period would last a minimum of 18 months, (unless a majority of creditors vote to shorten this time period), during which discussions with secured lenders would continue and if no agreement with the lenders was reached, the lenders must vote to enforce their claims at the end of this period, subject to a majority vote. If enforcement was to occur, the company would no longer be a going concern, although lenders could agree to provide additional funding at this stage.

The company is engaging with its principal lenders who are eligible to vote under the Southern Water Group's financing documentation on amendments and waivers, with a view to mitigating the impact to the Southern Water Group. No amendment or waiver has been agreed at the date of this report.

Regulatory licence compliance

As set out above, the consequences of an event of default would not result in any borrowings becoming repayable but could result in restrictions on the company's access to capital (and increase the cost of debt). This in turn, over the longer term, may result in a failure to comply with relevant standards, environmental permits and other legislation that could lead to enforcement action by regulators, including Ofwat.

Furthermore, as set out above, a future downgrade of either of the two investment grade ratings would represent a breach of the company's licence. While the company is in active discussions with Ofwat regarding this, the terms of any enforcement by Ofwat is not clear and not within the company's control. Dependent on the severity of non-compliance, this could give rise to grounds for the Secretary of State (or Ofwat, with the consent of the

Secretary of State) to petition the court for a Special Administration Order.

A petition could also be made if the company is unable to pay its debts. The purpose of the Special Administration Regime is to protect the interests of the customers in the event a water company (the regulated entity) is or is likely to be unable to pay its debts or is in contravention with its principal statutory duties or an enforcement order. The directors consider this scenario to be unlikely based on market precedent for other water companies and Ofwat's stated intention that it intends to act consistently in similar circumstances to achieve similar results.

Mitigations

The directors have the following actions within their control and available to them in order to manage cash flows during the going concern period, to avoid a covenant or liquidity breach:

- Rephasing capital spend within the relevant AMP.
- Rephasing other spending, in particular:
 - i. Capital maintenance spend.
 - ii. Non-essential operating costs.
 - iii. Working with suppliers on payment terms.

In addition, the directors could seek to renegotiate the interest terms or use derivatives to vary the net interest payable amount, although their ability to do this is not completely within their control.

Conclusion

In assessing whether the company has adequate resources, for a period of at least 15 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due, the directors have taken into consideration all the factors

set out above. Accordingly, the directors have concluded it is reasonable to assume that actions can be taken such that the company has adequate resources, for a period of 15 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due.

However, there exists a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern such that the company may be unable to realise its assets and discharge its liabilities in the normal course of business. This could arise as a result of either a failure for the conditions required for equity to be unconditional, or if there were a future downgrade to a sub-investment grade credit rating or a failure to meet our legal obligations which could, depending on the circumstances and the approach of Ofwat, result in a breach of the company's licence and a consequential event of default under the terms of the company's financing arrangements.

Further, while additional ratings downgrades, and the consequential event of default and/or breach of licence do not directly impact on our ability to operate as a going concern during this forecast period due to the standstill period, there is a risk that without remedy, the longer-term consequences limit our ability to attract equity and debt funding and hence operate as a going concern in the future.

Long-term viability statement

In accordance with Provision 31 of the UK Code and Ofwat's Information Notice IN 19/07, the Board has assessed the prospects of the company over a longer period than the 12 months required by the 'Going Concern' provision. Details of its assessment and the associated viability statement can be found on pages 131 to 135 of this report.

Directors' Report continued

for the year ended 31 March 2025

Qualifying third party indemnity

Following shareholder approval, the company has also provided an indemnity for its directors and the Company Secretary, which is a qualifying third-party indemnity provision for the purposes of the Companies Act 2006.

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgments and accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain

the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company.
- The Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

Statement of disclosure of information to auditor

Each of the persons who is a director at the date of approval of this report confirms that:

1. so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware
2. they have taken all the steps that they ought to have taken as a director in order to make themselves aware

of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

Deloitte LLP has indicated its willingness to continue in office and will be re-appointed for the year ending March 2026.

Approved by the Board of Directors and signed by order of the Board.

Richard Manning
General Counsel and Company Secretary

15 July 2025

Income statement

For the year ended 31 March 2025

	Note	2025 £m	2024 (Restated)* £m
Continuing operations			
Revenue	5	964.2	859.4
Amortisation of regulatory settlement	5	28.5	27.1
Total revenue		992.7	886.5
Other operating income	5	1.6	1.8
Operating costs			
– before allowance for expected credit losses on trade and other receivables, depreciation and amortisation		(618.5)	(582.9)
– allowance for expected credit losses on trade and other receivables		(24.7)	(15.4)
Operating costs before depreciation and amortisation		(643.2)	(598.3)
Depreciation and amortisation	6	(368.5)	(362.8)
Total operating costs		(1,011.7)	(961.1)
Operating loss	6	(17.4)	(72.8)
Operating loss before regulatory settlement		(45.9)	(99.9)
Amortisation of regulatory settlement		28.5	27.1
Operating loss		(17.4)	(72.8)
Profit on disposal of fixed assets	6	0.8	0.5
Finance income - interest income	5, 9	30.0	4.1
Finance costs	9	(273.5)	(252.4)*
Fair value gains on derivative financial instruments	9	170.7	88.1
Net finance costs	9	(72.8)	(160.2)
Loss before taxation		(89.4)	(232.5)
Taxation	10	(9.6)	2.9
Loss for the financial year		(99.0)	(229.6)

* The prior year has been restated to reflect a correction to the methodology for calculating the interest capitalisation rate. Please refer to note 1 for further information.

Statement of other comprehensive income

For the year ended 31 March 2025

	Note	2025 £m	2024 (Restated)* £m
Loss for the financial year		(99.0)	(229.6)
Other comprehensive income/(expense):			
Items that cannot be reclassified to profit or loss:			
Actuarial gain/(loss) on pension scheme	24	27.7	(1.6)
Movement on deferred tax relating to retirement benefit obligations	23	(6.9)	0.4
Total other comprehensive income/(expense) for the year, net of tax		20.8	(1.2)
Total comprehensive expense for the year attributable to the owner of the company		(78.2)	(230.8)

* The prior year has been restated to reflect a correction to the methodology for calculating the interest capitalisation rate. Please refer to note 1 for further information.

The notes on pages 208 to 246 form part of these financial statements.

Statement of financial position

as at 31 March 2025

	Note	2025 £m	2024 (Restated)* £m
Non-current assets			
Intangible assets	12	88.7	99.5
Property, plant and equipment	13	8,201.7	7,582.9
Investments	14	0.2	0.2
Derivative financial instruments	22	129.2	104.8
Other non-current assets	15	23.0	10.0
		8,442.8	7,797.4
Current assets			
Inventories	16	18.9	13.5
Trade and other receivables ¹	17	326.2	255.8
Contract assets ²	17	96.8	92.2
Investments	32	–	100.0
Cash and cash equivalents	32	557.0	413.5
		998.9	875.0
Total assets		9,441.7	8,672.4
Current liabilities			
Trade and other payables	18	(649.9)	(522.9)
Contract liabilities	18	(38.0)	(26.9)
Borrowings	19, 20	(363.6)	(33.0)
Lease liabilities	21	(6.0)	(3.9)
Derivative financial instruments	22	(84.8)	–
Regulatory settlement liability	25	–	(28.5)
Provision for liabilities	26	(3.8)	(1.8)
		(1,146.1)	(617.0)
Net current (liabilities)/assets		(147.2)	258.0

	Note	2025 £m	2024 (Restated)* £m
Total assets less current liabilities		8,295.6	8,055.4
Non-current liabilities			
Borrowings	20	(5,366.5)	(4,903.3)
Lease liabilities	21	(35.7)	(30.2)
Derivative financial instruments	22	(1,532.4)	(1,673.6)
Deferred tax liabilities	23	(390.5)	(373.9)
Retirement benefit obligations	24	(48.9)	(78.0)
Regulatory settlement liability	25	–	–
Provision for liabilities	26	(1.6)	(3.1)
Other non-current liabilities	27	(48.6)	(43.7)
		(7,424.2)	(7,105.8)
Total liabilities		(8,570.3)	(7,722.8)
Net assets		871.4	949.6
Equity			
Called-up share capital	28	37.6	37.6
Share premium account	29	769.2	769.2
Non-distributable reserve	30	106.8	100.2
Retained (losses)/earnings	31	(42.2)	42.6
Total equity		871.4	949.6

* The prior year has been restated to reflect a correction to the methodology for calculating the interest capitalisation rate. Please refer to note 1 for further information.

¹ There has been a presentational change in the comparative period to Trade and other receivables to separately disclose the balance relating to contract assets. Please refer to note 16 for further information.

² There has been a presentational change in the comparative period to Trade and other payables to separately disclose the balance relating to contract liabilities. Please refer to note 17 for further information.

The financial statements of Southern Water Services Limited (Registered no. 02366670) on pages 204 to 245 were approved by the Board and authorised for issue on 15 July 2025.

They were signed on its behalf by:



Stuart Ledger
Chief Financial Officer

Statement of changes in equity

For the year ended 31 March 2025

	Note	Called-up share capital (note 28) £m	Share premium account (note 29) £m	Non- distributable reserve (note 30) £m	Retained earnings (note 31) (Restated)* £m	Total (Restated)* £m
Balance at 1 April 2023 (as reported)*		0.1	437.5	94.6	249.5	781.7
Adjustment due to restatement*		–	–	–	29.5	29.5
Balance at 1 April 2023 (restated)*		0.1	437.5	94.6	279.0	811.2
Profit/(loss) for the financial year (restated)*		–	–	7.5	(237.1)	(229.6)
Other comprehensive (expense)/income for the year:						
Actuarial loss on pension scheme	24	–	–	–	(1.6)	(1.6)
Movement on deferred tax relating to retirement benefit obligations	23	–	–	–	0.4	0.4
Total comprehensive income/(expense) for the year (restated)*		–	–	7.5	(238.3)	(230.8)
Issue of shares		37.5	331.7	–	–	369.2
Reserves transfer**		–	–	(1.9)	1.9	–
Equity dividends paid	11	–	–	–	–	–
Balance at 31 March 2024 (restated)*		37.6	769.2	100.2	42.6	949.6
Profit/(loss) for the financial year		–	–	8.6	(107.6)	(99.0)
Other comprehensive (expense)/income for the year:						
Actuarial gain on pension scheme	24	–	–	–	27.7	27.7
Movement on deferred tax relating to retirement benefit obligations	23	–	–	–	(6.9)	(6.9)
Total comprehensive income/(expense) for the year		–	–	8.6	(86.8)	(78.2)
Reserves transfer**		–	–	(2.0)	2.0	–
Equity dividends paid	11	–	–	–	–	–
Balance at 31 March 2025		37.6	769.2	106.8	(42.2)	871.4

* The prior year has been restated to reflect a correction to the methodology for calculating the interest capitalisation rate. Please refer to note 1 for further information.

** The non-distributable reserve arose upon adoption of IFRS 15 and relates to deemed revenue on adoption of assets from customers and is being amortised to reserves in line with the depreciation of the related assets.

Statement of cash flows

For the year ended 31 March 2025

	Note	2025 £m	2024 £m
Cash from operations	32	271.0	247.6
Tax paid		–	–
Net cash from operating activities		271.0	247.6
Investing activities			
Interest received		29.1	4.8
Purchase of property, plant and equipment		(792.7)	(715.4)
Purchase of intangible assets		(11.1)	(16.7)
Proceeds on disposal of property, plant and equipment		0.2	0.1
Acquisition of short-term investments		(607.0)	(146.7)
Maturity of short-term investments		707.0	46.7
Net cash used in investing activities		(674.5)	(827.2)
Financing activities			
Equity dividends paid		–	–
Interest paid		(277.2)	(240.7)
Net settlements on derivative financial instruments		89.8	85.6
Repayment of borrowings		(21.3)	(420.7)
Repayments of principal on leases		(5.3)	(4.1)
Proceeds of new loans		763.8	1,089.2
Issue costs of new loans		(2.8)	(1.2)
Proceeds from share issue		–	369.2
Net cash generated from financing activities		547.0	877.3
Net increase in cash and cash equivalents		143.5	297.7
Cash and cash equivalents at beginning of the year		413.5	115.8
Cash and cash equivalents at end of the year	32	557.0	413.5

Notes to the financial statements

For the year ended 31 March 2025

1 Material accounting policies

The material accounting policies, which have been applied consistently throughout the current and preceding year, are set out below.

Basis of preparation

Southern Water Services Limited (SWS) is incorporated in the United Kingdom under the Companies Act 2006. It is a private company limited by shares and is registered in England and Wales. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the Strategic Report on pages 8 to 135.

The company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'.

The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative instruments and retirement benefit obligations) at fair value through profit and loss or other comprehensive income.

Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services at initial recognition.

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or liability, as if market participants would take those characteristics into account, when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except leasing transactions that are within the scope of IFRS 16 'Leases', and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 'Inventories' or value in use in IAS 36 'Impairment of Assets'.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The financial statements contain information about SWS as an individual company and do not contain consolidated financial information as the parent of subsidiary companies. The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertaking are included by full consolidation in the consolidated financial statements of the ultimate holding company, Greensands Holdings Limited. The group [financial statements of Greensands Holdings Limited](#) are available to the public and can be obtained on our website.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to: standards not yet effective, financial instruments, fair value measurement, revenue from contracts with customers, leases, capital management, related party disclosures and impairment of assets. Where required, equivalent disclosures are given in the group financial statements of Greensands Holdings Limited.

The company has elected not to take advantage of the exemption regarding the requirements of IAS 7 'Statement of Cash Flows' in order to align with regulatory reporting requirements and provide additional transparency for users of the financial statements.

Separate line items on face of income statement

When assessing whether an event should be presented separately on the face of the income statement, management considers the nature, frequency, materiality and the facts and circumstances of each event. It considers whether there is any precedent, and ensures consistent treatment for both favourable and unfavourable transactions.

Notes to the financial statements continued

For the year ended 31 March 2025

1 Material accounting policies continued

Adoption of new and revised accounting and financial reporting standards

There are no new major standards applicable for the year ended 31 March 2025. A number of amendments, however, are effective for periods beginning from 1 January 2024. These changes had no material impact on the company's financial statements.

Prior year restatement

Corrections to the methodology used to calculate the rate at which interest is capitalised on property, plant, equipment and intangible assets have resulted in the following changes:

	31 March 2024 As reported £m	Restatement £m	31 March 2024 As restated £m
Intangible assets	98.0	1.5	99.5
Property, plant and equipment	7,570.0	12.9	7,582.9
Deferred tax liabilities	(370.3)	(3.6)	(373.9)
		10.8	
Finance costs	(227.5)	(24.9)	(252.4)
Tax (charge)/credit	(3.3)	6.2	2.9
Retained earnings brought forward	249.5	29.5	279.0
		10.8	

As previously reported, interest costs for the years ended 31 March 2024, 31 March 2023 and 31 March 2022 were capitalised using rates of 9.25%, 5.10% and 2.11% respectively. Corrections to the methodology for calculating these rates, and rates going forward, has resulted in amended rates of 5.52%, 7.56% and 5.23% being used for the years ended 31 March 2024, 31 March 2023 and 31 March 2022 respectively, resulting in the adjustments above. No adjustment has been made to depreciation for these changes given the impact is immaterial.

Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on pages 8 to 135.

The directors have undertaken a detailed review of the company's liquidity requirements compared with the cash and facilities available, which includes cash on hand, cash on deposit and committed undrawn bank facilities totalling £557.0 million at 31 March 2025, the financial covenant position including projections based on future forecasts, the current credit ratings and financial risk.

When determining whether it is appropriate to adopt the going concern basis, the directors also consider whether there is a material uncertainty regarding whether the company has sufficient resources for its present requirements. The company has a significant level of planned expenditure to improve operational performance, the resilience of its assets, and reduce the impact on the environment from the treatment and processing of water and wastewater as part of its plans for AMP8. As a result, the company has forecast net cash outflows (pre financing) for every month throughout the going concern assessment period to September 2026.

In their assessment, the directors have identified the following material uncertainty related to a number of connected events that are outside the control of the Board and which may cast significant doubt on the company's ability to continue as a going concern such that it may be unable to realise its assets and discharge its liabilities in the normal course of business:

- A future downgrade to a sub investment grade credit rating or a failure to meet our legal obligations could, depending on the circumstances and the approach of Ofwat, result in a breach of the company's Instrument of Appointment, which could possibly result in a consequent event of default under the terms of the company's financing arrangements.
- The company requires additional equity funding to finance the company through the going concern period, which as of the date of the report, has not yet been fully committed as it is subject to the completion of a number of technical conditions. Until these have been met there is no guarantee this equity will be received.
- Failure to raise equity or debt funding, or significant operational under performance could lead to a potential Post Maintenance Interest Cover Ratio (PMICR) covenant breach or ratings downgrade. A future downgrade to a sub-investment grade credit rating or breach of the PMICR covenant would result in an event of default under the terms of the company's financing arrangements.

Notes to the financial statements continued

For the year ended 31 March 2025

1 Material accounting policies continued

Further details are set out in the going concern section of the Directors' Report on pages 199 to 202, which form part of these financial statements.

However, notwithstanding the material uncertainty above, on the basis of their assessment of the company's financial position, and the board approved latest cash flow forecast, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the approval of these financial statements. This assessment includes consideration of the forecast cash flows over the 12 months to July 2026, and the capital structure of the company and financing needs for the period. For this reason, they continue to adopt the going concern basis of accounting in preparing the annual financial statements; further details can be found in the Directors' Report on pages 199 to 202, which form part of financial statements.

Segmental reporting

The company's revenue arises from the provision of services within the United Kingdom. It has a large and diverse customer base and is not reliant on any single customer.

The Southern Water Executive team is considered to be the company's chief operating decision maker. It reviews all internal management information on a single segment basis and, accordingly, no segmental information is provided in this report.

Revenue recognition

Revenue represents the income receivable (net of value added tax) in the ordinary course of business for goods and services provided. In respect of unbilled charges, revenue includes an estimate of the consumption between the date of the last meter reading and the period-end. The revenue accrual is estimated using a defined methodology based upon historical billing, consumption information and the applicable tariff.

Revenue from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration due.

The company recognises revenue when it transfers control over a product or service to a customer.

Revenue is recognised when the amount of revenue can be measured reliably, the performance obligation has been satisfied, and it is highly probable that the economic

benefits associated with the transaction will flow to the company. Revenue is not recognised when it is considered highly probable that economic benefits will not be received. In these circumstances revenue is only recognised when collectability is reasonably certain. Payments received in advance of revenue recognition are recorded as deferred income.

Water and wastewater services

The company supplies water and wastewater services to customers in Sussex, Kent, Hampshire and the Isle of Wight. The performance obligation is the supply of services over the contractual term and is considered to be satisfied as the customer consumes based on the volume of water supplied. This is the point at which revenue is recognised over time.

For provisioning purposes, revenues and outstanding arrears are segmented based on customer characteristics. Charges are set via the periodic review price-setting process, regulated by Ofwat. Since the company is under a statutory obligation to provide water and wastewater services to its domestic properties, these services could be provided to customers who are unlikely to pay. Should a group of current customers attract a provision rate of 100%, i.e. assessed as not generating economic benefit, revenue would not be recognised. In 2024–25 no segment of customers met this criteria and so revenue relating to the provision of water and wastewater services has been recognised in full.

Unmetered income is based on either the rateable value of the property or on an assessed volume of water supplied. Metered income is based on actual or estimated water consumption. Customer rebates are shown as a reduction in revenue.

Water and wastewater services also include the treatment of cesspool and trade effluent waste as well as the provision of bulk water supplies to other water companies.

Services to developers and third parties

Grants and contributions are also received from developers and third parties in relation to the provision of new infrastructure and/or new connections to the water and/or sewerage network. These grants and contributions received are treated as either revenue or deferred income in line with IFRS 15 as defined by the nature of the receipt. The significant components of grants and contributions, and their treatment, are as follows:

New connections

The company considers that the developer requesting the new connection is the customer and that under IFRS 15, the performance obligation is satisfied at the point of provision

Notes to the financial statements continued

For the year ended 31 March 2025

1 Material accounting policies continued

of the new connection to the network, when the customer is deemed to have obtained control, so fees received in respect of the connection are recognised at this point.

Income received in advance of the new connection being made is held on the statement of financial position as a receipt in advance.

Infrastructure charges

Infrastructure charges are a developer's contribution to fund future general network reinforcement resulting from the incremental growth in the number of customers served. These charges must be paid by the developer at the point of connection and do not relate to any specific network reinforcement activity.

The company considers that the developer requesting the new connection associated with the infrastructure charge is the customer and that under IFRS 15, the performance obligation is satisfied at the point of provision of the new connection to the network, when the customer is deemed to have obtained control, so fees received in respect of infrastructure charges are recognised at this point.

Requisitions

The company receives contributions from developers towards requisitions of new water mains and public sewers.

The company has determined that the performance obligation is satisfied at the point of completion of the requisition works and connection of the water main or lateral drain. The contribution receivable is held on the statement of financial position as deferred revenue and subsequently recognised in full as revenue on completion of the requisition works.

Diversions

The company receives contributions from third parties to divert existing water mains and public sewers.

The company considers the requesting party to be the customer in these contracts, and the contribution received towards the cost of undertaking the diversion is held on the statement of financial position as deferred revenue and subsequently recognised as revenue on completion of the performance commitment in the contract, in this case on completion of the diversion of the water main or sewer.

Fair value of assets adopted

Infrastructure assets, constructed by a developer, which are contributed to the company for £nil consideration, in exchange for relieving the developer of any future liability, are recognised at fair value of the asset upon adoption. The fair value is based on a valuation provided on the vesting certificate when the asset is transferred into the company's ownership. At the point of legal transfer of the asset, the company has concluded that the performance obligation to the developer, adopting the asset, has been satisfied and the fair value of the asset is recognised as a contribution through revenue at this point.

These contributions from the transfer of non-current assets from customers are recognised as revenue through non-distributable reserves and released to retained earnings over the life of the asset.

Other contributions

Grants and contributions receivable in respect of other non-current assets where the performance commitment is also delivered over the life of the asset, are treated as deferred income and released to other operating income over the useful economic life of those fixed assets.

Grants and contributions which are given in compensation for expenses incurred with no future-related performance commitment are recognised in revenue in the period that they become receivable.

Provision for impairment of trade receivables

The company recognises lifetime expected credit losses (ECL) for trade receivables and contract assets. The ECL on these financial assets are calculated by applying estimated recovery rates to various categories of trade receivables, reflecting historical credit loss experience and expectations of future recovery of outstanding receivables at each reporting date.

This assessment generates an expectation for the level of recovery of the outstanding receivables balance and therefore the lifetime ECL.

The model considers current and forward-looking macroeconomic events to the extent that the past response of customers to changes in the economy is built into the expected future cash collection performance for each customer segment.

Notes to the financial statements continued

For the year ended 31 March 2025

1 Material accounting policies continued

Taxation

Taxation in the income statement represents the sum of the tax currently payable and deferred tax.

Current taxation is based on the result for the year as adjusted for disallowable and non-taxable items and items of income or expense which are taxable or deductible in other years. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred taxation is net tax expected to be payable on temporary differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is provided on all temporary differences that have originated, but not reversed, by the end of the reporting period. It is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is regarded as probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Where recovery of assets in future periods is not probable, and future forecasts and projections are unable to confirm whether assets will be recovered in future years, these assets are not recognised in the statement of financial position. At the reporting date the company has unrecognised deferred tax assets of £164.1 million (2024: £135.6 million) from unrecognised interest of £656.4 million (2024: £542.5 million) restricted under Corporate Interest Restriction legislation.

Intangible assets

Intangible assets comprise:

- (i) Assets in development, generally implementation of IT software.
- (ii) Other assets – comprising software and development projects.

Intangible assets are measured at cost less subsequent amortisation and any impairment.

Cost

Software acquired separately, or internally generated where a separate resource that is controlled by the company is created, are capitalised at cost.

Capitalised development costs are for plant installed on sites or work undertaken by suppliers to test new processes for performance data and scalability. The data is used to identify innovative and efficient future assets and processes to meet higher environmental or quality standards. Development costs can relate to projects or can be more general such as network modelling or catchment management. General development costs that are capitalised are amortised over five years. Where a development project concludes that there is insufficient chance of success of the related investment, it is amortised in full in the same year.

Costs in respect of development costs are capitalised as an intangible asset where the following criteria are met:

- It is technically feasible to create and make the asset available for use or sale;
- There are adequate resources available to complete the development and to use or sell the asset;
- There is the intention and ability to use or sell the asset;
- It is probable that the asset created will generate future economic benefits; and
- The development costs can be measured reliably.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Finite life intangible assets are reviewed for impairment where indicators of impairment exist.

Notes to the financial statements continued

For the year ended 31 March 2025

1 Material accounting policies continued

Useful economic lives

Amortisation of intangible assets is calculated on a straight-line basis over the estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Assets in development are not amortised and are transferred to other intangible assets at the point at which they are operational.

Software is amortised over the length of the licence, generally three to five years.

Development costs relating to specific projects are amortised over the life of the related scheme.

Property, plant and equipment

Property, plant and equipment comprises:

- (i) Freehold land and buildings – comprising land and non-operational buildings.
- (ii) Plant and machinery – comprising structures at sites used for water and wastewater treatment; pumping or storage, where not classed as infrastructure, along with associated fixed plant.
- (iii) Infrastructure assets – comprising a network of systems consisting of mains and sewers, impounding and pumped raw water storage reservoirs, sludge pipelines and sea outfalls.
- (iv) Assets under construction – prior to completion/commissioning, all capital investment projects are classified as assets under construction.
- (v) Other assets – comprising vehicles, computers, mobile plant, meters and other.

All property, plant and equipment is stated in the statement of financial position at cost or at deemed cost on transition to FRS 101, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of assets includes directly attributable labour and overhead costs, which are incremental to the company.

The costs of repairs to the infrastructure network are recognised in the income statement as they arise.

Expenditure which results in replacement or renewal of infrastructure or enhancements to the operating capability of the infrastructure network is capitalised.

Items of property, plant and equipment that are transferred to the company from customers or developers are initially recognised at fair value in accordance with IFRS 15 'Revenue from Contracts with Customers'.

The corresponding credit is recorded as revenue through non-distributable reserves and released to retained earnings over the expected useful lives of the related assets.

Borrowing costs directly attributable to the construction of qualifying assets, that necessarily take a substantial period of time to get ready for their intended use, are capitalised during the period of time that is required to complete and prepare the asset for its intended use. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete. Other borrowing costs are expensed.

Subsequent costs are included in the asset's carrying amount or recognised as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement as incurred.

Notes to the financial statements continued

For the year ended 31 March 2025

1 Material accounting policies continued

Assets are depreciated on a straight-line basis over their estimated operating lives, which are principally as follows:

		Years
Land and buildings:	– Land ¹	Not depreciated
	– Buildings	10–60
Plant and machinery:	– Operational structures ²	15–80
	– Fixed plant	10–40
Infrastructure assets:	– Water mains	100–120
	– Sewers	80–200
	– Reservoirs	200
	– Ancillary structures	10–70
Assets under construction ¹ :		Not depreciated
Other:	– Vehicles, computers and mobile plant	3–10

¹ Freehold land is not depreciated, nor are assets in the course of construction until they are commissioned. Commissioning is deemed to occur when a new works is officially taken over from the contractor, following completion of performance and take-over tests.

² Operational structures are assets used for wastewater and water treatment purposes. These include water tanks and similar assets.

The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

Impairment of tangible and intangible assets

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Leases

The company as lessee

The company assesses whether a contract is, or contains, a lease, at inception of the contract. The company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (£5,000 or less). For these leases, the company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Notes to the financial statements continued

For the year ended 31 March 2025

1 Material accounting policies continued

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The company did not make any such adjustments during the year.

Right-of-use assets are presented separately from other assets in the notes to the financial statements and comprise the initial measurement of the corresponding lease, lease payments made at or before the commencement day and any direct initial costs and restoration costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. Depreciation starts at the commencement date of the lease. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

The company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the Property, Plant and Equipment policy.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The company has used this practical expedient with respect to the maintenance element associated with vehicle leases.

Notes to the financial statements continued

For the year ended 31 March 2025

1 Material accounting policies continued

The company as lessor

The sale of income rights relating to aerial masts and sites owned by the company to third parties is treated as an operating lease. Income received from such sales is received entirely in advance and is therefore taken to deferred revenue and credited to the income statement over the life of the lease.

Non-current asset investments

Investments held as non-current assets, including investments in subsidiaries, are stated at cost, less, where appropriate, provision for any impairment in value. The carrying values of non-current asset investments are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits.

Current asset investments

Current asset investments comprise cash on deposit with a maturity of more than three months from the date of acquisition.

Inventories

Inventory is held for use in the production of water supply and treatment of wastewater. Raw materials and work in progress are valued at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price, less further costs expected to be incurred to completion and costs to be incurred in marketing, selling and distribution.

Deferred revenue

Deferred revenue includes monies received from customers where the related service has not yet been provided.

Amounts are deferred to the statement of financial position and released to the income statement in line with the period of the service provided.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, and it is probable that the company will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

An environmental provision is made for the costs relating to decommissioned or dormant assets which have been identified as having an environmental impact where there is an obligation to restore the environment.

Executory contracts

Executory contracts are contracts under which neither party has performed any of its obligations, or both parties have partially performed their obligations to an equal extent. Provisions are not recognised for executory contracts unless they are onerous.

Retirement benefits

SWS operated a defined benefit pension scheme which closed to future accrual on 31 March 2020, the assets of which are held separately from those of the company in independently administered funds. An independent actuary conducts a valuation of this pension scheme every three years.

The liability recognised in the statement of financial position in respect of the defined benefit pension scheme is the present value of the defined benefit obligation at the end of the period less the fair value of plan assets. The net interest on the scheme's net assets/(liabilities) is included in other finance charges. Actuarial gains and losses are recognised in the statement of other comprehensive income.

Notes to the financial statements continued

For the year ended 31 March 2025

1 Material accounting policies continued

The pension cost under IAS 19 'Employee Benefits' is assessed in accordance with the advice of a firm of actuaries based on the latest actuarial valuation and assumptions determined by the actuary. The assumptions are based on information supplied to the actuary by the company, supplemented by discussions between the actuary and management. The assumptions are disclosed in note 24.

Profit before taxation and net assets are affected by the actuarial assumptions used. The key assumptions include: discount rates, pay growth, mortality and increases to pensions in payment and deferred pensions, and may differ from actual results due to changing market and economic conditions and longer or shorter lives of participants.

The company also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. Company contributions to the scheme are charged to the income statement in the period to which they relate. Differences between contributions charged and actually paid are shown as either accruals or prepayments in the statement of financial position.

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are measured initially at fair value, except for trade receivables that do not have a significant financing component which are measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value through profit or loss (FVTPL).

The company does not currently have any financial assets which are measured at amortised cost.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship.

Derecognition of financial assets

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Financial liabilities measured subsequently at amortised cost

Fixed-rate interest-bearing borrowings are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method.

Notes to the financial statements continued

For the year ended 31 March 2025

1 Material accounting policies continued

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the amortised cost of a financial liability.

Financial liabilities at FVTPL

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise. As such, index-linked and variable rate bonds are subsequently measured at FVTPL.

Transaction costs that are directly attributable to the acquisition of index-linked and variable rate bonds are separately disclosed within financial liabilities, and amortised at a constant rate over the expected life of the related liability.

The carrying value of index-linked debt instruments is adjusted for the annual movement in the retail price index. The change in value arising from indexation is charged or credited to the income statement in the year in which it arises.

Premiums and proceeds such as those from gilt-lock agreements received on issue of debt instruments are credited to the income statement over the term of the debt at a constant rate on the carrying amount.

Derecognition of financial liabilities

The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative financial instruments

The company enters into a variety of derivative financial instruments to manage its exposure to inflation and interest rate risk in line with the company's risk management policy and no speculative trading in financial instruments is undertaken. Further details of derivative financial instruments are disclosed in note 22.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in the income statement immediately.

Certain derivative instruments, principally index-linked swaps, do not qualify for hedge accounting and, as such, the company does not currently apply hedge accounting.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives

In accordance with IFRS 9, the company has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit and loss.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Trade and other payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost.

Notes to the financial statements continued

For the year ended 31 March 2025

2 Critical accounting judgments and key sources of estimation uncertainty

In the application of the company's material accounting policies, which are described in note 1 above, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgments

Critical judgments, apart from those involving estimations, that are applied in the preparation of the financial statements are discussed below.

Revenue recognition in relation to new connections, infrastructure charges, requisitions, diversions and adoptions

As described in note 1 'Material accounting policies', the company receives income from developers and third parties for new connections, infrastructure charges, requisitions, diversions and adoptions either in cash or, for adoptions, in the form of infrastructure assets.

In selecting its accounting policy for the recognition of revenue from these services, the company uses judgment to determine:

- the customer of each contract;
- the performance obligation; and
- whether the service is distinct from the ongoing provision of water and wastewater services.

The company considers that these services are contracts with the developer and not the future occupiers of the property and, as such, the developer is considered the customer for these services.

The promise to undertake the activity is separately identifiable from any other services that may be being provided to the developer as there is a separate application process and contract for each of these items and once they have been provided the obligation to the developer is complete. The performance obligation is therefore considered to be the completion of the new connection, requisition, diversion or adoption.

As the future network services are readily available to the occupiers of the property, without the need for them to have made the earlier connection-related transactions, the revenue for these services is deemed to be distinct from revenue from the ongoing provision of water and wastewater services and is therefore recognised on completion of the connection-related service.

The future provision of water services are separate contracts with the owner/occupiers of the property at a later date, and the income for these is recognised as that service is consumed.

During the period, the company recognised income from adoptions of infrastructure assets with a fair value of £8.6 million (2024: £7.5 million), new connections amounting to £4.7 million (2024: £5.5 million), infrastructure charges amounting to £9.9 million (2024: £8.2 million) and requisitions and diversions amounting to £7.1 million (2024: £6.7 million).

Amortisation of regulatory settlement

In 2018–19, an accrual of £135.5 million was recognised for rebates to be made to customers through bills, over the period from 2020 to 2025, as part of a regulatory settlement agreed with Ofwat following its investigation into wastewater treatment compliance.

There is no clear accounting standard guidance for the income statement treatment of this regulatory settlement. It was considered whether the settlement should be recognised as an expense; however, given that this is an agreed reduction in customer bills in the future, with a requirement to show this separately on invoicing as required by Ofwat, the most appropriate treatment was concluded to be to treat the invoice reductions as a reduction in revenue in 2018–19. These rebates are now being made and recorded through revenue, and the accrual made in 2018–19 is being unwound on the face of the income statement, also through revenue, in line with the annual profile of the rebates to be made, and has been reassessed annually to provide for fluctuations in the future estimates of inflation. See note 25 for more detail.

Notes to the financial statements continued

For the year ended 31 March 2025

2 Critical accounting judgments and key sources of estimation uncertainty *continued*

Critical accounting judgments *(continued)*

Provisions and contingent liabilities

The company evaluates its exposures to contingent liabilities relating to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation. A provision is made when it is judged that it is probable that an obligation exists for which a reliable estimate can be made. Individual matters are considered carefully to assess the likelihood that a pending claim will succeed, or a liability will arise, and the point of recognition for the associated liability. Furthermore, not all outcomes result in fines; some, as previously discussed, involve regulatory settlements handled through revenue adjustments or ongoing monitoring.

Matters that are judged to be either possible obligations or do not meet the recognition criteria for a provision are disclosed as contingent liabilities in note 33, unless the possibility of transferring economic benefits is remote.

For all the matters set out in note 33, management judges that it is either not possible to measure reliably the outflow of economic benefit or that settlement is not probable.

Right to receive water from Portsmouth Water

In February 2021, the company entered into a contractual arrangement with Portsmouth Water Limited (Portsmouth Water), under which Portsmouth Water will obtain planning permission, design, build, finance, and operate a reservoir in Havant (the Havant reservoir). Once the construction is complete, and Southern Water has laid a pipe, Portsmouth Water will supply, on the request of Southern Water Services Limited, up to 21 million litres of treated water per day. Following a detailed review of the complex contractual arrangement, and with a better understanding of the contractual terms of the agreement, which require both parties to complete certain activities to enable the water to be provided, the company has formed the judgment that this contract should be accounted for as an executory contract until such time that both parties have fulfilled their obligations and the right to water can be met. The contract runs for the period from 2021 to 2100 and comprises fixed capacity charge payments as well as volumetric charges for the water to be supplied. The fixed contractual payments over the period from 2021 to 2100 total £2,563 million and the volumetric charge will be recognised as water is supplied. An annual review of the performance obligations of both parties will be performed to assess whether the contract is an executory contract.

Property, plant and equipment

The company recognises property, plant and equipment (PPE) on its water and wastewater infrastructure assets where such expenditure enhances a significant length of the network or increases the capacity of the network, whereas any expenditure classed as maintenance is expensed in the period it is incurred. Determining enhancement from maintenance expenditure is a subjective area, particularly when assessing whether the length of network replaced enhances the network. In addition, management capitalises time and resources incurred by the company's support functions on capital programmes based on judgments made in respect of the proportion of capital work performed by these functions.

Key sources of estimation uncertainty

The key assumptions about the future and other key sources of estimation uncertainty at the reporting period end that may have a risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Derivative financial instruments

The company enters into a variety of derivative financial instruments to manage its exposure to inflation and interest rate risk in line with the company's risk management policy. The value of derivatives is highly sensitive to assumptions of inflation and interest rates, and the following scenarios indicate the impact of a 1% movement in the respective rate structures on the fair value of the derivatives portfolio as at 31 March 2025. These values have been obtained by recalculating the entire portfolio value by shifting the interest rate curve and the inflation curve by +/-1%.

Event	+1% increase £m	-1% increase £m
Interest rates	223.7	(265.0)
Inflation rates	(771.1)	642.3

Multiple inflation-linked derivatives contain an inflation floor optionality. These floors take effect in the event of a deflation (e.g. less than 0% inflation) over periods specified on a derivative level.

Notes to the financial statements continued

For the year ended 31 March 2025

2 Critical accounting judgments and key sources of estimation uncertainty *continued*

Key sources of estimation uncertainty *(continued)*

Provisions

Provisions determined may change in the future due to new developments and as additional information becomes available. Reflecting the inherent uncertainty in this evaluation process, actual costs may be different from the estimated provision. Details of provisions are disclosed in note 26 and the value provided at 31 March 2025 was £5.4 million (2024: £4.9 million) based on an agreed schedule of works required. The company estimates that actual costs could vary up to +/- 10% due to fluctuations in prices.

Measured income accrual

The measured income accrual is an estimation of the amount of water and wastewater unbilled at the period end. The accrual is estimated using a defined methodology based upon historical billing and consumption information and the applicable tariff. The calculation is sensitive to estimated consumption for measured customers. Actual consumption may differ from the estimate made which could impact future operating results positively or negatively. Given the nature of the balance it is not practical to assess how this estimate will change in the next 12 months.

Sensitivity analysis shows that the measured accrual would vary by £2.6 million and £7.9 million if consumption estimates were between 1% and 3% above or below those predicted. The sensitivities of 1% and 3% illustrate the impact expected to be seen from a change in the level of consumption.

Measured accrual sensitivity analysis	31 March 2025	Sensitivity			
		1%	3%	-1%	-3%
Measured accrual balance (£m)	286.3	2.6	7.9	-2.6	-7.9

The value of household billings raised in the year ended 31 March 2025 for consumption in prior years was £251.3 million. The value of these billings was lower than the accrual made at 31 March 2024. The estimation difference was £0.5 million (0.2%) and this has been recognised in the current year's turnover.

Impairment of trade receivables

The impairment of trade receivables at each reporting date is calculated by segmenting customer debt based on historic debt collection and payment performance, demographic information and the age of debt outstanding. In general, for each segment, forecast cash collection rates are estimated using this range of data and other macroeconomic assumptions, which then determines a corresponding provision percentage. This assessment generates an expectation for the level of recovery of the outstanding receivables balance and therefore the lifetime expected credit loss.

The model considers current and forward-looking macroeconomic events to the extent that the past response of customers to changes in the economy is built into the expected future cash collection performance for each customer segment.

In March 2024, an additional charge of £4.0 million was maintained to reflect the expected impact that the cost of living would have on the macro-economic environment. This was released in full as realised impact during 2024–25. At March 2025, no further provision has been retained relating to cost of living, but a £3.0 million provision has been retained to reflect the expected impact of unprecedented rises in water bills on customers' ability to pay.

The value of the provision for doubtful debts as at 31 March 2025 was £255.8 million (2024: £247.7 million). The actual level of receivables collected may differ from the estimated levels of recovery, which could impact future operating results positively or negatively.

Sensitivity analysis shows that the impairment provision would vary by £2.5 million and £7.5 million if cash collections estimates were between 1% and 3% above or below those predicted.

Notes to the financial statements continued

For the year ended 31 March 2025

2 Critical accounting judgment and key sources of estimation uncertainty continued

Key sources of estimation uncertainty (continued)

The sensitivities of 1% and 3% illustrate the impact expected to be seen from a change in the level of cash collection. The company's experience is that cash collection in general could vary by 3.5% from expectations.

Impairment provision sensitivity analysis	31 March 2025	Sensitivity			
		-1%	-3%	1%	3%
Impairment provision estimate (£m)	255.8	2.5	7.5	-2.5	-7.5

Retirement benefit obligations

The company operates a defined benefit scheme as well as a defined contribution scheme. Under IAS 19 'Employee Benefits' the company has recognised an actuarial gain of £27.7 million (2024: loss of £1.6 million).

The pension cost and liabilities under IAS 19 are assessed in accordance with directors' best estimates using the advice of an independent qualified actuary and assumptions in the latest actuarial valuation. The assumptions are based on member data supplied to the actuary and market observations for interest rates and inflation, supplemented by discussions between the actuary and management. The mortality assumption uses a scheme-specific calculation based on the CMI 2023 model with a smoothing factor of 7.0 and a 1.25% p.a. allowance for future longevity improvement.

The major assumptions used to measure schemes' liabilities, along with sensitivities to changes in those assumptions and future funding obligations are set out in note 24 of the financial statements.

Climate change

Climate change is one of our principal risks, and the company is continually developing its assessment of the impact this risk has on the assets and liabilities presented in the financial statements.

As set out in the Strategic Report, which includes the 'risk' section on pages 112 to 130 and the 'protecting and improving the environment' section on pages 50 to 61, the natural environment in which the company operates is constantly changing and this influences

how water and wastewater services will be delivered in the future and our long-term strategy is focused on identifying, managing and mitigating climate-related risks.

In preparing the financial statements, the directors have considered the impact of climate change, in the context of the risks identified in the Strategic Report and the sustainability disclosures as referenced above. There has been no material impact identified on the financial reporting judgments and estimates or forecasts. In particular, the directors considered the impact of climate change in the following areas:

- the carrying value and useful economic life of property, plant and equipment
- the value of inventory held
- provisions and liabilities.

The estimated useful lives of property, plant and equipment and the depreciation charged are reviewed at the end of each reporting period, for assets impacted by climate change, environmental legislation or changes in operational strategy. This may result in the acceleration of depreciation for any assets deemed to have shorter useful economic lives than originally planned. No material changes to asset lives and depreciation were made in the current financial year. The company does not view the uncertainty around the potential future impact of climate change to indicate that the current useful life policy needs revising.

The company is exposed to potential asset write-downs as a result of extreme weather events, most notably through flooding or subsidence. In these circumstances, any assets identified as having been damaged beyond repair would be fully written down. No such charges were required in the current year.

Climate change, and the environment in general, are heavily embedded in the planning stage of asset construction to mitigate future risk. This planning process considers the scenarios as described in the climate-related financial disclosures in the Strategic Report. It is expected that any material impact identified through these processes would materialise over a longer period of time, rather than a single year; no impact from this was identified in the current year.

3 Changes in significant accounting policies

There are no new major standards applicable for the year ended 31 March 2025. A number of amendments however are effective for periods beginning from 1 January 2024. These changes had no material impact on the company's accounting policies.

Notes to the financial statements continued

For the year ended 31 March 2025

4 Segmental analysis

The directors believe that the whole of SWS's activities constitute a single class of business. The company's revenue is generated wholly from within the United Kingdom. The Southern Water Executive Committee is considered to be the company's chief operating decision maker. The Executive Committee reviews all internal management information on a single segment basis and, accordingly, no segmental information is provided in this report.

5 Income

An analysis of the company's income is as follows:

	2025 £m	2024 £m
Water and sewerage services:		
Household – measured	612.6	539.3
Household – unmeasured	130.4	117.5
Non-household – measured	147.3	136.3
Non-household – unmeasured	4.6	4.3
Total water and sewerage services	894.9	797.4
Bulk supplies	8.8	6.4
Infrastructure charge receipts	9.9	8.2
Trade effluent	10.3	9.6
Cesspools	6.0	6.1
New connections	4.7	5.5
Adoptions (see note (a) below)	8.6	7.5
Other services (see note (b) below)	21.0	18.7
Total revenue before amortisation of regulatory settlement	964.2	859.4
Amortisation of regulatory settlement (see note (c) below)	28.5	27.1
Total revenue	992.7	886.5
Other operating income (see note (d) below)	1.6	1.8
Profit on disposal of fixed assets	0.8	0.5
Interest receivable (note 9)	30.0	4.1
Total income	1,025.1	892.9

- (a) Revenue associated with the adoption of assets from customers is treated as non-distributable upon recognition, and amortised to retained earnings in line with the depreciation of the related assets.
- (b) Other services is largely comprised of income from developer related activity of £8.9 million (2024: £7.8 million), electricity generation of £4.4 million (2024: £3.2 million) and property searches of £3.1 million (2024: £2.6 million).
- (c) The company co-operated with Ofwat in relation to its investigation into the management, operation and performance of its wastewater treatment works.

To ensure that customers are not disadvantaged as a result of these matters, the company has agreed to make direct customer rebates totalling £135.5 million in forecast outturn prices (£122.9 million in 2017–18 prices) over the period 2020–25. This reflects the seriousness of the breaches identified in the investigation.

These rebates are now being made and recorded through the water and sewerage services revenue shown above. The provision for these rebates made in the financial statements for 2018–19 is also being released through revenue in line with the annual profile of the rebates to be made.

Amortisation of £28.5 million in the year ended 31 March 2025 is the final year of amortisation, resulting in the full amount of the provision having now been released to revenue.

- (d) Other operating income in the current year relates to the release of deferred grants and contributions relating to non-current assets from the balance sheet, as amortised in line with the useful economic life of the related assets, and rents receivable.

Notes to the financial statements continued

For the year ended 31 March 2025

6 Operating loss for the year

Profit/(loss) for the year has been arrived at after charging/(crediting):	2025 £m	2024 £m
Depreciation on:		
– Owned assets	337.8	329.1
– Leased assets	5.2	5.1
	343.0	334.2
Amortisation of intangible assets	25.5	28.6
Depreciation and amortisation	368.5	362.8
Profit on disposal of fixed assets	(0.8)	(0.5)
Research and development expenditure	0.7	0.9
Rentals under operating leases (see note (a) below):		
– Properties	0.1	0.1
– Vehicles	5.4	5.5
Employee costs (note 7)	97.6	86.7
Amortisation of grants and contributions (see note 27)	(1.5)	(1.6)
Fees payable to the company's auditor in respect of:		
– statutory audit of the company's financial statements	0.9*	0.6
– other services pursuant to legislation (see note (b) below)	0.1	0.1
– all other services	0.1	0.3

* The current year figure includes overruns of £0.1 million charged in the prior year for the statutory audit of the year ended 31 March 2023.

(a) Rentals under operating leases comprise payments on leases that have been assessed as short-term (12 months or less) agreements and leases of low value assets (£5,000 or less) (see note 1 'Material accounting policies' for more information on the company's approach to IFRS 16 'Leases').

(b) Other services pursuant to legislation and other non-audit services primarily relate to regulatory assurance fees.

7 Employee information

	2025 £m	2024 £m
(a) Employee costs (including directors' emoluments):		
Wages and salaries	143.3	127.5
Social security costs	15.9	14.2
Pension costs – Defined contribution	19.0	17.1
– Defined benefit	–	–
Total employee costs	178.2	158.8
Less: charged as capital expenditure	(80.6)	(72.1)
Charged to the income statement	97.6	86.7

Employee costs that are charged as capital expenditure are those directly related to the construction or acquisition of assets.

(b) Average number of persons employed by activity

The average monthly number of persons (including Executive directors) employed by the company during the year was:

	2025 Number	2024 Number
Operations	1,497	1,436
Customer services	42	45
Corporate centre	1,202	1,133
	2,741	2,614

Notes to the financial statements continued

For the year ended 31 March 2025

8 Directors' emoluments

	2025 £000	2024 £000
Aggregate emoluments (including benefits in kind)	3,188	2,126

No retirement benefits accrued to directors (2024: nil) under a SWS defined benefit scheme. No retirement benefits accrued to directors under a SWS defined contribution scheme (2024: £nil).

Further details can be found in the directors' remuneration report on pages 181 to 195.

Details of emoluments and benefits for the highest paid director:

	2025 £000	2024 £000
Highest paid director's aggregate emoluments and benefits	1,378	764

During the year, the company made contributions of £nil (2024: £nil) to a money purchase pension scheme in respect of the highest paid director's qualifying services.

9 Net finance income/(costs)

	2025 £m	2024 (Restated)* £m
Finance income		
Deposit income on short-term bank deposits	30.0	4.1
	30.0	4.1
Finance costs		
Interest payable on other loans	(18.0)	(29.1)
Interest paid on loans from subsidiary companies	(259.9)	(167.8)
Indexation of index-linked debt	(46.6)	(82.8)
Amortisation of issue costs	(1.5)	(1.5)
Amortisation of gilt lock proceeds	0.1	0.1
Amortisation of bond premium	0.7	0.7
Amortisation of bond discount	(0.4)	(0.1)
Interest on lease liabilities	(1.4)	(1.0)
Other finance expense (note 24)	(3.6)	(3.4)
Dividends on preference shares – see note below	(4.5)	(4.5)
	(335.1)	(289.4)
Amounts capitalised on qualifying assets	61.6	37.0*
	(273.5)	(252.4)
Fair value losses on derivative financial instruments		
Movements on derivative financial instruments (note 22)	170.7	88.1
Net finance (costs)/income	(72.8)	(160.2)

* The prior year has been restated to reflect a correction to the methodology for calculating the interest capitalisation rate. Please refer to note 1 for further information.

The interest revenue from Southern Water Services Group Limited relates to the long-term loan disclosed in note 15.

Borrowing costs included in the cost of qualifying assets during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.02% to expenditure on such assets (2024 (restated)*: 5.52%).

Dividends on preference shares

Dividends due to Class B preference shareholders of £70 per share totalled £4.5 million (2024: £4.5 million). No amounts were paid during the year (2024: £nil) with £4.5 million accrued at 31 March 2025 (2024: £4.5 million). The cumulative balance sheet liability for unpaid preference share dividends at 31 March 2025 was £13.5 million (2024: £9.0 million).

Notes to the financial statements continued

For the year ended 31 March 2025

10 Taxation

	2025 £m	2024 (Restated)* £m
Current tax:		
Current year	–	–
Total current tax charge	–	–
Deferred tax:		
Origination and reversal of timing differences	9.4	(3.0)
Adjustment in respect of prior years	0.2	0.1
Total deferred tax charge	9.6	(2.9)
Total tax charge	9.6	(2.9)

* The prior year has been restated to reflect a correction to the methodology for calculating the interest capitalisation rate. Please refer to note 1 for further information.

The tax assessed for the year is different to the standard rate of corporation tax in the UK due to the following factors:

	2025 £m	2024 (Restated)* £m
(Loss)/profit before tax	(89.4)	(232.5)
Tax at the UK corporation tax rate of 25% (2024: 25%)	(22.3)	(58.1)
Permanent differences	31.7	55.1
Differences between current and deferred tax rates	–	–
Adjustment in respect of prior years:		
Current tax	–	–
Deferred tax	0.2	0.1
Total tax charge/(credit) for year	9.6	(2.9)

* The prior year has been restated to reflect a correction to the methodology for calculating the interest capitalisation rate. Please refer to note 1 for further information.

The main reason for the rate impacting items is the Corporate Interest Restriction disallowance of £28.3 million (2024: £52.7 million) on which deferred tax is not recognised.

Factors that may affect future tax charges:

The Spring Finance Bill 2024 confirmed that the main rate of corporation tax remains at 25% and therefore all deferred assets and liabilities have been calculated at 25% rate.

Based on current capital investment plans, the company expects to continue to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

The company has not made any adjustments to super deductions in the year. Amounts that have been claimed over the applicable two years (1 April 2021 – 31 March 2023) will remain fixed. Any adjustments to the main rate and long-life pools have been accounted for at the previously applicable writing down rate and not at a First Year Allowance Full Expensing.

In addition to the amount recognised in the income statement, the following amounts relating to tax have been recognised in the statement of other comprehensive income:

	2025 £m	2024 £m
Deferred tax		
Arising on income and expenses recognised in other comprehensive income:		
Tax credit relating to retirement benefit obligations	6.9	(0.4)
Deferred tax movement due to rate change	–	–
Total deferred tax credit recognised in other comprehensive income	6.9	(0.4)

Notes to the financial statements continued

For the year ended 31 March 2025

11 Dividends

	2025 £m	2024 £m
Dividends available for distribution to investors in the ultimate parent company:		
Current year dividend	–	–
	–	–
Dividends not available for distribution to investors in the ultimate parent company:		
Current year dividend (2024: £nil per share)	–	–
	–	–

No dividend has been declared for the year ended 31 March 2025 (2024: £nil).

12 Intangible assets

	Externally generated		
	Assets in development £m	Other £m	Total £m
Cost			
At 1 April 2024 (restated)*	4.4	273.7	278.1
Additions	14.7	–	14.7
Transfers	(8.1)	8.1	–
Disposals	–	–	–
At 31 March 2025	11.0	281.8	292.8
Amortisation			
At 1 April 2024	–	178.6	178.6
Charge for the year	–	25.5	25.5
Disposals	–	–	–
At 31 March 2025	–	204.1	204.1
Net book amount			
At 31 March 2025	11.0	77.7	88.7
At 31 March 2024 (restated)*	4.4	95.1	99.5

* The prior year has been restated to reflect a correction to the methodology for calculating the interest capitalisation rate. Please refer to note 1 for further information.

Intangible assets, which generally relate to the implementation of computer software, are transferred from assets under development to other intangible assets at the point at which they are deemed operational.

Other intangible assets consists of IT software with a net book value of £77.7 million (2024 restated: £94.6 million), and development projects with a net book value of £nil (2024: £0.5 million).

The company does not currently have any internally generated intangible assets.

Included within additions above is £nil (2024 restated: £0.2 million) of interest that has been capitalised on qualifying assets in accordance with IAS 23 'Borrowing Costs'. The cumulative net book value of the borrowing costs capitalised amount to £3.0 million (2024 restated: £4.0 million).

Notes to the financial statements continued

For the year ended 31 March 2025

13 Property, plant and equipment

	Land & buildings £m	Plant & machinery £m	Infra-structure assets £m	Assets under construction £m	Other £m	Total £m
Cost						
At 1 April 2024 (restated)*	1,613.4	4,982.5	3,392.4	858.5	840.3	11,687.1
Additions	–	–	–	961.9	–	961.9
Transfers	17.7	331.9	217.4	(613.7)	46.7	–
Disposals	–	(7.9)	(0.3)	–	(12.8)	(21.0)
At 31 March 2025	1,631.1	5,306.5	3,609.5	1,206.7	874.2	12,628.0
Depreciation						
At 1 April 2024	970.5	2,166.4	318.0	–	649.3	4,104.2
Charge for the year	40.5	209.2	39.7	–	53.6	343.0
Disposals	–	(7.9)	(0.3)	–	(12.7)	(20.9)
At 31 March 2025	1,011.0	2,367.7	357.4	–	690.2	4,426.3
Net book amount						
At 31 March 2025	620.1	2,938.8	3,252.1	1,206.7	184.0	8,201.7
At 31 March 2024 (restated)*	642.9	2,816.1	3,074.4	858.5	191.0	7,582.9

* The prior year has been restated to reflect a correction to the methodology for calculating the interest capitalisation rate. Please refer to note 1 for further information.

Freehold land is stated at a cost of £68.7 million at 31 March 2025 and 31 March 2024 and is not depreciated.

The company's interests in land and buildings are almost entirely freehold.

Other property, plant and equipment consists of the following net book values for vehicles £16.3 million (2024: £7.3 million), and computer hardware and IT infrastructure with a net book value of £109.1 million (2024 restated: £118.8 million), meters £9.3 million (2024: £11.8 million), mobile plant £33.3 million (2024 restated: £53.1 million) and other £16.0 million (2024: £nil).

Included within additions above is £61.6 million (2024 restated: £36.8 million) of interest that has been capitalised on qualifying assets in accordance with IAS 23 'Borrowing Costs'. The cumulative net book value of the borrowing costs capitalised amount to £368.1 million (2024 restated: £319.9 million).

Leased assets

Right-of-use assets included in the table above are as follows:

	Land & buildings £m	Infra-structure assets £m	Other £m	Total £m
Net book amount at 31 March 2024	13.1	13.3	7.2	33.6
Remeasurement due to change in lease payments			0.5	0.5
Additions	–	–	12.0	12.0
Disposals	–	–	(0.1)	(0.1)
Depreciation charge for the year	(1.6)	(0.2)	(3.4)	(5.2)
Net book amount at 31 March 2025	11.5	13.1	16.2	40.8

Notes to the financial statements continued

For the year ended 31 March 2025

14 Investments

	2025 £m	2024 £m
Shares in subsidiaries		
At 1 April	0.2	0.2
Additions	–	–
Disposals	–	–
At 31 March	0.2	0.2

The company has the following direct investments in subsidiary undertakings at 31 March 2024:

	Registered office	Class of share capital	Activity
SW (Finance) I Plc	Southern House, Yeoman Road, Worthing	Ordinary (100%)	To raise debt finance
SW (Finance) II Limited	Southern House, Yeoman Road, Worthing	Ordinary (100%)	To raise debt finance
Southern Water Executive Pension Scheme Trustees Limited	Southern House, Yeoman Road, Worthing	Ordinary (100%)	Dormant
Southern Water Pension Trustees Limited	Southern House, Yeoman Road, Worthing	Ordinary (100%)	Dormant

The directors are satisfied that the carrying value of investments is supported by the underlying assets and activities of the subsidiaries.

15 Other non-current assets

	2025 £m	2024 £m
Non-current receivables		
Prepayments	22.0	10.0
Other debtors	1.0	–
	23.0	10.0

Non-current prepayments includes a balance of £15.0 million (2024: £6.5 million) in relation to capacity charge payments made to Portsmouth Water Limited in respect of the Havant Thicket reservoir as described in note 1 'Material accounting policies', note 2 'Critical judgments' and note 34 'Financial commitments'.

16 Inventories

	2025 £m	2024 £m
Raw materials	14.1	9.8
Work in progress	4.8	3.7
	18.9	13.5

17 Trade and other receivables and contract assets

	2025 £m	2024 £m
Trade receivables	373.8	347.8
Provision for impairment	(249.7)	(245.1)
Net trade receivables	124.1	102.7
Loan to subsidiary	146.5	102.5
Other amounts owed by group undertakings	11.1	12.1
VAT recoverable	22.5	20.2
Other amounts receivable	2.9	2.4
Prepayments	19.1	15.9
Total trade and other receivables	326.2	255.8
Net contract assets ¹	96.8	92.2
Total trade and other receivables and contract assets	423.0	348.0

¹ Net contract assets in the prior period were previously referred to as "Net accrued income".

Trade receivables comprise balances from contracts with customers where the company has performed some or all of its contractual obligations.

The loan to subsidiary represents debt service payment bank accounts held by the company's financing subsidiary Southern Water Finance Plc (SWF) into which SWS is required by financial covenants to make monthly transfers in order to meet its scheduled short-term future interest obligations on the intercompany loans described in note 20. Up until the obligations on the intercompany loans and the equivalent external debt held by SWF become due, the balances held in these bank accounts are classed as a loan to subsidiary.

Notes to the financial statements continued

For the year ended 31 March 2025

17 Trade and other receivables and contract assets continued

Other amounts owed by group undertakings are unsecured, interest-free and settled regularly. All entities are wholly owned within the group.

Contract assets (previously referred to as “Accrued Income”) at 31 March 2025 includes accrued capital contributions of £5.0 million (2024: £9.0 million). The balance relates to services provided to customers and is shown net of allowances for impairment of £3.0 million (2024: £2.6 million). More details can be found in the tables below.

The directors consider that the carrying values of trade and other receivables are reasonable approximations of their fair values.

Provision for impairment

Movements on the impairment provision were as follows:

	2025 £m	2024 £m
At 1 April	(247.7)	(260.1)
Net impairment charge	(24.7)	(15.4)
Net amounts written back during the year	16.7	27.8
At 31 March	(255.7)	(247.7)

At each reporting date, the company evaluates the recoverability of trade receivables and records allowances for impairment of receivables based on experience. These expected credit loss charges are recognised in the income statement under “Operating costs”.

The following table provides information regarding the ageing of receivables that are specifically provided for:

	2025 £m	2024 £m
Current	–	–
1–2 years	–	–
2–3 years	–	–
3–4 years	–	–
More than 4 years	5.6	12.1
	5.6	12.1

A collective provision is recorded against assets which are past due but for which no specific provision has been made. This is calculated based on historical experience of levels of recovery.

The aged analysis of receivables that were overdue at the reporting date but not individually provided for is as follows:

	2025 £m	2024 £m
Current	103.4	83.1
1–2 years	45.2	42.6
2–3 years	35.8	37.3
3–4 years	32.6	28.3
More than 4 years	122.4	116.3
	339.4	307.6

The amounts above are reconciled to gross and net receivables in the tables below:

	Gross £m	Provision £m	Net £m
At 31 March 2025			
Contract assets			
Accrued income – not due	102.8	(6.0)	96.8
Trade receivables			
Not due	28.8	–	28.8
Overdue and not specifically provided	339.4	(244.1)	95.3
Overdue and specifically provided	5.6	(5.6)	–
	476.6	(255.7)	220.9

	Gross £m	Provision £m	Net £m
At 31 March 2024			
Contract assets			
Accrued income – not due	94.8	(2.6)	92.2
Trade receivables			
Not due	28.1	–	28.1
Overdue and not specifically provided	307.6	(233.0)	74.6
Overdue and specifically provided	12.1	(12.1)	–
	442.6	(247.7)	194.9

Notes to the financial statements continued

For the year ended 31 March 2025

18 Trade and other payables and contract liabilities

	2025 £m	2024 £m
Trade payables	83.2	76.8
Amounts owed to group undertakings	115.7	75.4
Capital creditors and capital accruals	312.1	222.8
Taxation and social security	3.9	5.0
Accruals	118.7	124.5
Deferred revenue ¹	16.3	18.4
Total trade and other payables	649.9	522.9
Contract liabilities ¹	38.0	26.9
Total trade and other payables and contract liabilities	687.9	549.8

¹ There has been a presentational change in comparative period to Deferred revenue to separately disclose the balance relating to contract liabilities. More information is given below.

The directors consider that the carrying values of trade and other payables are not materially different from their fair values.

All amounts owed to group undertakings due within one year are unsecured, interest-free and repayable on demand. All entities are wholly owned within the group.

Contract liabilities (previously included in Deferred revenue) at 31 March 2025 includes £31.9 million (2024: £21.9 million) of receipts in advance from customers for water and wastewater charges. The remaining amount relates to payments in advance in relation to consideration received for infrastructure charges, including deposits and other fees for service connections, diversions and requisitions.

19 Current borrowings

	Note	2025 £m	2024 £m
Loan from subsidiary: Class A £350m – 6.640% fixed rate 2026	20(iii)	349.8	–
Reserve Facility Agreement – SONIA + margin		–	13.0
Unamortised debt issuance costs	20(iii)	(1.5)	(1.5)
Bond premium deferred		0.7	0.7
Bond discount deferred		(0.4)	(0.4)
Deferred gilt lock proceeds	20(iv)	0.1	0.1
Class A £60m – 0.000% index linked 2025	20(v)	6.2	12.7
Class A £40m – 0.000% index linked 2026	20(v)	8.7	8.4
Current borrowings excluding lease liabilities		363.6	33.0
Lease liabilities		6.0	3.9
Total current borrowings including lease liabilities		369.6	36.9

Notes to the financial statements continued

For the year ended 31 March 2025

20 Total borrowings

	Note	2025 £m	2024 £m
Loans from subsidiaries:	20(i)		
Class A £350m – 6.192% fixed rate 2029	20(ii)	349.3	349.2
Class A £150m – 3.706% index linked 2034	20(ii)	326.2	315.0
Class A £35m – 3.706% index linked 2034	20(ii)	67.3	58.9
Class A £350m – 6.640% fixed rate 2026	20(ii)	349.8	349.6
Class A £150m – 5.000% fixed rate 2041	20(ii)	147.5	147.4
Class A £200m – 4.500% fixed rate 2052	20(ii)	197.4	197.4
Class A £300m – 5.125% fixed rate 2056	20(ii)	293.1	293.0
Class A £375m – 2.375% fixed rate 2028	20(ii)	372.8	372.1
Class A £450m – 3.000% fixed rate 2037	20(ii)	444.9	444.5
Class A £300m – 1.625% fixed rate 2027	20(ii)	298.1	297.2
Class A £550m – 7.375% fixed rate 2041	20(ii)	540.8	444.7
Class A £72m – 3.315% index linked 2043	20(ii)	74.2	72.5
Class A £20m – 4.123% index linked 2043	20(ii)	20.6	20.1
Class A £600m – 7.000% fixed rate 2040	20(ii)	590.3	544.1
Class A £300m – 7.750% Fixed Rate 2031	20(ii)	272.7	
Class A £175m – 2.780% fixed rate 2031	20(ii)	174.4	174.4
Class A £75m – 2.960% fixed rate 2036	20(ii)	74.7	74.7
Artesian £165m – 4.076% index linked 2033	20(ii)	358.8	346.5
Artesian £156.5m – 3.635% index linked 2032	20(ii)	332.1	320.7
Total Class A debt from subsidiaries		5,285.0	4,822.0
Unamortised debt issuance costs	20(iii)	(4.1)	(5.6)
Bond premium deferred		4.9	5.6
Bond discount deferred		(6.8)	(7.1)
Deferred gilt lock proceeds	20(iv)	4.0	4.1
Total loans and other borrowings from subsidiaries		5,283.0	4,819.0
Class A £60m – 0.000% index linked 2025	20(vi)	6.2	18.5
Class A £40m – 0.000% index linked 2026	20(vi)	13.2	21.1
Class B preference shares	20(vii)	64.7	64.7
Reserve Facility Agreement – SONIA + margin		13.0	13.0
Term Loan Facility Agreement – SONIA + margin		350.0	–
Lease liabilities	21	41.7	34.1
Total borrowings		5,771.8	4,970.4

	Note	2025 £m	2024 £m
Included in:			
Current liabilities			
Borrowings	19	363.6	33.0
Lease liabilities	21	6.0	3.9
		369.6	36.9
Non-current liabilities			
Borrowings		5,366.5	4,903.3
Lease liabilities	21	35.7	30.2
		5,402.2	4,933.5

These loans (excluding the preference shares) are guaranteed and secured pursuant to a guarantee and security agreement (the Security Agreement). The agreement is over the entire property, assets, rights and undertakings of each of SWS, SW (Finance) I Plc, SW (Finance) II Limited, SWS Holdings Limited and SWS Group Holdings Limited. In the case of SWS, this is to the extent permitted by the Water Industry Act 1991 and Licence.

Notes in respect of the specific instruments above:

- Under the loan agreements between SWS and SW (Finance) I Plc and SW (Finance) II Limited, SWS was advanced an amount equal to each bond or other debt raised at the same interest rate plus an annual fee of £10,000 and £5,000 to each lender respectively.
- Fixed rate borrowings are recognised net of issue costs and discounts on issue and are carried at amortised cost using the effective interest rate method.

The value of the capital and interest elements of the index-linked loans is linked to movements in inflation. The increase in the capital value of index-linked loans during the year of £46.6 million (2024: £82.8 million) has been taken to the income statement as part of finance costs.

Notes to the financial statements continued

For the year ended 31 March 2025

20 Total borrowings continued

- (iii) Unamortised debt issuance costs represent issue fees paid that are not otherwise accounted for within the amortised cost of specific loans. Where these costs are attributable to a specific instrument they are being amortised over the life of that instrument. The remaining costs are being amortised over the weighted average life of the loans advanced at the time the costs were incurred. As at 31 March 2025, unamortised debt issuance costs amounted to £4.9 million of which £1.5 million represents the short-term amount which is disclosed separately in note 19.
- (iv) Prior to the issue of the Class A £300 million bond in the year to 31 March 2008, SWSF entered into a gilt lock agreement, resulting in the receipt of £6.3 million, which was advanced to SWS along with the proceeds of the bond issue. The proceeds have been deferred in the financial statements of SWS and are being released to the income statement over the life of the loan.
- (v) The Class A £60 million loan is index linked with an interest rate of 0.00% until August 2025.
The Class A £40 million loan is index linked with an interest rate of 0.00% until May 2026.
Amounts for scheduled repayments due in the year to 31 March 2026 have been shown as current borrowings in the year to 31 March 2025 (note 19).
- (vi) The Class B preference shares are redeemable at the option of SWS at any time. At the date of signing these accounts, no plans have been made to redeem these shares.

The shares, which do not carry voting rights, were issued on 23 July 2003, and are redeemable at their nominal value plus the share premium paid on 31 March 2038 or at the company's option any time earlier. The shares were issued at £1,000 per share. Shareholders are entitled to receive dividends at £70 per share.

These dividends are payable on 31 March and 30 September each year.

No dividends were paid to the shareholders in the year and at 31 March 2025 the cumulative accrual for unpaid dividends due was £13.5 million (2024: £9.0 million).

The maturity profile of borrowings disclosed within this note is given below:	2025 £m	2024 £m
Borrowings excluding leases:		
Between one and two years	301.5	362.7
Between two and five years	1,081.8	1,019.5
After five years	3,983.2	3,521.1
	5,366.5	4,903.3
On demand or within one year	363.6	33.0
	5,730.1	4,936.3
Leases:		
Between one and two years	5.4	3.6
Between two and five years	13.2	7.3
After five years	17.1	19.3
	35.7	30.2
On demand or within one year	6.0	3.9
	41.7	34.1
Borrowings including leases:		
Between one and two years	306.9	366.3
Between two and five years	1,095.0	1,026.8
After five years	4,000.3	3,540.4
	5,402.2	4,933.5
On demand or within one year	369.6	36.9
	5,771.8	4,970.4

The company leases various offices and vehicles and has a lease on its outfall pipes.

Vehicle leases have terms of between four and five years. Leases on office buildings have terms of between 15 and 99 years from commencement date. The outfall lease had an initial term of 99 years and commenced on 1 April 1997.

Obligations relating to vehicle leases include some commercial vehicle leases with optional residual value balloon payments due at the end of the lease period, where the minimum lease payments (including finance charges) have been prepaid at the start of the lease. If the company opts not to pay the balloon payment, it must return the vehicle to the lessor.

Notes to the financial statements continued

For the year ended 31 March 2025

20 Total borrowings continued

All lease obligations are denominated in sterling.

The fair value of the company's lease obligations is approximately equal to their carrying amount.

Interest rates are fixed at the contract date. All leases (except outfalls (see note 21)) are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The company's lease obligations are secured by the lessors' rights over the leased assets disclosed in note 13.

21 Leases

This note provides information for leases where the company is a lessee.

(i) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

	2025 £m	2024 £m
Right-of-use assets within property, plant and equipment:		
Buildings	11.5	13.1
Infrastructure	13.1	13.3
Other	16.2	7.2
	40.8	33.6
Lease liabilities		
Current	6.0	3.9
Non-current	35.7	30.2
	41.7	34.1

Additions to right-of-use assets during the financial year to 31 March 2025 were £12.0 million (2023/4 £2.1 million).

(ii) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	2025 £m	2024 £m
Depreciation charge of right-of-use assets		
Buildings and infrastructure	(1.8)	(1.8)
Other	(3.4)	(3.3)
	(5.2)	(5.1)
Interest expense (included in finance costs)	(1.4)	(1.0)
Expense relating to short-term leases (included in operating costs)	(5.5)	(5.6)

(iii) Amounts recognised in the statement of cash flows

	2025 £m	2024 £m
Repayments of principal	5.3	4.1
Interest element included in interest paid	1.4	1.0
Total cash outflow for leases	6.7	5.1

(iv) The company's leasing activities and how these are accounted for

The company leases various offices and vehicles.

Rental contracts are typically made for fixed periods, but may have extension options.

Contracts may contain both lease and non-lease components. For leases of vehicles for which the company is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes. The company has a lease on its outfall pipes which contains variable lease payments. These payments will increase by RPI every 10 years. The next review date is on 1 April 2032 and the lease expires on 31 March 2096.

For further information please see the accounting policy for leases in note 1 Material accounting policies.

Notes to the financial statements continued

For the year ended 31 March 2025

22 Derivative financial instruments

Categories of financial instruments at fair value	2025 £m	2024 £m
Derivative assets carried at fair value through profit or loss (FVTPL):		
Inflation swaps – not hedge accounted	129.2	104.8
Total derivative financial assets	129.2	104.8
Derivative liabilities carried at fair value through profit or loss (FVTPL):		
Inflation swaps – not hedge accounted	(1,617.2)	(1,673.6)
Total derivative financial liabilities	(1,617.2)	(1,673.6)
Included in:		
Non-current assets	129.2	104.8
Current liabilities	(84.8)	–
Non-current liabilities	(1,532.4)	(1,673.6)
Net derivative financial instruments	(1,488.0)	(1,568.8)

There are no liabilities offset against assets and no assets offset against liabilities where there is no legal right to do so.

Changes in value of financial instruments at fair value	2025 £m	2024 £m
Movements on derivative financial assets at FVTPL	29.5	20.9
Movements on derivative financial liabilities at FVTPL	141.1	67.3*
Total movements on derivative financial instruments at FVTPL	170.6	88.2
Realised movements on derivative financial assets in the period	(5.1)	–
Realised movements on derivative financial liabilities in the period	(84.7)	(85.6)*
Total movements on derivative financial instruments	80.8	2.6*

* The prior year has been restated to gross up realised movements from the fair value movement on liabilities.

The company enters into RPI inflation-linked derivative financial instruments to manage its exposure to CPIH inflation risk in its revenues. Under inflation swap contracts, the company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the company to mitigate inflation risk on issued fixed rate debt held.

Interest rate swaps that are due to be repaid in the next 12 months have been included in current liabilities and those not due for repayment in the next 12 months have been included in non-current assets and non-current liabilities, as shown in the table above.

The nominal value of the interest rate swaps held at 31 March 2025 are shown in the table below:

Counterparty	Notional £m	Start date	Maturing in	Mandatory break
Lloyds Bank	99.3	2016	2037	–
ING Bank	77.8	2016	2037	–
SMBC Nikko	75.0	2016	2037	–
UBS	75.0	2016	2037	–
Bank of America	50.0	2016	2037	–
National Australia Bank	44.1	2016	2037	–
Banco Santander	20.0	2016	2037	–
JP Morgan	50.0	2017	2056	2029
National Australia Bank	92.1	2017	2039	2025*
Banco Santander	13.2	2017	2039	2025
SMBC Nikko	70.2	2017	2039	2025
Lloyds Bank	150.0	2016	2041	–
Alum Bay & NatWest SPV**	89.4	2016	2041	–
Lloyds Bank	50.0	2016	2031	–
NatWest SPV**	9.5	2016	2031	–
BNP Paribas	200.0	2016	2051	–
Alum Bay & NatWest SPV**	185.4	2016	2051	–
Morgan Stanley	250.0	2015	2055	–
Morgan Stanley ILCA	250.0	2015	2055	2028
Alum Bay & NatWest SPV**	206.0	2015	2055	–
Bank of America	150.0	2041	2046	–
Alum Bay & NatWest SPV**	31.9	2041	2046	–
Bank of America	50.0	2031	2046	–
Alum Bay & NatWest SPV**	37.7	2031	2046	–
JP Morgan	441.2	2037	2046	–
Alum Bay & NatWest SPV**	185.1	2037	2046	–
Lloyds Bank	100.0	2023	2028	–
SMBC Nikko	300.0	2023	2028	–
BNP Paribas***	400.0	2023	2030	–
Bank of America***	150.0	2023	2030	–
Bank of America***	100.0	2023	2030	–

* On 1 April 2025, the mandatory break at November 2025 was extended to June 2026.

** Series of future inflation payments have been stripped from the bank swaps with the result that nominal to real cash flows occur between company and bank, and the residual inflation cash flows are paid to the SPV. Investors into the SPV are established pension and insurance companies.

*** The company has entered into a number of RPI to CPI wedge trades with a total notional value of £650 million to better align inflation exposure across cashflows and RCV which is now predominantly linked to CPIH. In the absence of a CPIH swap market CPI inflation swaps are the closest match.

Notes to the financial statements continued

For the year ended 31 March 2025

23 Deferred tax liabilities

Deferred tax is provided as follows:

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Retirement benefit obligations £m	Other – timing differences** £m	Total £m
At 1 April 2023 (restated)*	738.9	(288.6)	(25.5)	(47.6)	377.2
(Credit)/charge to income statement (restated)*	(35.9)	29.7	2.8	0.4	(3.0)
Prior year adjustment:					
– Charge/(credit) to income statement	3.5	–	–	(3.4)	0.1
Credit to other comprehensive income	–	–	(0.4)	–	(0.4)
At 1 April 2024 (restated)*	706.5	(258.9)	(23.1)	(50.6)	373.9
(Credit)/charge to income statement	(27.4)	32.5	4.0	0.3	9.4
Prior year adjustment:					
Charge/(credit) to income statement	0.2	–	–	–	0.2
Credit to other comprehensive income	–	–	6.9	–	6.9
At 31 March 2025	679.3	(226.4)	(12.2)	(50.3)	390.5

* The prior year has been restated to reflect a correction to the methodology for calculating the interest capitalisation rate. Please refer to note 1 for further information.

** Other timing differences include claims as a result of available super deductions plus other small, short-term differences relating to provisions and deferred income.

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2025 £m	2024 (Restated)* £m
Deferred tax liabilities	679.3	706.5
Deferred tax assets	(288.9)	(332.6)
	390.5	373.9

* The prior year has been restated to reflect a correction to the methodology for calculating the interest capitalisation rate. Please refer to note 1 for further information.

Notes to the financial statements continued

For the year ended 31 March 2025

24 Retirement benefit obligations

The deficit associated with retirement benefit obligations has increased to £48.9 million (2024: £78.0 million). The decrease in the deficit over the year is principally due to the increase in AA corporate bond yields, which leads to a higher discount rate and therefore a lower value of liabilities, contributions paid by the company over the year, a reduction in expected future inflation and the updated mortality assumptions, which result in lower future life expectancy compared to the previous disclosures. This has been offset to a lesser extent by lower than assumed returns on scheme assets, in part due to the negative impact on the LDI funds of increasing yields, resulting in a lower value of the scheme assets, and higher than expected inflation over the year.

Pension schemes operated

The company principally operates one defined benefit pension scheme (final salary) and one defined contribution scheme, details of which are shown below:

1. Southern Water Pension Scheme (SWPS), a funded defined benefit scheme, was closed to new members on 31 December 1998, reopened in July 2003 and closed once more to new entrants on 1 April 2005. This scheme has one professional Trustee. The Southern Water Services Executive Pension Scheme (SWEPS) was also closed to new entrants and merged with the SWPS on 1 April 2005.

The scheme closed to accrual with effect from 31 March 2020.

The Trustee is responsible for administering the fund which is held separately from the company. Legal and General and BlackRock are unit registrars for SWPS unit holdings, and appoint custodians at individual pooled fund level (not client holding level). The directors of SWS are responsible for setting the accounting assumptions for the fund for inclusion in these financial statements.

As part of the company's interactions with both the Trustee and, when required, The Pensions Regulator, the company looks to agree a long-term funding and risk management strategy for the pension liability. Following on from regular dialogue with the Trustee, and discussions and correspondence with The Pensions Regulator regarding the deficit, the Board agreed a long-term funding solution for the scheme in 2018.

The main risks of the scheme are as follows:

- (a) Asset volatility:

For the purpose of setting the contribution requirements, the calculation uses a discount rate set with reference to government bond yields, with allowance for additional returns to be generated from the investment portfolio – whereas under FRS 101, the defined benefit obligation is calculated using a discount rate set with reference to corporate bond yields.

The schemes hold a significant proportion of their assets in growth assets. The returns on these assets may be volatile and are not correlated to the value placed on the liabilities. This means that the deficit may be volatile in the shorter term, which may result in an increase in the contribution requirements and an increase in the net defined benefit liability recorded on the statement of financial position.

However, the company believes that return-seeking assets offer an appropriate level of return over the long term for the level of risk that is taken. Furthermore, the scheme's other assets are well-diversified by investing in a range of asset classes, including liability driven investments, government bonds and corporate bonds.

- (b) Changes in bond yields:

A fall in bond yields increases the value placed on the liabilities for reporting purposes and for setting the company's contribution requirements. However, in this scenario the scheme's investment in corporate and government bonds is expected to increase and therefore offset some of the increase in the value placed on the liabilities.

- (c) Life expectancy:

The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the scheme's liabilities. This is particularly significant where the longer duration and inflation-linked nature of the payments result in higher sensitivity to changes in life expectancy. The scheme does not contain a hedge against increases in future life expectancy.

- (d) Inflation risk:

The majority of the scheme's benefit obligations are linked to inflation and higher outturn inflation will lead to a higher benefit obligation (although in most cases caps on the level of inflationary increases are in place to protect the plan against extreme inflation). The majority of the scheme's assets do not provide a direct hedge against changes in inflation as they are either fixed-interest in nature e.g. corporate bonds and government bonds, or have an indirect link to inflation, e.g. equities.

Notes to the financial statements continued

For the year ended 31 March 2025

24 Retirement benefit obligations continued

2. A second company stakeholder scheme, which is a defined contribution scheme, is available to all employees.

Contribution payments made to the defined contribution scheme for the year ended 31 March 2025 amounted to £20.5 million (2024: £17.0 million). At the balance sheet date, no contributions were outstanding for payment (2024: £1.5 million).

Members of all schemes receive an annual statement of their accrued benefits.

The latest actuarial valuation of the SWPS was carried out as at 31 March 2022 using the projected unit method. For closed schemes under this method, the current service cost will increase as the members of the schemes approach retirement.

The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on investments, and the level of inflation, which drives pension increases in the SWPS.

The principal assumptions in the valuation were as follows:

	2022 SWPS % per annum
Discount rate	Fixed interest gilts curve + 65 bps
Pension increases on the excess over guaranteed minimum pensions (where capped at 5% per annum)	In line with RPI assumption (uncapped), with an allowance for the impact of the floor calculated using the Black formula and assuming an inflation volatility of 2% per annum

The assets of the scheme had a market value of £779.8 million at 31 March 2022. This was sufficient to cover 78.9% of the scheme's benefits. The weighted average duration of the scheme liabilities is 13 years.

As there were insufficient assets to cover the scheme liabilities at the valuation date, the Trustee and the company are required to agree a recovery plan. The Trustee and company have agreed that this shortfall should be removed by the payment of a series of deficit contributions. The timing and quantum of future contributions in relation to the deficit were agreed with the Trustee and Pensions Regulator, and updated on 14 March 2023.

The first payment was made in November 2018 and payments up to 1 April 2021 totalled £69.1 million. On 31 March 2022 the company made an additional one-off lump-sum deficit contribution of £59.6 million into the SWPS covering the 1 April 2022 contribution under the previous Schedule of Contributions of £20.6 million plus a further prepayment of £39.0 million in relation to deficit contributions due in future years under (a) and (b) below.

Updated future deficit contributions have been agreed as follows:

- (a) From 2023 to 2029 (annual contributions): £21.0 million per annum increased to the relevant payment year in line with the actual increase in RPI between December 2022 and the December immediately prior to the relevant payment year.
- (b) Plus, an additional £500,000 per annum from 2023 to 2028 (inclusive), which, together with the equivalent amounts paid since 2018, is recognised as an advance on part of the deficit contribution due in 2029. Accordingly, the deficit contribution payable in 2029 will be reduced by £5.5 million from the amount otherwise calculated under (a) above.

The base deficit contributions (before adjustment for RPI) outlined in (a) and (b) above, and offset where relevant by the £39.0 million prepayment also described above, are payable by 1 April of the relevant year and total £105.3 million. If the assumptions documented in the scheme's Statement of Funding Principles dated 14 March 2023 are borne out in practice, the deficit will be removed by 1 April 2029.

In April 2024, the company made a payment of £5.0 million being the balance remaining due after taking into account the prepayment made in April 2022.

Following discussions with the Trustee, and while the latest triennial valuation is being undertaken, the company is making the deficit recovery payments previously agreed for 2025–26 by monthly instalments into a Reservoir Trust. It is anticipated that a revised deficit recovery plan will be agreed with the Trustee following completion of the valuation.

The High Court's June 2023 ruling in Virgin Media Limited -v- NTL Pension Trustees has potentially cast doubt on the validity of previous amendments made to pension scheme rules. Following a high level legal review of the amendments made to the SWPS over the period 6 April 1997 to 5 April 2016 the company does not consider there to be any changes to the scheme's governing documentation in relation to the benefit structure which could cause a material liability in light of the Virgin Media case. The disclosures are based on the assumption that all scheme documents were validly implemented.

Notes to the financial statements continued

For the year ended 31 March 2025

24 Retirement benefit obligations continued

IAS 19 – assumptions, asset, liability and reserves disclosures

The company has employed an independent actuary to approximately update this valuation allowing for differences between the actuarial assumptions used by the scheme for funding purposes and those adopted by the company to measure the scheme's liabilities in the financial statements, as well as adjusting for benefit accrual and benefits paid by the scheme.

The major assumptions used by the actuary are set out in the table below:

	2025 % per annum	2024 % per annum
Price inflation (RPI)	3.16	3.30
Price inflation (CPI)		
- RPI less 1% per annum up to 2030	2.16	2.30
- Equal to RPI after 2030	3.16	3.30
Rate of increase of pensions in payment:		
- MIS* members only***	2.16 [#]	2.30 [#]
- Old section** members only***	3.16	3.30
- New section and ex-FSLP (RPI max 5%)***	3.00	3.10
- Post-5 April 1988 GMP (CPI max 3%)***	1.84 [#]	1.90 [#]
- All sections post-31 March 2013 service (RPI max 2.5%)***	2.02	2.05
Rate of increase for deferred pensions:		
- MIS* members only***	2.16 [#]	2.30 [#]
- Old section** members only***	3.16	3.30
- New section and ex-FSLP (RPI max 5%)***	3.16	3.30
- All sections post-31 March 2013 service (RPI max 2.5%)***	2.50	2.50
Discount rate	5.66	4.75

* MIS refers to the Southern Water Mirror Image Pension Scheme. Pensions in payment and deferment for this section will be indexed in line with the Consumer Price Index.

** For this section the Trustee will endeavour to meet any indexation of excess pension above the 5% per annum cap on increases that apply to other sections of the scheme.

*** Pension increase assumptions allow for caps and floors, where appropriate, based on a statistical model (the Black Scholes model).

[#] Rates shown apply up to 2030. Assumed equal to RPI post 2030.

Assumptions regarding future mortality experience are set based on advice, published statistics and experience.

The base mortality tables are unchanged from 2024 and reflect the best estimate basis from the Trustees' 2022 Actuarial Funding Valuation. Improvement rates have been updated to use the latest available Continuous Mortality Investigation (CMI) model (CMI 2023) at the time of calculation, using the same smoothing factor of 7.0 and long-term improvement rate of 1.25% as used in 2024.

Assumed future life expectancy at age 65	2025 Years	2024 Years
Currently aged 45:		
Male	23.3	23.4
Female	25.7	25.6
Currently aged 65:		
Male	22.0	22.1
Female	24.3	24.2

The assets and liabilities in the scheme and the expected rates of return at 31 March 2025 and 31 March 2024 were:

	Value at 2025 £m	Value at 2024 £m
Equities	76.0	71.3
Government bonds	212.0	218.4
Non-government bonds	242.5	260.9
Cash	12.6	43.7
Total market value of plan assets	543.1	594.3
Total value of plan liabilities	(592.0)	(672.3)
Accrued deficit in the plan	(48.9)	(78.0)
Related deferred tax asset	12.2	14.8
Net retirement benefit obligations	(36.7)	(63.2)

Notes to the financial statements continued

For the year ended 31 March 2025

24 Retirement benefit obligations continued

The equity investments and bonds which are held in plan assets are quoted and are valued at the current bid price. The equity holding quoted includes a number of small holdings in other return seeking assets (such as hedge funds, DGF, etc). The government bond and cash allocation set out above includes £211.3 million held in a liability-driven-investment (LDI) portfolio to mitigate interest rate risks arising from the liabilities.

Reconciliation of the present value of the scheme liabilities	2025 £m	2024 £m
At 1 April	672.3	685.8
Past service cost	–	–
Interest expense	31.1	31.1
Experience loss on liabilities	2.4	11.8
Actuarial gain on liabilities:		
– due to changes in demographic assumptions	(0.4)	(13.5)
– due to changes in financial assumptions	(74.7)	(7.3)
Benefits paid	(38.7)	(35.6)
Scheme liabilities at 31 March	592.0	672.3

Sensitivity analysis of the scheme liabilities

The sensitivity of the present value of the scheme liabilities to changes in the major assumptions used is set out below:

	Change in assumption	Impact on scheme liabilities £m
Discount rate	+0.1% p.a.	(6.8)
	–0.1% p.a.	7.0
Price inflation (RPI measure)*	+0.1% p.a.	5.3
	–0.1% p.a.	(5.2)
Life expectancy	+1 year	21.2
	–1 year	(20.4)

* These movements have been calculated assuming that changes in the inflation assumption affect all inflation-linked assumptions.

The above sensitivity analysis illustrates the impact expected to be seen from reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Reconciliation of the value of the scheme assets	2025 £m	2024 £m
At 1 April	594.3	612.8
Interest income	27.5	27.7
Return on assets less than discount rate	(45.0)	(10.6)
Employer contributions	5.0	–
Benefits paid	(38.7)	(35.6)
Bid value of scheme assets at 31 March	543.1	594.3

The net return on scheme assets was a loss of £17.5 million (2024: gain of £17.1 million).

Total cost recognised as an expense	2025 £m	2024 £m
Past service cost	–	–
Net interest cost	3.6	3.4
Total income statement expense before deduction for tax	3.6	3.4

Analysis of the amounts recognised in other comprehensive income	2025 £m	2024 £m
Loss due to liability experience	2.4	11.8
Gain due to changes in demographic assumptions	(0.4)	(13.5)
Gain due to changes in financial assumptions	(74.7)	(7.3)
Return on plan assets greater than discount rate	45.0	10.6
Total loss recognised in OCI before adjustment for tax	(27.7)	1.6

The cumulative amount of actuarial losses recognised in other comprehensive income is £241.5 million (2024: £269.2 million).

Notes to the financial statements continued

For the year ended 31 March 2025

24 Retirement benefit obligations continued

	2025 £m	2024 £m
Analysis of the movement in the scheme deficit during the year		
Deficit in the scheme at 1 April	(78.0)	(73.0)
Employer's contributions	5.0	–
Employer's past service cost	–	–
Financing charge	(3.6)	(3.4)
Actuarial gain/(loss)	27.7	(1.6)
Deficit in the scheme at end of year	(48.9)	(78.0)

25 Regulatory settlement liability

	2025 £m	2024 £m
At 1 April	28.5	55.6
Settlements in year	(28.5)	(27.4)
Reassessment of provision for changes in future inflation estimates	–	0.3
At 31 March	–	28.5

	2025 £m	2024 £m
Included in:		
Current liabilities	–	28.5
Non-current liabilities	–	–
	–	28.5

In 2018–19 Ofwat concluded its investigation in relation to the management, operation and performance of the company's wastewater treatment works. That investigation resulted in Ofwat taking enforcement action. Ofwat issued Southern Water with a financial penalty amounting to £3.0 million as published on its website. To ensure that customers are not disadvantaged as a result of these matters, the company agreed to make direct customer rebates totalling £122.9 million in 2017–18 prices over the period 2020–25, reflecting the seriousness of the breaches identified in the investigation. These amounts have been provided for in the financial statements at outturn prices and were reassessed each year to account for the impact of inflation. The provision was fully released in the year to 31 March 2025.

The final profile of release was as follows:

Year ending:	2020–21	2021–22	2022–23	2023–24	2024–25	Total
AMP6 Bill Rebate (2017–18 CPI real)	33.54	22.33	22.33	22.33	22.33	122.86
Inflation	2.21	1.60	2.70	5.05	6.19	17.75
Provision (nominal)	35.75	23.93	25.03	27.38	28.52	140.61

The company has given a number of formal undertakings to Ofwat in relation to the numerous measures that have been put in place and are being put in place to ensure that the issues identified in the investigation have ceased and cannot be repeated.

26 Provisions for liabilities

	Environmental obligations £m	Other £m	Total £m
Balance 1 April 2023	5.5	–	5.5
Utilised in year	(0.6)	–	(0.6)
Increase in year	–	–	–
Balance 1 April 2024	4.9	–	4.9
Utilised in year	(1.5)	–	(1.5)
Increase in year	–	2.0	2.0
Balance at 31 March 2025	3.4	2.0	5.4

	2025 £m	2024 £m
Included in:		
Current liabilities	3.8	1.8
Non-current liabilities	1.6	3.1
	5.4	4.9

The environmental provision relates to management's best estimate for the decommissioning of abandoned sites and environmental commitments made for ecology work following the South Hampshire abstraction inquiry for the period up to 2030. No reimbursement is expected.

Notes to the financial statements continued

For the year ended 31 March 2025

26 Provisions for liabilities continued

Environment Agency

Prosecution proceedings have been commenced by the EA in relation to various events at Margate and Broadstairs that took place during a three-year period between 2019 and 2021. There are 13 charges covering both sites, some of which are 'specimen' charges and only some of which are for categorised pollution events. At a court appointment on 22 April 2025 the company pleaded guilty to the charges, although two of these remain in dispute. The sentencing hearing is not expected to take place until 2026. There is a very wide range of possible outcomes which reflects the general level of uncertainty at this time, the disputed levels of culpability and environmental harm (both being amongst a number of key criteria that the court uses to help determine the level of the fine), the extent of the applicability of the Sentencing Council's Guidelines for Environmental Offences to the company which vary very widely, and their timing. Further, as the company is a Very Large Organisation (as defined in the Sentencing Council's Guidelines), there is a requirement for the court to examine the financial circumstances of the organisation in the round. However, the company does recognise that there will be a probable liability associated with the matter and has therefore recognised a provision of £2.0 million reflecting an amount for possible fines and an allowance for legal costs. The court has a very broad discretion to assess how a fine is assessed and the level of fine imposed, and the provision the company has made is not intended to indicate or predict any particular level of fine. The Board will continue to review the level of provision made as more information becomes available.

27 Other non-current liabilities

	Grants & contributions £m	Deferred revenue £m	Total £m
Balance at 1 April 2024	32.1	11.6	43.7
Increase in year	6.7	–	6.7
Released to income statement	(1.5)	(0.3)	(1.8)
Balance at 31 March 2025	37.3	11.3	48.6

Grants and contributions received relate to property, plant and equipment.

Deferred revenue of £11.3 million (2024: £11.6 million) relates to the proceeds from the sale of income rights relating to aerial masts and sites owned by SWS. The income will be credited to the income statement evenly over the life of the lease.

28 Called-up share capital

	2025 £000	2024 £000
Equity shares		
Authorised: 46,050,000 ordinary shares of £1 each	46,050	46,050
Allotted and fully paid: ordinary shares of £1 each		
At 1 April	37,612	112
Issued for cash	–	37,500
At 31 March	37,612	37,612
	2025 £000	2024 £000
Non-equity shares		
Issued: preference shares		
64,665 (2024: 64,665) Class B shares of £1 each	65	65

In the prior year, on 19 October 2023, 37,500,000 ordinary shares with an aggregate nominal value of £37.5 million were issued at £10 each to SWS Holdings Limited. The premium arising on issue amounted to £337.5 million and is shown net of costs of issue of £5.8 million in note 29.

The redeemable preference shares are presented as a liability (see note 20) at an amount of £64.7 million (2024: £64.7 million), including share premium of £64.6 million (2024: £64.6 million), and, accordingly, are excluded from called-up share capital in the balance sheet. The total statutory company share premium of £833.8 million (2024: £833.8 million) includes ordinary share premium of £769.2 million (2024: £769.2 million).

29 Share premium account

	2025 £m	2024 £m
Equity share premium		
At 1 April	769.2	437.5
Issued for cash	–	331.7
Balance at 31 March	769.2	769.2

In the prior year, on 19 October 2023, 37,500,000 ordinary shares with an aggregate nominal value of £37.5 million were issued at £10 each to SWS Holdings Limited. The premium arising on issue amounted to £337.5 million and is shown net of costs of issue of £5.8 million.

Notes to the financial statements continued

For the year ended 31 March 2025

30 Non-distributable reserves

	£m
Balance at 1 April 2023	94.6
Profit for the financial year	7.5
Transfer to retained earnings	(1.9)
Balance at 1 April 2024	100.2
Profit for the financial year	8.6
Transfer to retained earnings	(2.0)
Balance at 31 March 2025	106.8

Non-distributable reserves comprise the value of sewer adoptions previously recognised at fair value, deferred and amortised to the income statement over the life of the related assets. Under IFRS 15, the company recognises the fair value upon adoption, i.e. the point at which control of the asset is obtained, through profit and loss to non-distributable reserves. This reserve is released to retained earnings in line with the amortisation of the related assets.

31 Retained earnings

	£m
Balance at 1 April 2023 (restated)*	279.0
Equity dividends paid	–
Loss for the financial year (restated)*	(237.1)
Other comprehensive loss for the year	(1.2)
Transfer from non-distributable reserve	1.9
Balance at 1 April 2024 (restated)*	42.6
Equity dividends paid	–
Loss for the financial year	(107.6)
Other comprehensive income for the year	20.8
Transfer from non-distributable reserve	2.0
Balance at 31 March 2025	(42.2)

* The prior year has been restated to reflect a correction to the methodology for calculating the interest capitalisation rate. Please refer to note 1 for further information.

32 Notes to the statement of cash flows

	2025 £m	2024 £m
Operating loss	(17.4)	(72.8)
Adjustments for:		
Fair value of sewer adoptions	(8.6)	(7.5)
Depreciation of property, plant and equipment	356.4	334.2
Amortisation of intangible assets	12.1	28.6
Difference between pension charge and cash contributions	(5.0)	–
Receipt of grants and contributions	6.7	5.4
Amortisation of grants and contributions	(1.5)	(1.6)
Operating cash flows before movements in working capital	342.7	286.3
Increase in inventories	(5.4)	(3.2)
Increase in receivables	(46.3)	(23.1)
Increase in payables	8.0	15.3
Decrease in regulatory settlement liability	(28.5)	(27.1)
Increase/(decrease) in provisions	0.5	(0.6)
Cash from operations	271.0	247.6
Tax paid	–	–
Net cash from operating activities	271.0	247.6

	2025 £m	2024 £m
Cash and cash equivalents		
Cash	3.5	1.0
Short-term bank deposits	553.5	412.5
Cash and cash equivalents	557.0	413.5

Cash and cash equivalents (which are presented as a single class of assets on the face of the Statement of Financial Position) comprise cash and short-term bank deposits. The carrying amount of these assets is equal to their fair value.

Notes to the financial statements continued

For the year ended 31 March 2025

32 Notes to the statement of cash flows continued

The table below details changes in liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities.

Analysis of net debt (including changes in liabilities from financing activities)	Cash and cash equivalents £m	Net interest rate swaps (note 22) £m	Index-linked loans (note 20) £m	Lease liabilities (note 20, note 21) £m	Term facilities (note 20) £m	Loans from subsidiary (note 20) £m	Term facilities (note 20) £m	Net debt £m
At 1 April 2024	413.5	(1,568.8)	(39.6)	(34.1)	(13.0)	(4,819.0)	(64.7)	(6,125.7)
Cash flow changes	143.5	(89.8)	21.3	5.3	(350.0)	(411.0)	–	(680.7)
Fair value adjustments	–	170.6	(1.1)	–	–	(50.4)	–	119.1
Net new/disposed leases	–	–	–	(12.9)	–	–	–	(12.9)
Other non-cash changes	–	–	–	–	–	(2.6)	–	(2.6)
At 31 March 2025	557.0	(1,488.0)	(19.4)	(41.7)	(363.0)	(5,283.0)	(64.7)	(6,702.8)

Other non-cash changes to loans from subsidiary of £2.6 million relate to £1.5 million of loan issue cost accrual releases plus £1.1 million relating to amortisation of loan issue costs, bond premium, and gilt-lock proceeds.

Balances at 31 March 2025 comprise:	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total £m
Cash and cash equivalents	–	557.0	–	–	557.0
Derivative financial instruments	129.2	–	–	(1,617.2)	(1,488.0)
Unamortised debt issuance costs	–	–	1.5	2.7	4.2
Gilt-lock proceeds	–	–	(0.1)	(3.9)	(4.0)
Borrowings due within one year	–	–	(365.0)	–	(365.0)
Borrowings due after one year	–	–	–	(5,365.3)	(5,365.3)
Leases	–	–	(6.0)	(35.7)	(41.7)
Net debt	129.2	557.0	(369.6)	(7,019.4)	(6,702.8)

Borrowings due within one year relate to amounts that are repayable on demand or within 12 months of the balance sheet date (see note 20).

Cash and cash equivalents (which are presented as a single class of assets on the face of the statement of financial position) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less, and excludes cash on deposit with a maturity of more than three months from the date of acquisition which are shown as current asset investments in the statement of financial position.

Notes to the financial statements continued

For the year ended 31 March 2025

33 Contingent liabilities

The company has continued to assist the Environment Agency (EA) in its investigation into legacy issues relating to wastewater sampling compliance for the period 2013 to 2017. The investigation stage has now concluded, and charges against the company are expected, probably sometime later this year. Any court proceedings are not anticipated to conclude for several years. At this time, it is not possible to reliably predict when any court case will commence, how the company will plead to the charges when received, nor how the court would eventually deal with the environmental sentencing criteria including culpability, harm, mitigating and aggravating factors, and the company's financial position, especially as the subject matter is unique and does not relate to categorised pollution events, so there is a lack of similar precedents. Further, as the company is a Very Large Organisation (as defined in the Sentencing Council's Guidelines), there is a requirement for the court to examine the financial circumstances of the organisation in the round. The matter would likely take several years to get to a final hearing. In the circumstances, the Board, supported by external legal advice, has concluded that it is not yet possible to make a reliable estimate for the obligations that will arise from this matter.

In November 2021 the Environment Agency and Ofwat launched an investigation into sewage treatment works belonging to all combined water and wastewater companies in England and Wales. Ofwat has opened enforcement cases into all the other combined water and wastewater companies. Southern Water is not, however, subject to that enforcement. However, we remain subject to Ofwat's ongoing investigation as they continue to review the information they have gathered and the company remains subject to the enforcement provisions of the undertakings signed in October 2019.

All combined water and wastewater companies remain subject to the ongoing EA investigation.

As the investigations are ongoing, and as neither the EA nor Ofwat have stated what their intentions are so far as the next steps in the investigation as it relates to the company are concerned, the Board has concluded that it is not yet possible to make a reliable estimate of any financial obligation that may arise from these investigations, nor their timing (which could be several months or years), but will keep the situation under review.

In December 2023, Southern Water Services experienced a criminal cyber attack. The incident involved the theft of data from the company's IT systems, including personal data of a small proportion of Southern Water's customers and current and former employees. The quantum and value of any claims or penalties that may arise because of this cyber

incident remains uncertain. The Board has therefore concluded that it is not yet possible to make a reliable estimate for any financial obligation that may arise, nor for the timing of any outflow. As a result, no provision has been made in the financial statements.

In addition to the matters stated above, companies of the size and scale of Southern Water Services Limited are sometimes subject to civil claims, disputes and potential litigation. The directors consider that, where a liability is probable, and where it is possible to be estimated reasonably, an appropriate position has been taken in reflecting such items in these financial statements.

Contractors submit claims to the company for the estimated final cost of their works. These claims are reviewed to assess where the liability for the costs rests and the amount that will actually be settled. The expected amount is included within capital creditors and a further sum is identified as a contingent liability, representing a proportion of the difference between the contractor's claim and Southern Water Services Limited's valuation.

The company had no contingent liabilities for capital claims at the period end (2024: £nil).

34 Financial commitments

(a) Capital commitments are as follows:

	2025 £m	2024 £m
Contracted for but not provided for in respect of contracts placed in respect of property, plant and equipment	753.3	1,089.7
Contracted for but not provided for in respect of contracts placed in respect of intangible assets	1.2	8.9
Right to receive water from Portsmouth Water Limited ¹	2,563.0	658.0

¹ In February 2021, the company entered into a contractual arrangement with Portsmouth Water Limited (Portsmouth Water), under which after constructing the reservoir, and Southern Water have laid a pipe, Portsmouth Water will supply Southern Water with 21 million litres of water a day as part of the development of the Havant Thicket Reservoir in Portsmouth Water's supply area. The contract runs for the period from 2021 to 2100 and comprises fixed capacity charge payments as well as volumetric charges for the water to be supplied. The present value of the fixed contractual payments, which total £2,563.0 million (2024: £658.0 million) over the period to 2100, using a discount rate of 6.53% (2024: 4.98%), being the nominal return on capital allowed per the PR24 (2024: PR19) Final Determination, is £427.7 million at 31 March 2025 (2024: £144.2 million). The volumetric charge will be recognised as water is supplied.

Notes to the financial statements continued

For the year ended 31 March 2025

34 Financial commitments continued

(b) The company as lessee

	2025 £m	2024 £m
Lease payments under operating leases recognised as an expense in the year	5.5	5.6

As at 31 March 2025 and 2024, the company had no outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of vehicles and land and buildings.

Operating leases are charged to the income statement over the lease term and comprise short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (£5,000 or less).

35 Related party transactions and ultimate controlling party

The immediate parent undertaking is SWS Holdings Limited.

At 31 March 2025 the ultimate parent company and ultimate controlling party is Greensands Holdings Limited (GHL), a company incorporated in Jersey, which is the parent undertaking and controlling party of the smallest, largest and only group to consolidate these financial statements. Copies of the consolidated financial statements may be obtained from the registered office of GHL at 44 Esplanade, ST. Helier, JE4 9WG, Jersey, or from the Company Secretary of SWS at Southern House, Yeoman Road, Worthing, BN13 3NX, or from the Southern Water website. See note 36 for change to the ultimate parent company and ultimate controlling party.

MSCIF Wight Bidco limited, as the major shareholder in GHL, is considered to be a related party of the company as they have the ability to influence the financial and operating policies of both the company and the group. Other related parties comprise key management personnel.

The company has taken advantage of the exemption under FRS 101 'Reduced Disclosure Framework' in not disclosing details of transactions with other companies which are 100% wholly owned. Equivalent disclosures are given in the group financial statements of GHL.

36 Post balance sheet events

The company has been undertaking activities, subsequent to the balance sheet date, to improve its financial resilience. These are summarised below:

On 1 April 2025 Southern Water made changes to some of its financial derivatives. The break clause in a swap with a notional value of £92.1 million was extended from November 2025 to June 2026 and accretion payments due in March 26 associated with various swaps were extended to June 2026. On the same date Southern Water agreed an £800.0 million committed facility, providing additional liquidity.

On 1 July 2025, Southern Water announced that it had secured an offer of equity support from a consortium led by funds managed by Macquarie Asset Management to support its AMP8 investment programme, comprising a legally binding equity commitment of £655 million (the "Initial AMP8 Equity Commitment") provided on the terms of an equity commitment letter and confirmation of intent to provide further equity commitments of up to a further £545 million - and with a minimum of £245 million - by December 2025.

On 4 July 2025, Sandstone Bidco Limited acquired the issued share capital of Greensands Junior Finance Limited and Southern Water (Greensands) Financing plc from Greensands (UK) Limited, becoming the new ultimate indirect UK holding company of Southern Water, replacing Greensands Holdings Limited, the previous ultimate UK holding company.

On 8 July 2025, SWS announced that it had entered into a lock-up agreement with financing creditors of the SWS group representing more than 72% by value of the Class A indebtedness in support of certain proposals, including the ratings event of default amendment, (being one of the key conditionalities of the Initial AMP8 Equity Commitment).

In addition, on 8 July 2025 Southern Water confirmed that it had arranged a further £675.0 million of committed liquidity.

Independent Auditor's Report

to the members of Southern Water Services Limited

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Southern Water Services Limited (the 'Company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2025 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of other comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows;
- the material accounting policy information; and
- the related notes 1 to 36.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Material uncertainty related to going concern

We draw attention to note 1 in the financial statements, which indicates a future downgrade to a sub investment grade rating or breach of the PMICR covenant would result in an event of default under the terms of the company's financing arrangements. Further, the company requires additional equity funding to finance the company through the going concern period, which as of the date of the report has not been committed as it is subject to the completion of a number of technical conditions. A failure to raise equity or debt funding, or significant operational under performance could lead to a potential PMICR covenant breach or ratings downgrades.

As stated in note 1, these events or conditions, along with the other matters as set forth in note 1, indicate that a material uncertainty exists which may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter. In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Obtained an understanding of relevant controls related to the directors' assessment of going concern;
- Obtained third party bank confirmation for the company's bank accounts, which confirm cash balances and borrowings, inspect facility agreements and compare to the facilities assumed in the forecasts;
- Obtained the directors' going concern assessment, including cashflow forecast, liquidity requirements and forecast covenant calculations for the going concern period and perform integrity checks including testing the mathematical accuracy;
- Assessed the forecasts used for the going concern assessment period for reasonableness and, where applicable, corroborate the data with information from other areas of the audit. We evaluated the appropriateness of key assumptions in the forecasts, and considered the historical accuracy of forecasting;
- Assessed Fitch's and Standard & Poor's credit ratings for the company of BBB- (Fitch's) and Ba1 (Standard & Poor's), with the rating from Standard & Poor's subject to a credit watch negative;
- Recalculated debt covenants and assess compliance over the forecast period, considering the most recent available credit ratings of the company to determine the impact this has on covenant compliance;

Independent Auditor’s Report continued
to the members of Southern Water Services Limited

- Challenged the reasonableness of management’s stress tests by independently modelling scenarios and challenging their data inputs to understand the impact on the company’s liquidity and covenant ratios;
- Worked with our debt advisory specialists to evaluate the company’s ability to raise additional debt and equity considering investors’ appetite in financing the water industry;
- Assessed the impact of potential fines from ongoing regulatory investigations on the company’s ability to continue as a going concern;
- Evaluated the mitigating actions available to the company in order to manage cashflows during the going concern period to avoid a covenant or liquidity breach;
- Performed inquiries with key stakeholders (from both within and outside of the company) including Macquarie to understand their intentions and plans for additional equity injection into the company; and
- Assessed the appropriateness of the disclosures in note 1 regarding the material uncertainty related to going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

4. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Going concern (see material uncertainty relating to going concern section); • Valuation of Expected Credit Losses (ECL) for trade receivables; • Valuation of capitalised overheads; • Valuation of derivative financial instruments; and • Litigations and claims associated with the Environmental Agency. Within this report, key audit matters are identified as follows: ! Newly identified ⬆ Increased level of risk ⬅ Similar level of risk ⬇ Decreased level of risk
Materiality	The materiality that we used in the current year was £13.0 million (2024: £11.0m), which was determined based on 3.7% (2024: 3.7%) of Earnings before interest, tax, depreciation and amortisation ('EBITDA').
Significant changes in our approach	In the current year, we have identified litigations and claims associated with the Environment Agency ("EA") as a key audit matter due to judgements and complexity involved in determining whether a reliable estimate can be made with respect to a provision and the risk the disclosure provided by the company is not complete and accurate as required by IAS 37. We have refined the key audit matter relating to valuation of ECL for trade receivables in the current year, to include only the provision not based on statistical modelling (referred to as "non-SPSS"). The element of the provision based on statistical modelling involves limited judgement and has been excluded from the key audit matter for the current year.

Independent Auditor's Report continued

to the members of Southern Water Services Limited

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters communicated in our report.

5.1. Valuation of Expected Credit Losses for trade receivables

Key audit matter description



The company has a significant domestic customer base and due to regulation, it is not allowed to interrupt water supply, including in the event of non-payment. A proportion of its customers do not or cannot pay their bills, which results in the need for a provision to be made for non-payment of the customer receivables balance. Approximately 65% of the ECL provision is calculated using a Statistical Package for the Social Sciences (SPSS) analytical model which leverages historical data on cash collections, billings, and write-offs to determine the provision. This SPSS model involves limited judgement, however the computation of remaining ECL provision involves significant estimation and judgement due to the subjective interpretation and application of historical data in forecasting future cash collection trends.

Due to the high degree of estimation uncertainty associated with the recoverability of the related customer debt we consider the valuation of non-SPSS based expected credit loss provision to be a key audit matter.

As at 31 March 2025, the company held an ECL provision of £257.3 million (2024: £249.3 million), which was made up of SPSS based provision of £166.5 million (2024: £159.2 million), non-SPSS based provision of £86.2 million (2024: £86.2 million) and manual overlay in respect of macro-economic factors of £3.0m (2024: £4.0m) which is not addressed through current year collection rates.

We have identified a potential risk of fraud in relation to this audit matter due to the level of estimation uncertainty and its influence on key metrics which management utilise to monitor and report business performance.

Further details are included within the Audit Committee report on page 171, critical accounting estimates and judgements (note 2) and in note 17 to the financial statements.

5.1. Valuation of Expected Credit Losses for trade receivables

How the scope of our audit responded to the key audit matter



We have:

- obtained an understanding of the relevant controls around the determination of the ECL provision, including over the supporting data and assumptions;
- evaluated the model used to calculate the provision and assessed its consistency with prior years;
- utilised data analytics to recalculate, using the data inputs, the provision computed by the SPSS provisioning model;
- tested the completeness and accuracy of the data used in the provisioning model;
- evaluated the valuation of the provision balance through assessing the reasonableness of the provisioning rates using historical trends and checking for consistency with FY24;
- evaluated the completeness of the provision by testing cash received in the current year against the billing and budgets;
- assessed if the debtors have been allocated to the correct ageing bucket;
- tested a sample of cash collections to third party evidence;
- evaluated the reasonableness of economic data (both forecast and historical), including cash collection assumptions used within the calculation, and performed a sensitivity analysis;
- performed stand back assessment to ensure that all the evidence supporting and contradicting management's position are considered;
- inquired of management the impact of the increases in bills as per the final determination and evaluated the methodology of the provision in response.
- considered external macroeconomic data and engaged our specialists in the Economic Consulting Group to understand macro-economic factors such as Real Household Disposable Income reports, as well as employment, inflation, interest rate trends to assess the potential impact on the provision held;
- assessed the overall bad debt provision and overlay adjustment by benchmarking against peer companies and reviewing post year end cash collection performance; and
- assessed the disclosures provided regarding the key sources of estimation uncertainty, and sensitivities disclosed.

Key observations



We are satisfied that the company's methodology for assessing the non-SPSS based expected credit losses on trade receivables and related disclosures are reasonable and appropriate in accordance with IFRS 9: Financial Instruments. We consider the amount of non-SPSS based ECL provision recognised on trade receivables as of 31 March 2025 to be reasonable.

Independent Auditor’s Report continued
to the members of Southern Water Services Limited

5.2. Valuation of capitalised overheads

Key audit matter description 	The company has a substantial capital programme which was agreed with the regulator (‘Ofwat’) and therefore incurs significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure renewal and replacement. Financial year 2025 was the fifth and final year of AMP7 agreed with Ofwat, with property, plant, and equipment additions of £970.4 million (2024: £811.5 million) in the year, which includes £97.6 million (2024: £74.2 million) of capitalised overheads.
	Expenditure incurred to increase the capacity or enhance the network is treated as capital expenditure (“capex”) and expenditure incurred in maintaining the operating capability of the network is expensed in the year in which it is incurred (“opex”). Some capital projects can contain a combination of enhancement and maintenance activity which are not distinct, and hence the allocation of costs between capital and operating expenditure is inherently judgemental and involves estimation in determining the proportion of overheads that is directly attributable to relevant capital projects. This has resulted in identification of a potential risk of fraud and a key audit matter focussed on the following: • judgement in determining whether project expenditure considered for capitalisation of overheads is capital or operational in nature; and • estimation in determining the proportion of overheads that is directly attributable to relevant capital projects.
	Further details are included within the Audit Committee report on page 171, the critical accounting estimates and judgements (note 2) and in note 13 to the financial statements.

5.2. Valuation of capitalised overheads

How the scope of our audit responded to the key audit matter 	We have: • obtained an understanding of the relevant controls around the valuation of capitalised overheads and capitalisation of enhancement expenditure; • tested a sample of additions by reviewing the capital projects, inspecting supporting documents and making direct inquiries of project managers to assess whether these are classified in accordance with the nature of the cost, the company’s policies and in accordance with IAS 16 Property, Plant and Equipment (“IAS 16”); • tested the accuracy of a sample of overhead costs by inspecting underlying supporting documentation in respect of gross cost and capitalization rates applied; • assessed the appropriateness of classification of costs and obtained an understanding of material variances in gross costs from prior year; • evaluated the appropriateness of the company’s capitalisation policies and its approach to determining which costs should be capitalised, and tested whether these policies are being followed, making direct enquiries of project managers, inspecting invoices; • evaluated the estimates used in determining what cost is directly attributable to the construction of an asset and assessed the consistency of application of the method of estimation with prior year; and • assessed the appropriateness of the disclosures in accordance with the requirements of IAS 16.
Key observations 	We are satisfied that the estimation around the valuation of capitalised overheads is appropriate.

Independent Auditor's Report continued

to the members of Southern Water Services Limited

5.3. Valuation of derivative financial instruments

Key audit matter description



The company has both fixed interest rate and floating interest rate debt and the overarching aim of the inflation-linked derivative financial instruments (interest rate swaps) is to manage its exposure to inflation risk. The company measures the derivative financial instruments at fair value through profit and loss, and the fair value is determined based on quoted prices adjusted for credit risk. Credit risk is computed in line with market practice. The fair value of the derivative liabilities was £129.2 million (2024: £104.8 million) and the fair value of the derivative asset was £1,617.2 million (2024: £1,673.6 million).

Due to the significance of the balance and material fluctuations in current year resulting from external market factors, we consider the valuation of financial instruments to be a key audit matter.

We have identified a potential risk for material misstatement in the valuation of the financial instruments as the valuation requires management's judgement. Valuation of derivative financial instruments is assessed as an area involving key sources of estimation uncertainty by management and is disclosed as such in note 2 to the financial statements. Further details are included in note 22 to the financial statements.

How the scope of our audit responded to the key audit matter



We have:

- obtained an understanding, of the relevant controls around valuation of financial instruments;
- obtained the derivatives financial instruments valuation prepared by management's expert and involved our internal financial instruments specialists to recalculate the risk-free valuation of the derivative financial instruments;
- obtained independent confirmations from external counterparties and contracts to confirm the existence and terms of all derivative contracts held. Where confirmations were not obtained, alternative audit procedures were performed to confirm existence and terms;
- challenged the credit risk adjustment through determining an independent range for the credit risk adjustment and assessing whether company's adjustment is within a reasonable range;
- performed inquiries and discussions with management and their expert to understand and challenge assumptions, data and method used for valuation of derivatives; and
- assessed the appropriateness of the disclosures in accordance with the requirements of IFRS 9: Financial Instruments, IFRS 17: Financial Instruments: Disclosures and IFRS 13: Fair Value Measurement.

5.3. Valuation of derivative financial instruments

Key observations



We are satisfied that company's valuation of derivative financial instruments is appropriate.

5.4. Litigations and claims associated with Environmental Agency

Key audit matter description



The Company is subject to various ongoing investigations by the Environment Agency (EA) concerning historical non-compliances with laws and regulations. These investigations are at various stages of completion, and the potential outcomes, including the likelihood and quantum of any financial penalties or remediation costs, remain uncertain. For each matter, the Company must assess whether there is a present obligation as a result of a past event, the probability that an outflow of economic resources will be required and whether a reliable estimate can be made in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. This assessment determines the accounting treatment as either a provision, contingent liability or neither. Where a provision is recognised, management considers all available information in order to estimate the provision, including estimates and advice provided by external legal counsel and historic experience.

Given the judgements and complexity involved in determining whether a reliable estimate can be made with respect to a provision and the risk the disclosure provided by the company is not complete and accurate as required by IAS 37, we consider litigations and claims associated with EA a key audit matter.

Further details are included within the Audit Committee report on pages 171, critical accounting estimates and judgements note (note 2), Provisions for liabilities (note 26) and Contingent liabilities (note 33) to the financial statements.

Independent Auditor's Report continued

to the members of Southern Water Services Limited

5.4. Litigations and claims associated with Environmental Agency

How the scope of our audit responded to the key audit matter



We have:

- obtained an understanding of the relevant controls over the litigation and claims process;
- obtained and reviewed relevant recent correspondence with the EA;
- performed enquiries of management and external legal counsel regarding the status and views on the EA investigations and the charges announced so far;
- evaluated the competence, capabilities and objectivity of external lawyers, performed direct enquiries and read documentation received to understand their views and position in regard to the EA investigations and charges;
- assessed whether there are any industry or legal precedents that were applicable in forming the judgements applied to identify potential inconsistencies;
- challenged management on the accounting assessment in accordance with IAS 37 and considering the determination of a probable outflow against precedent cases for similar matters, advice from legal counsel, the accounting assessment for each EA matter and the impact of the EA matter on the going concern assessment and disclosures in the financial statements; and
- assessed the completeness and accuracy of the disclosures made by the company in respect of the regulatory matters.

Key observations



We are satisfied the assessment of EA investigations and related disclosures are appropriate and in accordance with the requirements of IAS 37.

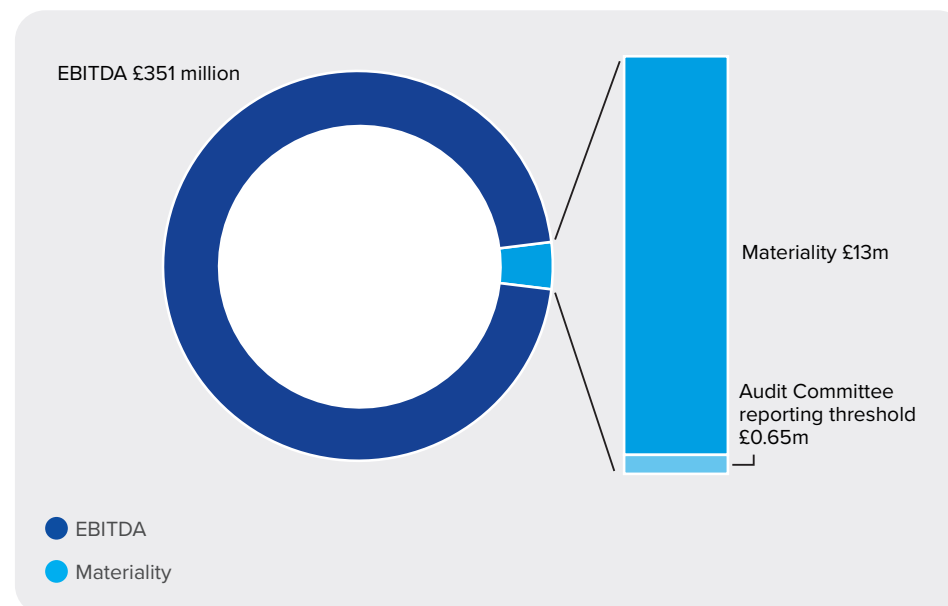
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£13.0 million (2024: £11.0 million)
Basis for determining materiality	3.7% of EBITDA (2024: 3.7% of EBITDA)
Rationale for the benchmark applied	EBITDA is used as a basis for determining materiality as this excludes the volatility of a significant one-off item and focuses on underlying operational performance.



Independent Auditor's Report continued

to the members of Southern Water Services Limited

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 60% of materiality for the 2025 audit (2024: 60%). In determining performance materiality, we considered the following factors: the impact of our ability to rely on general IT controls, history of prior year errors, management's willingness to make process improvements as well as to correct errors identified.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.65 million (2024: £0.55 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

7.2. Our consideration of the control environment

The company uses SAP, a financial accounting software platform. With the involvement of our Information Technology specialists, we obtained an understanding of relevant General Information Technology Controls ('GITCs') within the company's financial accounting software platform, including access controls, change management controls and controls around segregation of duties.

Additionally, we have obtained an understanding of manual key controls relevant to the audit as documented in the key audit matters section 5 above. Our audit for the period identified a number of control deficiencies, including access controls, precision of management review controls and controls around posting of manual journals. As described in the Corporate Governance section on page 173, the Board has commenced a review of the company's internal controls and asked management to remediate the deficiencies.

As a result of the deficiencies in IT controls and the business process controls summarised above, we extended the scope of our substantive audit procedures in response to the identified deficiencies and performed our audit placing no reliance on controls.

7.3. Our consideration of climate-related risks

Management prepared a climate change business risk assessment demonstrating that the company is exposed to the climate change in various areas including business disruption, brand and reputation and legal and regulatory. We reviewed management's climate change risk assessment and evaluated the completeness of the identified risks and impact on the financial statements, including relevant disclosures – see note 2 of the financial statements. We also considered climate change within our audit risk assessment process in conjunction with our assessment of the balances and did not identify any additional risks of material misstatement.

As part of our procedures, we obtained an understanding of the processes and controls around the climate change related risks identified and additionally with the involvement of our Environmental, Social and Governance ("ESG") specialists. We also evaluated financial statements disclosures and annual report's front half disclosures, including CFD disclosures, to assess whether climate change assumptions underpinning specific account balances were appropriately disclosed. Additionally, we considered whether disclosures in the strategic report are materially consistent with the financial statements and our knowledge obtained in the audit.

Independent Auditor's Report continued

to the members of Southern Water Services Limited

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the company's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management, internal audit, the directors and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the company's sector;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:

Independent Auditor's Report continued

to the members of Southern Water Services Limited

- (i) identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance.
 - (ii) detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud.
 - (iii) the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, financial instruments, pensions, fraud, debt advisory, economic consulting group, ESG and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in relation to valuation of expected credit loss ("ECL") provision for trade receivables and valuation of capitalised overheads. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included the company's operating licence conditions imposed by The Water Services Regulation Authority (Ofwat).

11.2. Audit response to risks identified.

As a result of performing the above, we identified the valuation of expected credit loss ("ECL") provision for trade receivables and classification of capital programme expenditure and valuation of capitalised overheads as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management the audit committee, the internal audit function, in-house and external legal counsel concerning actual and potential litigation and claims.
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, the audit committee, reviewing internal audit reports and reviewing correspondence with Ofwat, HMRC and other regulatory authorities, including the Drinking Water Inspectorate (DWI) and the Environmental Agency (EA); and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Independent Auditor's Report continued

to the members of Southern Water Services Limited

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Opinion on other matter prescribed by our engagement letter

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the company a quoted company.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

15. Use of our report

This report is made solely to the company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member as a body, for our audit work, for this report, or for the opinions we have formed.



Makhan Chahal FCA
(Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

15 July 2025

Glossary

Term	Definition
Abstraction licences	The Environment Agency issues abstraction licenses for water taken from a water source, such as a river, when more than 20 cubic metres are taken per day.
AI	Artificial Intelligence
AMP	Asset Management Plan or five-year investment period
AMR	Automatic read meters
ARP	Adaptive Reporting Power
BITC	Business in the Community is a network of businesses ...
BNG	Biodiversity Net Gain
BSI	Business for Social Impact
Business Partnership Fund	Southern Water fund supporting businesses with innovative ideas to reduce water use.
Capex	Capital expenditure
CAW	Carbon Accounting Workbook
CCCG	Customer and Communities Challenge Group
CCW	Consumer Council for Water
CHP	Combined Heat and Power
C-MeX	Customer Measure of Experience
CRI	Compliance Risk Index
CSO	Combined Sewer Overflow
Defra	Department for Environment, Food & Rural Affairs
Distribution input	The amount of clean water we put into our network.
D&I	Diversity and Inclusion
D-MeX	Developer Measure of Experience
DWI	Drinking Water Inspectorate
DWMP	Drainage and Wastewater Management Plan
EA	Environment Agency

Term	Definition
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EDM	Event Duration Monitor
Effluent	treated wastewater, which is returned to the environment.
EPA	Environmental Performance Assessment
ERM	Enterprise Risk Management
ESG	Environment, Social and Governance
ETS	Emissions Trading Scheme
EV	Electric Vehicle
FBU	Fair, balanced and understandable
FCA	Financial Conduct Authority
FD	Final Determination
FFT	Flow to Full Treatment
FRC	Financial Reporting Council
GDPR	General Data Protection Regulation
GHG	Greenhouse Gas
GRESB	Global Real Estate Sustainability Benchmark
GWh	Gigawatt hours
Ha	Hectares of land
ICEG	Independent Climate and Environment Group
IPCC	International Panel on Climate Change
LTDS	Long-Term Delivery Strategy
LTIP	Long-Term Incentive Plan
MI/d	Million litres per day
Natural capital	value derived from nature and natural resources.
ODI	Outcome Delivery Incentive
Opex	Operating expenditure

Glossary continued

Term	Definition
Outfall	Pipe that carries the treated wastewater, storm or surface water into a river or the sea.
PBIT	Profit before interest and tax
PCC	Per Capita Consumption
PCD	Price Control Deliverable
PFAS	Per- and polyfluoroalkyl substances
PR24	Price Review 2024
PSR	Priority Services Register
RCV	Regulatory Capital Value
REGO	Renewable Energy Guarantees of Origin
RMS	Risk Management Strategy
RoRE	Return on Regulated Equity
s.172	Section 172 Statement
SBT	Science-Based Target
SBTi	Science-Based Target initiative
SECR	Streamlined Energy and Carbon Reporting
SEMD	Security and Emergency Measures (Water and Sewerage Undertakers and Water Supply Licensees) Direction
SEN	Special Educational Needs
SID	Senior Independent Director
SLA	Service Level Agreement
SRO	Strategic Resource Option
SSSI	Site of Special Scientific Interest
STEM	Science, Technology, Engineering and Mathematics
SuDS	Sustainable Drainage Systems
tCO₂e	Tonnes of carbon dioxide equivalent
Totex	Total expenditure

Term	Definition
TUBs	Temporary Use Bans or hosepipe bans put in place during drought conditions.
UKCP18	UK Climate Projections 2018
UKWIR	UK Water Industry Research
WINEP	Water Industry National Environment Programme
WRMP	Water Resources Management Plan



Southern Water Services
Southern House
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