

2024/25 Group Annual Report and Financial Statements



Pure know **h₂ow**

Our Business*

We supply top quality drinking water to 2.3 million customers in the south east of England. Through our network of 9,000 miles of pipes, we deliver around 543 million litres of water every day. The skill and expertise of our colleagues ensure our customers' water meets the highest of standards.



Our Area

We operate our supply system across three operational regions:

South East Water is made up of three operating areas – the Western region, Sussex and Kent.

Each of our regions has specific characteristics, determined by different river catchments, geology, topography, ecology, land use and, importantly, history. The investment needed to maintain a resilient supply system will therefore be different in each region.



*The values quoted are for the year ended 31 March 2025

Our Vision

Our vision is to be the water company people want to be supplied by and want to work for. Everything we do is underpinned by technical excellence.

Key facts

We supply around 543 million litres of water a day

that's how much water we supply to around 2.3 million people



9,000 miles of underground pipes

that's how we get fresh drinking water direct to your tap



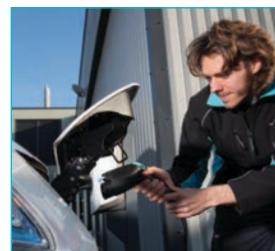
1,173 employees

that's how we make sure your water supply runs 24 hours a day, 365 days a year



198 kgCO₂e/MI

that's the level of Greenhouse gas emissions we emit across the company, to supply water to your tap



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[Find out more](#)

southeastwater.co.uk/investors

Our performance

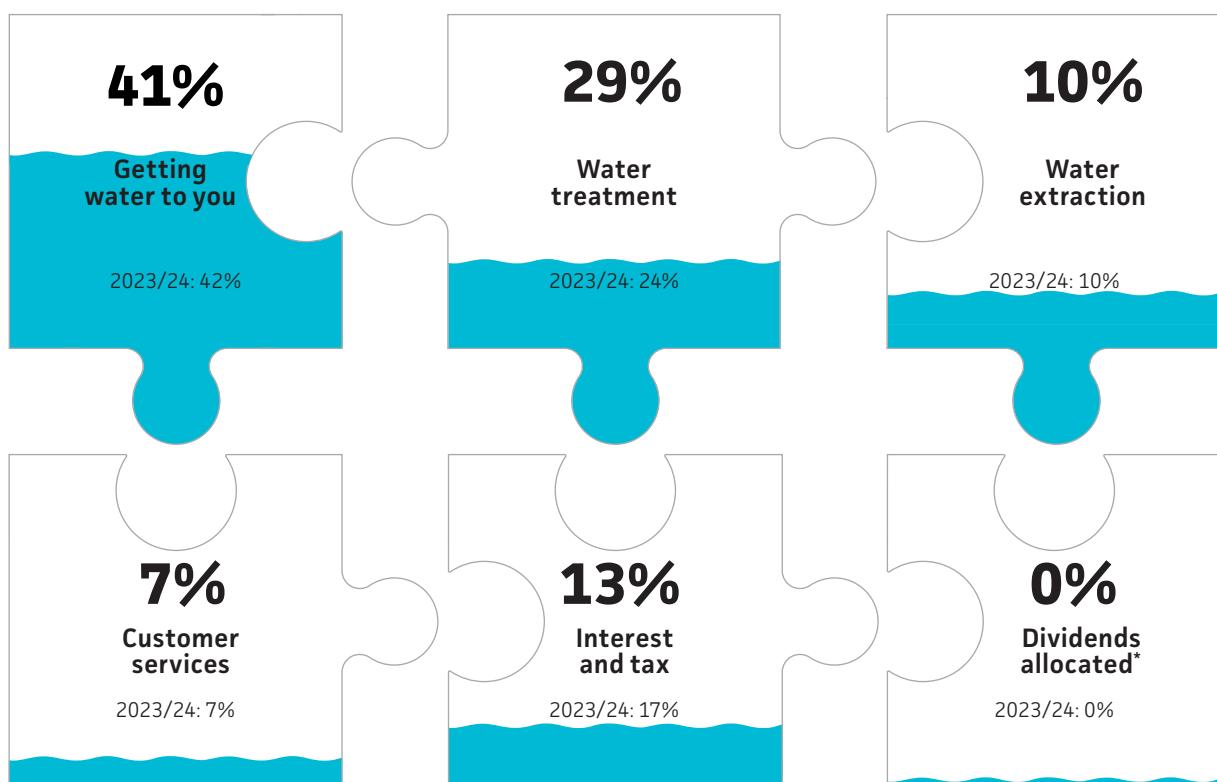
Operational highlights

Drinking water supplied	Greenhouse gas emissions	Number of employees
543 million Litres each day (2023/24: 544.3 million)	198 kgCO₂e/MI (2023/24: 203 kgCO ₂ e/MI)	1,173 (2023/24: 1,106)

Financial highlights

Revenue	Loss before tax	Capital expenditure	Cash generated from operations
£285.5 million Increase of 1.7 per cent on last year	£19.8 million Last year loss before tax of £36.7 million	£157.3 million Increase of 27.1 per cent on last year	£128.4 million Increase of 8.1 per cent on last year

How we invest in your water



* Dividends allocated to the appointed business

Strategic Report



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Chair and CEO joint report

Welcome to our group annual report and the audited financial statements for the year ended 31 March 2025.



Chris Train OBE
CHAIR



David Hinton
CEO

This joint Chair/CEO statement reflects on our performance over the final year of our 2020 to 2025 business plan period (AMP 7) and looks ahead to the new 2025 to 2030 business period (AMP 8). Our team has made considerable progress on delivering on the commitments we set out in our five-year plan but we have been severely stretched by unprecedented operational challenges along the way. The impact of these is ongoing and further challenges lie ahead. However, we remain determined to do everything we can to secure the future of water resources in the South East while protecting and improving the environment.

We have continued to invest significantly in new and existing infrastructure and environmental projects while dealing with the day-to-day operational challenges associated with providing a first-class drinking water service to our 2.3 million customers. We have brought forward and prioritised investment in important engineering projects to restore resilience and boost flexibility in the parts of our supply system that are most under stress. We're doing more than ever to support our customers, especially those in our society who are vulnerable, and to protect and enhance the environment through our proactive, industry-leading environmental programme. More information about this can be found later in our report. However, we know we need to go further and faster to tackle the challenges we face now and those that lie ahead, most notably the accelerated impact of climate change.

Competition and Markets Authority – Review of Final Determination

That's why we submitted our boldest and most ambitious business plan ever to Ofwat for the new 2025 to 2030 business plan period (AMP 8). This proposed a headline investment of £2.1 billion over the next five years to improve customer service, reduce customer supply interruptions and strengthen network resilience through investment in critical infrastructure (including the acceleration of the new Broad Oak reservoir). Ofwat's Final Determination on our plan was published in December. This was 13 per cent or £0.3 billion less than we proposed in our business plan and that is one of the reasons why we have asked Ofwat to refer its Final Determination to the Competition and Markets Authority (CMA) for a new, independent review in the best interest of customers.



The biggest challenge we face remains the accelerated impact of climate change and how we tackle this

This was not a decision we took lightly but is absolutely necessary if we are to meet the resilience and investment challenges facing the South East. We provided a Statement of Case in March for this review and we hope for a decision by the end of 2025 to enable us to reflect any changes to our investment plans and customer charging in Year 2 of AMP 8 (2026/27). In our view, in its current form, the Final Determination does not adequately address our company-specific circumstances and external challenges and undermines our plans to improve operational resilience now and in the future. We do not consider that the AMP 8 Final Determination provides the right foundations for the long-term investability of the water sector. Therefore, it threatens water security in the South East in the short and longer term. See below for more information about our new business plan.

Challenges ahead

The biggest challenge we face remains the accelerated impact of climate change and how we tackle this. It is causing more frequent and severe weather events, such as prolonged hot periods and heatwaves that cause sudden and substantial increases in peak demand. Climate change is also causing unpredictable rainfall, flooding and storms as well as rapidly fluctuating temperatures. These impact raw water quality and availability, and the operation of our assets. For example, freeze-thaw events lead to widespread leaks and bursts of water mains whereas severe storms cause power cuts, which can impair operations.

In the past year, we've continued to experience weather extremes. We had the disruptive Storm Bert in November and, in the south-east of England, the first six months of 2025 have been unusually warm, sunny and dry, including the driest March since 1961, with only 12 per cent of the long-term average rainfall recorded. The trend has continued with England experiencing its warmest June on record, with heatwaves continuing into July. As a result, we started our operational readiness as well

as water efficiency communications earlier than usual to ask customers to use water wisely as we prepare for the summer ahead.

As this report is being published, record breaking demand for drinking water is putting significant strain on water resources, which impacts the company's ability to provide the public water service. With a prolonged dry period (recognised by the Met Office as the driest Spring in the region since 1893), and an approaching third heatwave of the summer, we have moved to implement a Temporary Use Ban for our household customers in Kent and Sussex from 11 July and we are closely monitoring the situation in our Western Region, to ensure that we can protect the environment and keep everyone supplied.

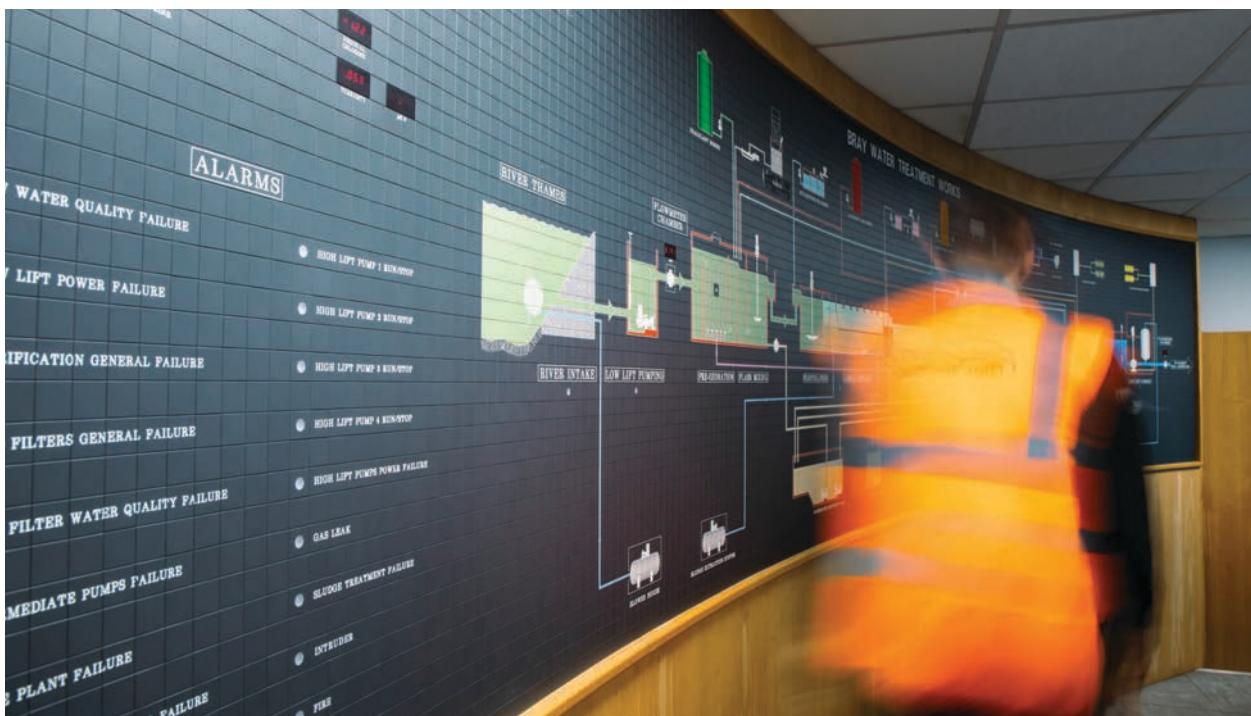
Despite these challenges, we have taken positive action during AMP 7 to strengthen resilience, boost the flexibility of our network and protect water supplies for customers. We have invested £567 million in the water infrastructure of the South East of England, compared to an allowance in comparable prices of £513 million in the Ofwat determination for 2020 to 2025. You can read more about what we've done, below.

Weather-related events cause millions of pounds of impact and they demonstrate the real hurdles we face in providing a public water supply in the South East – a designated area of severe water stress. We would like to thank everyone in our business for tackling head-on every challenge we've faced over the last five years. Our contractors and partners have also played their part in ensuring we've been able to keep taps flowing for the vast majority of our customers, even during extreme weather events. Of course, we know there have been times when supplies have been interrupted, and we apologise unreservedly to customers who've been without running water for any length of time. We always do our best to resolve issues as quickly as possible and to keep customers informed during incidents. Our new AquAlerter messaging system helps us to do that, and has been well received by customers.

Chair and CEO joint report continued

Ofwat investigation into supply resilience

Ofwat launched an investigation into our supply resilience in November 2023. This came on the back of four extreme weather events in 2022 combined with the hottest June on record in 2023, which led to a record demand for water. We've taken significant action to improve our short-term supply resilience, our operational response to supply events, to the information and support we provide to our customers, learning lessons from previous events and collaborating closely with regulators, stakeholders and the communities we serve. We're continuing to do everything we can to improve our operational response. For instance, at the start of this year we took delivery of the first of 10 new water tankers which will enable us to increase our flexibility so we can get water to where it's needed, faster. Some of these have already been deployed during supply incidents and reduced the need to rely on bottled water during interruptions. Our new five-year business plan (for AMP 8) addresses the root causes of our supply resilience issues but it is vital we secure the necessary level of funding for the next five years to deliver this longer-term investment programme. The investigation is ongoing at the time of publication of this report and no formal decisions have been made by Ofwat.



Our customers want, and rightly expect, better service and lasting environmental improvements and we need to improve resilience, adapt to climate change, and work towards net zero emissions. We don't shy away from any of these obligations as a responsible company. While planning for AMP 8, we continued to make solid progress across our six priority business areas this year:

- ▶ **Flexible, resilient infrastructure and service**
- ▶ **Securing the future of water**
- ▶ **A trusted and affordable service supporting customers and society**
- ▶ **Thriving environment**
- ▶ **Low carbon sustainable business**
- ▶ **Future-ready business**



Improving infrastructure and service

Strengthening our resilience remains critical to maintaining supplies. Over the past year, work has continued to strengthen our network resilience and protect and improve water supplies for our customers. We've invested £80 million into our infrastructure in East Sussex, including a critical upgrade to Barcombe WTW (water treatment works) and Bewl WTW. A pipeline project at Bewl will also increase the amount of water we can treat and supply to the area. Work on a state-of-the-art WTW on the site of the old Aylesford Newsprint in Maidstone is nearing completion too. This is the first new WTW to be built in Kent for 18 years. Across East Kent, we're investing £12 million in targeted infrastructure improvements in areas which have experienced supply interruptions in recent years during the record-breaking summers. That said, we recognise that there is more to do, as reflected in our plans for the period ahead.

Surveys and assessments are continuing for the new Broad Oak Reservoir scheme near Canterbury. This major investment will not only help meet the future demand for drinking water in East Kent, but the major investment creates new habitats, increases biodiversity and provides social benefits for the local community. A new Broad Oak Reservoir Stakeholder Advisory Group will help us shape the project. However, the review of our Final Determination – described above – remains critical to secure the funding necessary to accelerate this scheme successfully through Ofwat's RAPID gated process (Regulators' Alliance for Progressing Infrastructure Development).

Whatever we're working on, health and safety remains our top priority. We take a proactive approach. Building resilience in our teams is also important and our Mental Health First Aiders are always available to help colleagues with wellbeing issues.



We've invested £80 million into our infrastructure in East Sussex

Cyber threats are on the rise but so is our determination to help protect our country's critical national infrastructure by strengthening our security and safeguarding our cyber security resilience. We are using industry-leading cyber security tools and other means, to comply with the Network and Information Systems regulations (NIS).

Securing future water supplies

In October we published our Water Resources Management Plan 2024 (WRMP24). This explains how we'll provide a reliable and resilient supply of top-quality drinking water over the next 50 years. We know we need to balance this with the challenge of protecting and enhancing the environment around us for generations to come. We aim to do this by investing in new infrastructure (including the new Broad Oak reservoir), reducing leakage and encouraging water efficiency. However, we await the outcome of a review of our Final Determination by the CMA to know if we'll have the funding we need to achieve the stretching targets set out in WRMP24. See below for more information about PR24.

We share our customers' frustrations in seeing drinking water lost to leaks and reducing leakage remains a high priority for us. Although we are still playing catch-up from the impact of extreme weather events in recent years, we've repaired 12 per cent more leaks in the last year, compared to the three-year average, and have a leakage recovery plan in place. We spend around £40 million a year on finding and fixing leaks across our network and our planned investment in a smart network programme will help us to run a more efficient leakage reduction programme in the future.

As a company, we're participating in The Cunliffe Review, which is the Independent Water Commission review into England's water industry. Through this, we'll be making the case that we need to balance the need for growth with the challenge of securing the water resources to cope with that growth, without detrimentally impacting the environment.

Chair and CEO joint report continued



Financial performance

The economic environment remains difficult with the inflationary effect of continued high energy prices, driving costs of power, services and supplies, such as chemicals. Additionally, staff costs, increased by £4.9 million due to wage inflation and increased headcount as the business prepared for a step up in activity within AMP 8 in order to enhance network resilience. Operating profit was, therefore, lower than the previous year at £54.5 million compared to £63.8 million, despite an increase in revenue of £4.9 million to £285.5 million. Although operating conditions remain challenging, investment in our assets in the year increased by over 27 per cent compared to the previous year. Our investment programme is discussed in more detail in our strategic report on page 44 to 47.

However, the financial performance of the group has improved in the year, with the loss before tax reducing to £19.8 million compared to £36.7 million in the previous year. This is due to decreased finance costs with lower inflation reducing the charges on our index linked borrowing.

The group has improved its liquidity position in the last year. £50 million of index linked debt was raised in August 2024 and in December 2024 the maturity date of the £120 million loan was extended to June 2026, from December 2025. Also in December, our shareholders invested £75 million of equity, bringing gearing to c.75 per cent at March 2025. In May 2025, our shareholders invested a further £200 million of

equity, bringing gearing to c.65 per cent and further reinforcing the liquidity and financial stability of South East Water. The investment by shareholders in the company reflects the desire to maintain an investment grade credit rating, but does not alter our conclusion as set out in our Statement of Case presented to the CMA that we do not consider that the AMP 8 Final Determination provides the right foundations for the long-term investability of the water sector.

We are currently in discussions with lenders regarding the renewal of our revolving credit facility that matures in September 2026. Further information on this and the impact on going concern is on pages 128 to 129, including the related material uncertainty.

Supporting customers and society

We aim to provide a trusted and affordable service that meets the needs of all our customers including the most vulnerable in our society. We are proud of our industry-leading approach to supporting vulnerable customers, which has been recognised with the gold-standard BSI Kitemark certification in March. We have surpassed our target for our Priority Services Register with more than 29,500 more customers joining this year. This represents 14.12 per cent of all customers and is nearly 1.5 per cent above target. It's encouraging that 2025/26 has also started strongly, and we expect to have a

similar performance in the following year. We published our new Vulnerability Strategy in June after receiving praise from Ofwat on our “exemplary” approach in some key areas. Our new social tariff structure, which we launched in April to replace the previous capped approach, will enable us to help more customers than ever before, while a new trusted partnership with Kidney Care UK will ensure we can provide enhanced support to the 76,000 people with chronic kidney disease in our area.

Our commitment to stewardship and local engagement remains strong. In the last year, we've actively promoted water efficiency by providing water butts for customers and distributing nearly 200,000 water-saving devices and our annual £20,000 Community Chest scheme directly supported local projects.

The number of customers registering for our online self-serve portal, MyAccount, continues to rise. By the end of March, there were more than 535,000 customers signed up – that's 58 per cent of customers. We are delighted to have received the Institute of Customer Service ServiceMark accreditation in recognition of our high customer service standards.

Protecting and enhancing the environment

We need to make sure there's enough water for future generations. We aim to minimise the effect on the environment from our own operations and actively improve the environment, as per our 25 Year Environment Plan, which we launched last year. We work in close partnership with farmers, landowners, conservation groups, stakeholders, local communities and other partners to do this and our catchment management programme continues to go from strength to strength. Proactive engagement through tests and trials, steering groups and through our capital grants scheme, has resulted in us outperforming our five-year landowner engagement ODI target.

We've also outperformed our five-year biodiversity ODI target and now manage 77 per cent of our land for biodiversity, compared to 54 per cent in 2020. In October we were delighted to reach an important milestone in our environmental stewardship, with 73 per cent of our company-owned Sites of Special Scientific Interest (SSSI) now managed to a favourable condition, compared to the industry average of 16.4 per cent. Our work supports many species and we are excited that our proactive habitat management and protected species monitoring survey at our Offham WTW has revealed a thriving population of slow worms.



Future-ready business

Our people are an integral part of our business. They enable us to provide the best possible service for our customers today, and in the future. That's why we are committed to recruiting, training and developing talent in our business, and making our company a great place to work. During the year we've launched our new HR IT system that will connect all our business areas, drive efficiency and improve employee services, and we've been awarded Gold membership of The 5% Club in recognition of how we encourage colleagues to earn and learn at the same time. Our comprehensive apprenticeship programme continues to grow and we've increased the number of apprenticeship standards we offer from five to 20. This will help us secure the next generation of talent. We've also seen a 31 per cent increase in colleagues undertaking internal upskilling opportunities to help us meet our business's future and changing needs through our Aspire, Inspire and Lead programmes. We are now preparing to shape our company for future challenges including the delivery of our new business plan for the next five years – see below. This has seen the creation of two new directorates; for Technology and Information and Investment Delivery. A specialist external change team will ensure we set the business up for future success, and as a legacy ensure that this function is embedded in the business.



Chair and CEO joint report continued

Preparing for the future also involves a commitment to innovation and adaptability as well as transitioning to become a low carbon sustainable business. We hope to announce details of our first power purchase agreement (PPA) for 40 per cent of our energy needs in the near future. This is an excellent carbon zero project and should spearhead the next stage to organise another possible PPA and on-site solar projects for the remainder of our energy. We're also continuing to invest in our electric vehicle (EV) infrastructure and have increased the number of EV vans in our commercial fleet.

More information about the specific progress we've made in each of these priority areas can be found later in this report.

The next five years – Price Review 24 (2025 to 2030)

Price Review 24 (PR24) sets the price, investment and service package for the next five-year business period (2025 to 2030). Huge effort has gone into planning for the new business period to enable us to meet the operational and resilience challenges we face and secure a safe and reliable supply of high-quality drinking water for years to come, while protecting and enhancing the environment.

Our plan has a regional focus aimed at improving operational resilience through use of localised water storage and better network connectivity.

We developed the new business plan after conducting our largest ever customer engagement programme to better understand our customers' priorities. Using feedback from customers and stakeholders, and collaborating with independent experts and external assurers to ensure our engagement was effective, we built a plan around a programme of supply-side (enhancement) and demand-side investments such as leakage reduction, water efficiency initiatives, smart networks and smart metering, all aimed at improving water security. This plan will reduce the likelihood, extent and duration of supply interruptions caused by high-demand climate change events over the next five years and also lay the groundwork for our longer-term resilience investment. Our approach to improving resilience and water security has been broadly welcomed by our customers.

Our plan focuses on investing in sustainable water resources, improving network resilience and increasing drinking water storage capacity to reduce supply interruptions. We'll install 275,000 smart meters, implement a full smart network roll-out, help customers use less water and reduce



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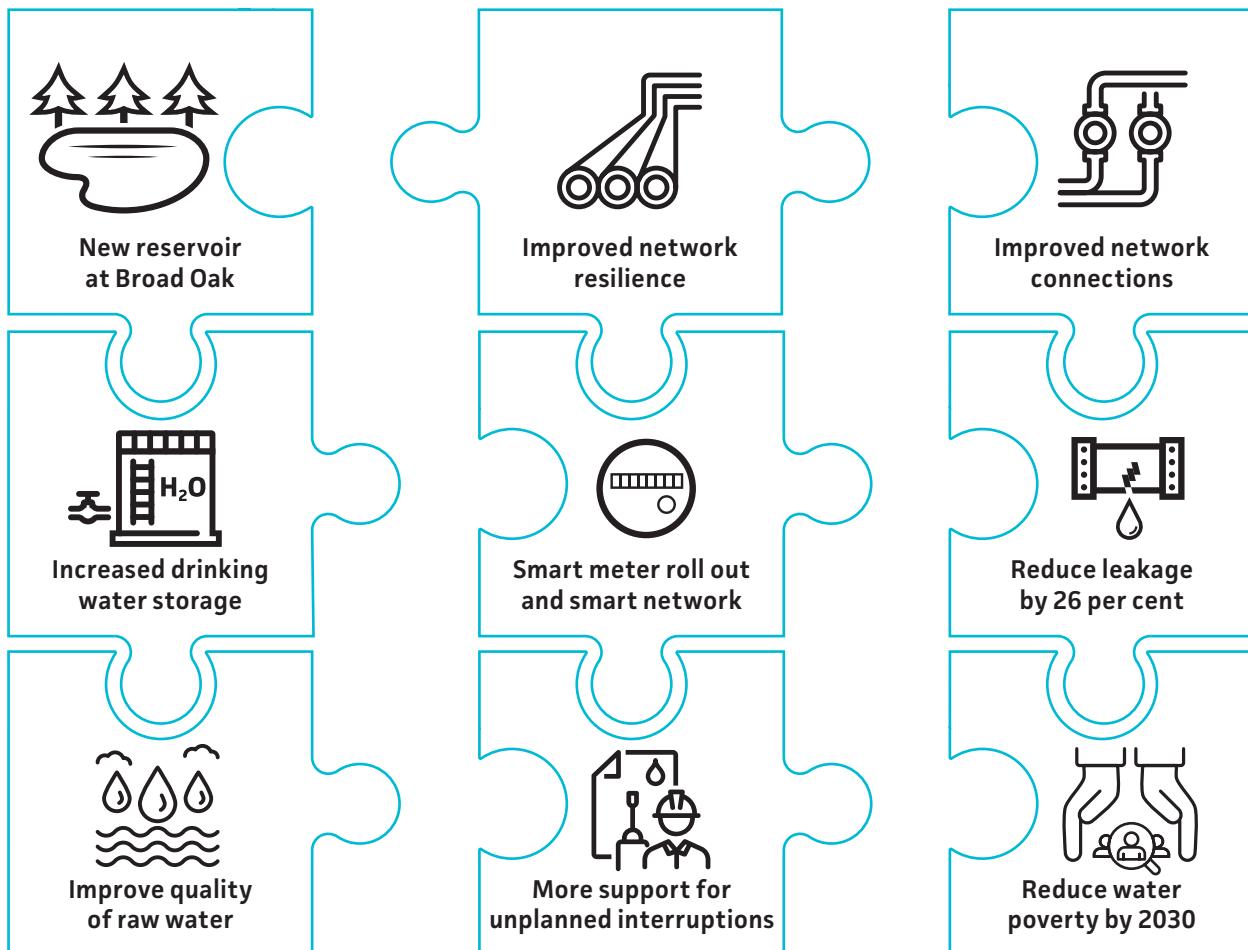
leakage by 11 million litres of water a day. Working with partners, we'll aim to improve raw water quality within our catchments, allocate extra resources for unplanned supply disruptions and maintain our exceptional drinking water standards. Tackling climate change remains a priority for us and our plan includes commitments to reduce greenhouse emissions, strengthen environmental resilience, and address future challenges such as droughts, floods, raw water quality decline, invasive non-native species impact, and land use change. We're also expanding support for vulnerable customers through a six-point plan which includes a new social tariff, targeted assistance for those facing water poverty, and increased non-financial support during service interruptions.

Our plan is bold but provides the opportunity for a much-needed reset following the unprecedented challenges of the last five years and the urgent threat to water security in the South East. However, our plan is only deliverable if we secure the necessary funding to match the scale of the challenges we face and our ambition to go further and faster to address these. Ofwat's Final Determination, announced in December 2024, set out the prices we can charge our customers and what we must deliver over the five-year period. As explained earlier in this report, it fell short of the funding we require to meet the unique challenges in our area and we remain concerned that the Final Determination doesn't address our company-specific circumstances and the external challenges we face in a severely water-stressed area with a growing population and increasing impacts of climate change.

Bill increases

In the meantime, as a result of Ofwat's Final Determination in December, bills increased in April 2025 on average by 20 per cent (14p a day).

Business plan summary



This means the average daily household bill for water for the next five years will be 81p per day, which we believe is excellent value for money. We know that bill increases are never welcome but they are necessary to drive a more secure future.

Work is under way

Work has already begun on implementing our new five-year business plan (PR24) while we await the outcome of the referral of the Final Determination by the CMA. We remain hopeful that our bold and ambitious plans, which have been shaped with the support of customers and stakeholders, will be matched by the necessary funding to secure the future of water resources in the South East. Setting our business up for future success is really important and, as part of our preparations, we're creating two new directorates, the Investment Delivery Directorate (IDD) and the Technology and Insight Directorate (TID), to help us deliver our most ambitious business plan ever. The recruitment process to appoint two new directors to oversee

these directorates is already under way. A Change team is in place to prioritise, manage and deliver the important initiatives we need to make the next five-year period (AMP 8) a success. Our new five-year people plan will play a key role in this as we support and guide staff through the process. This is an exciting time to be part of our team as we seek to continue to improve the service we offer to customers and communities by delivering a reliable, affordable and resilient supply of top-quality drinking water while protecting and enhancing the environment for generations to come.

Chris Train OBE

CHAIR

14 JULY 2025

David Hinton

CEO

14 JULY 2025

Our purpose

Our purpose is embedded in our articles of association and centred on our public service duty as a water company. It emphasises the importance of our broader responsibility to the environment and society. It expresses our commitment to inclusive engagement and collaboration with customers and stakeholders and to achieving a fair balance between the interests of customers, the environment and society.

Our core purpose

As well as our core functions and public service responsibilities, our second core mission is to plan for future water resources and develop our water supply system. Our solutions include a variety of approaches such as leakage and demand reduction, service innovation, nature-based catchment management, new water sources, technology and infrastructure.

To provide today's public water service and create tomorrow's water supply solutions, fairly and responsibly, working with others to help society and the environment to thrive.

Fairly and responsibly

We address social issues such as affordability and vulnerability and try to achieve the right balance between the interests of the different customers we serve now (and in the future), our other stakeholders, society and the environment. It is essential we generate and maintain trust to strengthen the legitimacy of our licence to operate.

We act responsibly by helping tackle societal and global challenges such as climate change, biodiversity loss, and the challenges of ecological overshoot and staying within planetary boundaries.

Working with others

Stakeholder inclusiveness, engagement and collaboration help us find new ways of understanding and facing challenges and make the most of opportunities.

Our wider purpose

We find opportunities to bring shared societal and environmental benefits that go beyond delivering the public water service.

Our culture

Our vision, guiding principles and core values shape our culture. They reflect who we are and what we are all about.

Our Vision

To be the water company people want to be supplied by and want to work for.

Our guiding principles

Purpose-led

Our strategy is guided by our purpose and public value principles.

Safe in Every Way

The health, safety and wellbeing of our employees, contractors, suppliers, customers and neighbours is of paramount importance to us.

Responsible business

“Doing the right thing” is central to the choices we make to meet the high standards that are expected of us as a provider of an essential public service.

Balancing investment and affordability

We must invest today and over the next decades and we must balance this imperative with keeping our service affordable.

Regional approach

We develop solutions that address the issues specific to each of our three regions.

Fairness and equity

We achieve a fair balance between the interests of our customers, society, and the environment. Fairness also means supporting customers who need extra help.

Social benefit

We aim to deliver broader social value and benefits to our local communities.

Natural capital

We protect and enhance our natural capital to preserve water resources for people and the environment. We act to improve natural habitats and biodiversity.

Partnership working

We cannot meet our challenges on our own. We work with others and learn from them to improve the effectiveness of our actions.

System thinking and adaptive planning

We must understand the interdependencies between our different challenges and create cost-effective solutions that address them all. We plan for different possible futures and must be ready to adapt and implement the right solutions at the right time.

Innovation

We promote a culture of excellence where we value and encourage ideas and exploration. We need new skills, innovation and technology to meet our priorities.

Our Values

Trust

Dependable, safe and sound, as a team always delivering on our commitments. Guardians of the environment.

Excellence

Striving at all times to be the best and deliver the best.

Agility

Responsive, flexible and adapting quickly to change.

Passion

Dedicated to delivering a safe, reliable service, always caring for our customers and each other.

Creativity

Fresh thinking, improving, never standing still.

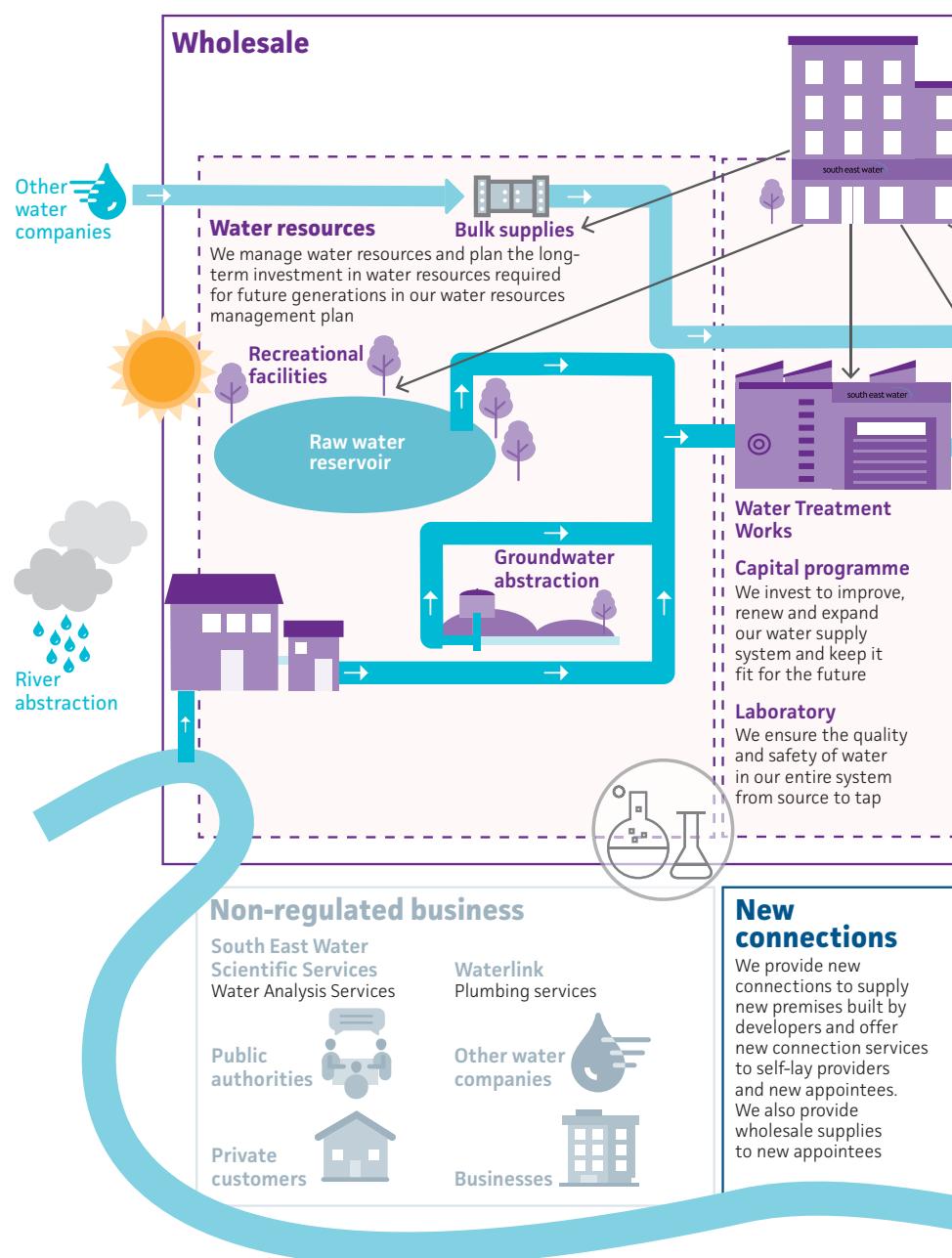
Our business model

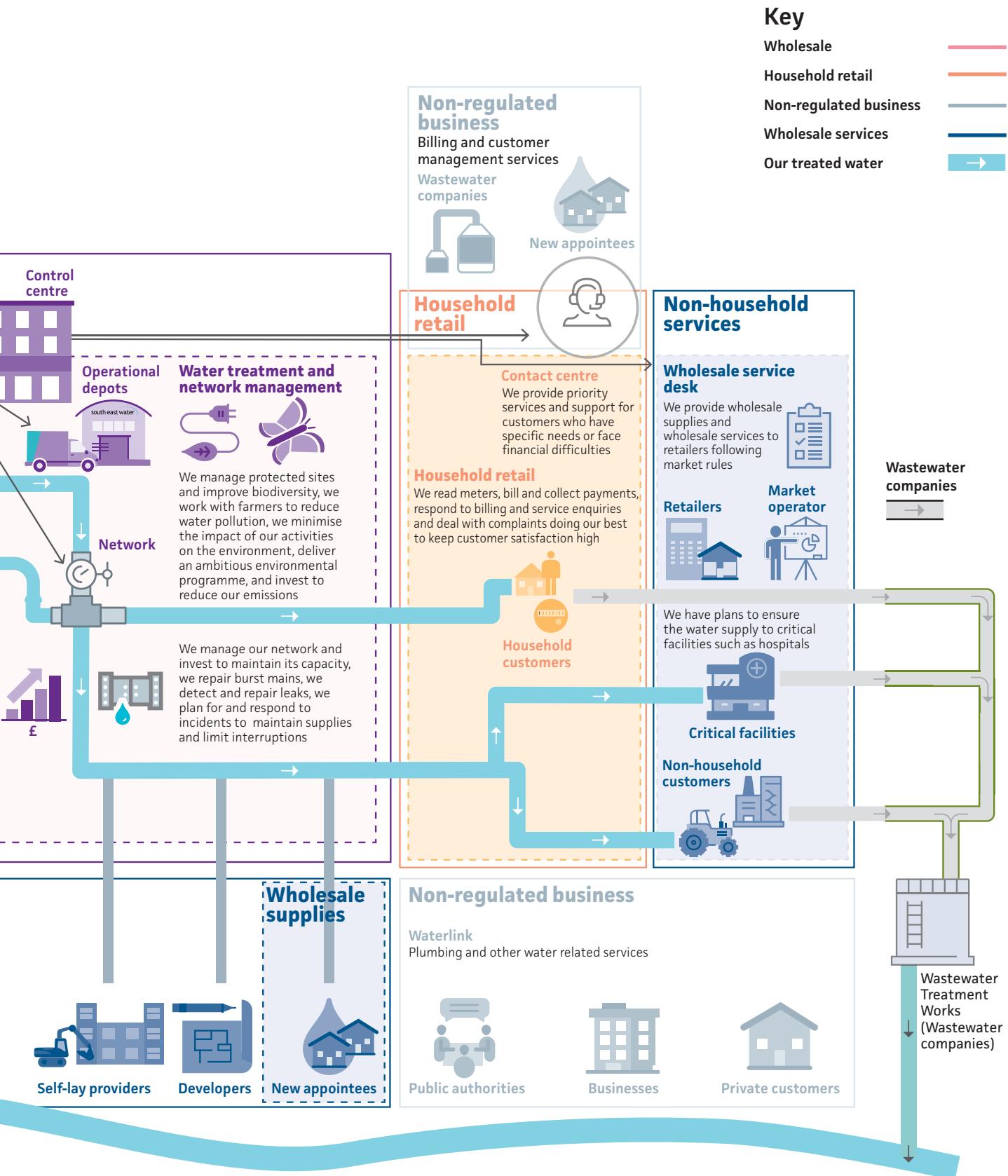
We are the regulated statutory water-only company in our exclusive supply area. We operate in three operational regions – Western region (geographically separate from the others), Kent and Sussex regions (adjacent to each other).

We operate across the full water value chain:

- ▶ We carry out all wholesale activities, managing water resources, treatment works and the distribution network to bring safe drinking water to all premises.
- ▶ We provide wholesale water supplies to retailers in the non-household retail market and to new appointee water companies that supply premises on certain new developments located within our geographic area.
- ▶ We provide new connection services to developers, self-lay providers and new appointees to connect new premises.
- ▶ We provide all retail services to end-user customers in household premises in our area of supply. This includes meter reading, billing, payment collection, service and billing enquiries and dealing with complaints.
- ▶ Separate water retail companies provide retail services to eligible businesses, public sector and third sector organisations in our area of supply.
- ▶ We also provide non-regulated commercial laboratory services, billing and other retail services and plumbing services.
- ▶ We only provide water services. Separate companies across our area provide wastewater services.

Wholesale activities account for 88 per cent of total income; retail activities for 7 per cent and non-regulated activities for 5 per cent.





Our business model continued

Key resources

Our assets and networks built over generations

The performance, condition and operation of our water resources, water treatment works, and our network built over generations, which require continuous maintenance, development and the adoption of new technology, are the most essential elements of our business. Regular investment in our infrastructure and operations determines our performance and our ability to deliver the public water service and to fulfil our purpose in the long-term.

Fresh water and the environment

Our business model is intrinsically linked to natural capital and to the availability, sustainability, and quality of freshwater. We rely on the environment and the ecological services of catchments, which filter, store, and transport freshwater for our water resources.

Financial capital

We must finance the investment in our infrastructure and operations upfront, as successive generations of customers pay in instalments over the life of the assets. We need access to competitive financing to succeed and our financial resilience determines this. The outcomes of price reviews influence our financial resilience. These outcomes determine our revenue allowance, allowed return and appropriate calibration of incentives and regulatory mechanisms. We must maintain a minimum investment grade credit rating under our licence.

Our human and intellectual capital

We rely on the collective skills and expertise within our business in the management of the public water service and the unique knowledge of our water supply system. Our key suppliers and partners bring specific experience and knowledge of the water industry which is essential to our success.

Key relationships

Our customers and communities

We provide an essential public service to our customers and the communities we serve. Their water use and behaviours impact our operational plans on a daily basis. The quality of our service determines the trust and satisfaction of our customers and those who rely on our service and, in turn, their support for our strategy. We must build collaborative relationships with them to obtain support for our demand reduction strategy to help minimise our collective impact on the environment as we plan for future water resources in our regions.

Our people and culture

Everything we achieve as a business is through our people and the culture we promote and bring to life. We directly employ 1,173 people and hundreds more make our service possible through our supply chain. Many employees are long-serving, and their knowledge and experience, often specific to our company and industry, is important in helping us plan for the future as well as delivering the service customers and stakeholders expect today.

Our suppliers and partners

We work with more than 200 suppliers and partners locally and internationally to deliver our service. This includes procuring chemicals and power to operate our treatment works and expertise to maintain and operate our networks or to deliver our investment programmes. Our key suppliers provide engineering and technical skills that complement those of our employees. We also receive bulk supplies of water from some neighbouring water companies, and we work closely with them on a regional basis to plan for long-term water resources.

Our regulators

Our activities are regulated by Ofwat, the Environment Agency, the Drinking Water Inspectorate (DWI), CCW and Natural England. Maintaining good working relationships with them is part of our day-to-day activities and important for our future success. We are accountable to them for our performance in their area of responsibility. Constructive relationships help us contribute to the development of regulatory policies and help promote changes where regulatory mechanisms need to evolve or to address misalignment between different policy areas.



Everything we achieve as a business is through our people and the culture we promote and bring to life



How we create economic value

We generate revenue through:

- ▶ Billing in accordance with our price controls and charging rules for (i) water supplies to household end-user consumers based predominantly on metered consumption, with an overall level of metering of c.90 per cent of household premises and (ii) wholesale water supplies to retailers on the non-household retail market and new appointees.
- ▶ We also provide new water mains and connections to developers to supply new premises and similar new connection services to self-lay providers or new appointees. Our charges for new connection services are set in accordance with charging rules defined by Ofwat.
- ▶ Non-regulated activities (laboratory services, water and sewerage billing and retail services as well as plumbing and water management services).

The turnover and profit from operations of the regulated business equates to approximately 98 per cent and 83 per cent of the company's total turnover and profit from operations respectively. After allowing for finance income and costs, the regulated business made a loss of £25.9 million before tax.

Revenue from the regulated business

Price controls set by Ofwat every five years define revenue allowances for relevant segments of the value chain: water resources, network and household retail. The cost of capital, which includes an allowance for shareholder returns, is also determined by Ofwat.

Our business model continued

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We are a major employer in our three regions offering stable, continuous employment and financial security to our employees

Factors impacting revenue and profit

Price controls set our revenue allowance based on Ofwat's assessment of efficient costs to operate and of our proposed investment programme. This revenue allowance is adjusted during regulatory periods through rewards or penalties, calculated by reference to targets set by Ofwat in price determinations in respect of a range of performance commitments.

The calibration of these rewards and penalties and the level of investment recognised in price determinations influence our short-term operational and financial performance, and in the medium to long-term our ability to maintain levels of service which requires appropriate regular investment in our water supply system.

Our short-term financial performance and profitability can be impacted by operational events, such as the supply interruptions caused by an exceptional combination of extreme weather events that we experienced in 2022 and 2023 (heatwaves, storms, flooding and freeze-thaw event). Such events result in higher operating costs with no increase to our revenue allowance. They also lead to us incurring penalties in respect of several performance commitments (e.g. direct impact on the supply interruption ODI and indirect impact on the customer metric) which reduce the amount we may recover from bills in subsequent years.

The management of payment collection and bad debt, as well as the level of support provided to customers with financial difficulties, also influence profitability, as we must maintain our essential service even in the case of non-payment.



Revenue from the non-regulated business

Our commercial activities are developed on our core business strength and technical know-how. We provide billing, debt collection and related customer services to the wastewater companies that operate in our area. This provides the convenience of a single bill to our common customers and to new appointees.

Our accredited laboratory provides analytical scientific services to other water companies, public authorities, businesses, and private clients, building on the expertise and technical capabilities developed to meet our own water analysis requirements. Our Waterlink business offers a range of plumbing and water infrastructure services.

How we create value for others

Value to society

Public trust in the safety of water is an essential value we generate with our regulator, the Drinking Water Inspectorate. This is our first priority.

Households and all sectors of the economy and society use our water supply. They rely on it for daily life or for their business and expect it to be available where and when needed. We ensure they can all benefit from the value that water itself brings to them. We also plan and invest to ensure our service will continue to be available to them and meet their expectations in the future.

We provide priority services to customers whose circumstances make them more vulnerable and provide a range of different types of support for those with affordability challenges.

How responsibly we carry out our business, how we manage our impact on others and the environment, and how we engage with customers and stakeholders are also key drivers of our legitimacy as an essential service provider.

Supporting the local economy and communities

Our service is a key input for many organisations, businesses, and public services, which we provide all year round. We generate economic activity for our supply chain through investment in our operations and infrastructure. We also support housing growth by providing the required water infrastructure.

We are a major employer in our three regions, offering stable, continuous employment and financial security to our employees. We provide training and career development opportunities and we promote the wellbeing of our employees. We provide learning and development opportunities in a wide range of disciplines.

We also support our communities through community donations and staff volunteering. Our water reservoirs at Ardingly and Arlington provide recreational facilities to the public.

Supporting the economy

Our service is a key input for many organisations, including public services and businesses and we also support housing growth. We continuously invest in our assets, generating economic activity for our supply chain, and the taxes we pay contribute to the wider economy.

Responsible impact on the environment

We need to take water from the environment to provide our essential service and we must minimise our impact on water bodies and the wider environment. Ensuring the sustainability of our water abstraction, reducing leakage and the demand for water are central to the sustainability of our business model in the context of climate change and population growth.

We also work with farmers and other third parties to minimise their impact on the water catchments we rely on, reduce the level of pollutants in raw water that we need to remove in our treatment works, or encourage sustainable abstractions.

We carry out a significant programme of environment work through the Water Industry National Environment Programme (WINEP). We manage more than 30 protected sites and invest to improve their environmental condition and biodiversity.

We are working to achieve operational net zero by 2030, a 98 per cent reduction in our operational direct carbon emissions, with the remaining two per cent requiring insetting or offsetting. By 2050 we will achieve net zero for our whole business, including embedded carbon.

Shareholder value

Shareholders and debt providers provide the financial resources needed to invest in our infrastructure. They must be provided a reasonable return for this. Regulatory mechanisms at price reviews determine their return and this may be optimised through efficient operations and potential outperformance against regulatory metrics.

We create value for our investors beyond pure financial return. Our principal owners are signatories of the United Nations Principles of Responsible Investment (UN PRI) and are committed to strong environmental, social and governance performance. They recognise this protects the long-term value and sustainable success of the company and strengthens our licence to operate.

Our strategy

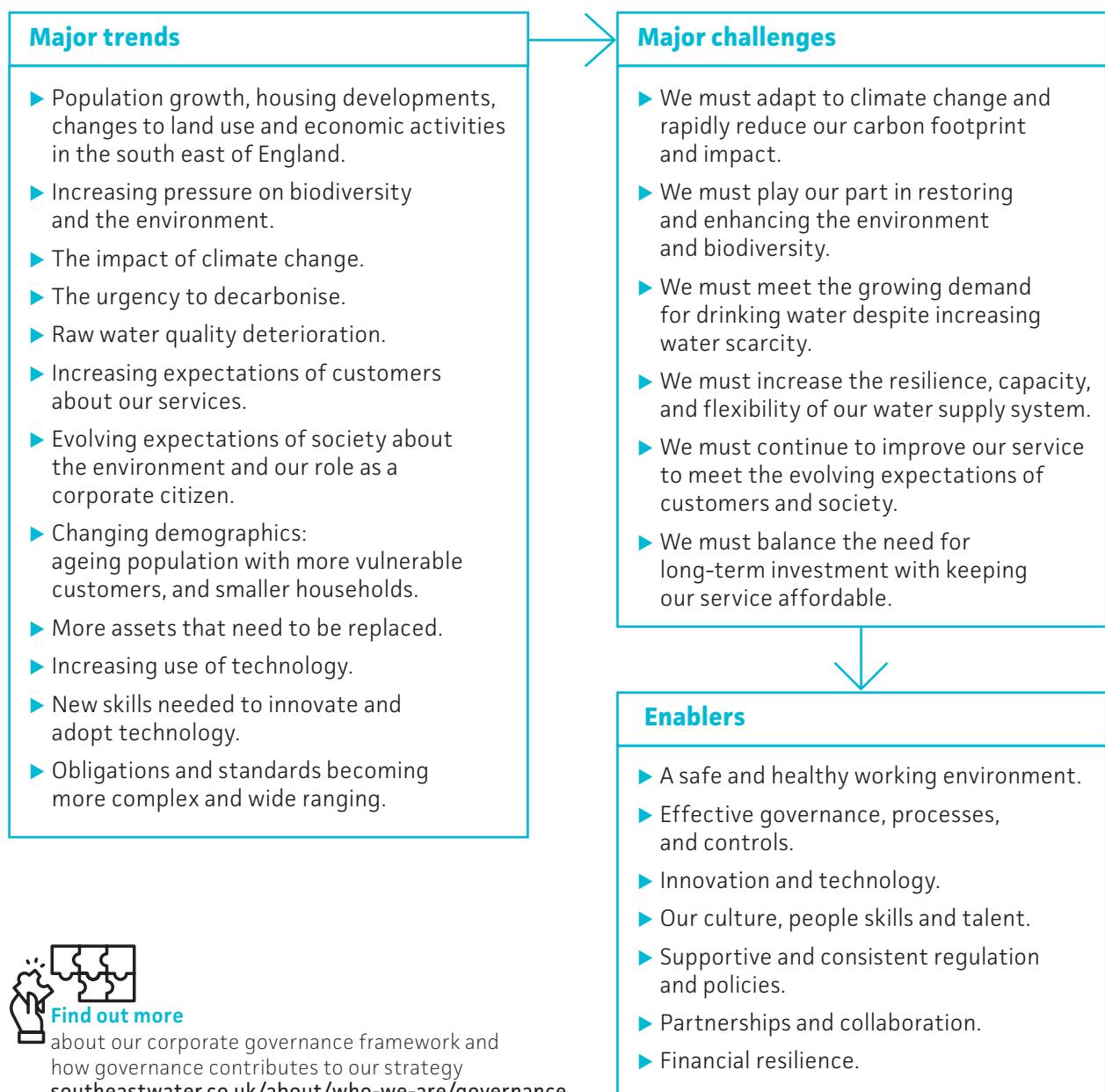
Climate change, biodiversity loss and human impact on the planet make us rethink how we should provide the public water service far into the future in a way that values water and is truly sustainable.

We explain below how we are defining our strategy by presenting our strategic priorities to 2050 in the context of our long-term challenges and how we intend to achieve our objectives in the next regulatory period.

Ensuring the long-term sustainable success of the company is the main objective of our governance and strategy.

Long-term trends, challenges, and priorities

We have set out what we want to achieve over the next 25 years and how we will fulfil our purpose between 2025 and 2050 in our strategic direction statement. It describes the major trends affecting the water sector and our company more specifically, the main challenges we face, the strategic priorities and targets we have set in our long-term strategy and 2025 to 2030 business plan.



Find out more

about our corporate governance framework and how governance contributes to our strategy
southeastwater.co.uk/about/who-we-are/governance

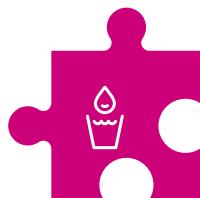
Our priorities and vision from now to 2050

A trusted and affordable service supporting customers and society



- ▶ A top-quality water supply and efficient service consistently delivered to all.
- ▶ A business that provides support to all customers as they need it, when they need it and in the way they choose.
- ▶ A full range of financial and non-financial support that always suits those who need it.
- ▶ Social and community benefits that go beyond our water service.

Flexible, resilient infrastructure and service



- ▶ Supply system resilience delivered in step with increasing challenges from climate change, new developments, population growth, sustainable abstraction, and raw water deterioration.
- ▶ Minimal supply interruptions with high network connectivity and flexibility.
- ▶ A supply system able to withstand extreme weather caused by climate change and to recover rapidly.

Securing the future of water



- ▶ Water resources resilient to climate change and droughts.
- ▶ Network flexibility enables sustainable abstraction and conjunctive use of sources.
- ▶ Leakage at least halved.
- ▶ Leakage detection and water efficiency through smart networks.
- ▶ Work with customers to help them use water wisely and manage their demand with smart meters.

Thriving environment



- ▶ Recognised experts in science-based catchment and environmental management who deliver biodiversity gains, enhanced habitats, and environmental resilience.
- ▶ Sharing our data and working with others on nature-based solutions for mutual benefits.

Low carbon sustainable business



- ▶ Operational net zero by 2030 (direct emissions).
- ▶ Net Zero, including embedded emissions by 2050.
- ▶ A truly sustainable business that is part of the circular economy and uses sustainable, renewable resources.

Future-ready business



- ▶ Real time network management and conjunctive use of sources enabled by technology and specialist skills.
- ▶ A culture of high performance, excellence, and innovation.
- ▶ A diverse and inclusive workforce.



[Find out more](#)

Our strategic direction statement, our strategic priorities and how we will deliver them
southeastwater.co.uk/sds

Our strategy continued

Priority



A trusted and affordable service supporting customers and society

We want to do our best to meet the current and future needs of all our customers and to make a difference to the communities we serve. This includes supporting all those who may need extra help and going the extra mile to make every contact with our customers count.

- ▶ Our Priority Services Register (PSR) numbers have risen strongly again with 130,452 customers on the PSR by 31 March – that's 14.12 per cent of customers. This compares with 100,869 (11.03 per cent) on the PSR in 2023/24. Our community work, data sharing with energy companies, and trusted partnerships with organisations such as Scope and Golding Homes are helping us to reach more customers who need support.
- ▶ Our services for vulnerable customers have been recognised again with the prestigious BSI Inclusive Service Kitemark certification, with zero non-conformities for the second consecutive year. We passed our annual assessment of the gold-standard Kitemark, following a rigorous review in January.
- ▶ We've introduced company-wide vulnerability training for colleagues to equip them with the tools and knowledge they need to support customers. Bite-size training modules are being rolled out too on specific issues including chronic kidney disease (CKD). This coincides with the launch of our new trusted partnership with Kidney Care UK to help the 76,000 people with CKD in our supply area benefit from a range of services, including enhanced support via our PSR.
- ▶ Our annual Vulnerability Stakeholder Conference in East Grinstead in February attracted 61 attendees from 45 separate organisations across the charity, utility, housing, financial and community sectors.



- ▶ Our Vulnerability Strategy was published following positive feedback from the regulator Ofwat and the CCW. Ofwat classed the strategy as "exemplary" in three of five assessment areas. We're also continuing to grow our Vulnerability team underlining our commitment to this focus area. A new Vulnerability Manager has also been recruited.
- ▶ More support than ever before is available for customers who need help paying their bill. We've just launched the new social tariff structure, which applies a tiered discount based on household income. By raising the upper income threshold we will be able to help more customers. This grants scheme is funded by donations from us and offers financial assistance to customers who demonstrate they are taking steps to achieve financial stability but need help clearing water bill debt which has built up over the years.



- ▶ We're ramping up our home water efficiency audits to our customers. During the audits, we discuss water usage, fit water-saving devices and fix any internal leaks we find. These visits allow us to also promote a package of support to our vulnerable customers and those struggling to pay their bills by making them aware of our PSR and affordability tariffs.
- ▶ In a partnership with Ashford Borough Council, we've actively promoted water efficiency by providing 500 water butts for customers on the PSR. We've also launched a campaign to sell water butts at subsidised prices via the Save Water Save Money website, with 600 snapped up at the time of writing. Every month from October to March we gave away five water butts as part of a wider communications campaign related to water efficiency.
- ▶ By year end, we'd given out 198,555 water-saving devices, including leaky loo detection strips and water-saving shower heads, compared to 180,495 in 2023/24.
- ▶ There has been a further increase in numbers registering for our online account portal, MyAccount. By 31 March, 535,957 customers had registered. This represents 58 per cent of customers, up from 484,053 customers (52 per cent) in 2023/24. Customers complete on average 28,000 self-serve transactions a month via My Account.
- ▶ During 2024/25, we have continued to engage our My Account customers, with a monthly newsletter – *Behind the Tap*. This helps customers understand what we're doing to provide the public water service and also delivers helpful, topical water efficiency advice, hints and tips. The newsletter is sent to more than 500,000 customers a month and enjoys a strong digital engagement rate.

Our strategy continued

A trusted and affordable service supporting customers and society continued



- ▶ We strive to give our customers the best service at every interaction. In 2024/25 our contact centre staff, based at our head office in Snodland in Kent, answered 98 per cent of the 30,000 customer telephone calls we receive on average every month within 30 seconds. We are pleased to report that written complaints have reduced by 30 per cent this year as a result of trying to resolve customer issues in the first contact with us and through our proactive messaging during supply interruptions via the AquAlerter system. We are very proud to have been awarded The Institute of Customer Service ServiceMark accreditation in recognition of our customer service standards and our commitment to upholding those high standards. We've reached the milestone of awarding our 1,000th reward badge to customer service agents delivering a 10 out of 10 service. To receive a reward badge, colleagues have to achieve a minimum of 25 scores of 10 out of 10 in customer surveys, or show exceptional service demonstrating our core values – passion, trust, excellence, creativity, and agility.
- ▶ We have reduced the number of void properties (those not charged for water because they are believed to be empty) to 1.76 per cent, outperforming our 2024/25 target of 2.1 per cent.
- ▶ The second phase of our internal Incident Management System is in the pipeline. This will help us manage our bottled water deliveries during incidents more efficiently via better route optimisation planning and improved customer communication.
- ▶ We continue to make improvements to our customer incident messaging system AquAlerter. Customers can now report leaks themselves through the system and we'll automatically keep affected customers updated on progress.
- ▶ We partnered with East Sussex County Council in March to do a door drop of nearly 190,000 properties with cards containing water efficiency tips.



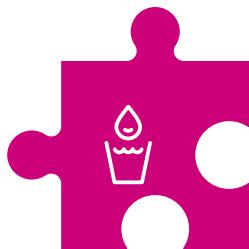
- ▶ We've achieved 9th on the C-MeX (Customer Measure of Experience) Q4 table, our highest position since 2017, when there was a different performance system in place. This puts us 12th overall for the year.
- ▶ During 2024/25 we've engaged with customers and stakeholders, including nine Members of Parliament, and been involved in 71 separate events, including engineering project drop-in sessions, council meetings, site visits, open days and a virtual Q&A session – "Behind the tap: Your drinking water questions answered." Modelled on the Your Water, Your Say sessions of 2023/24, the independently chaired sessions gave customers and stakeholders the chance to speak directly with members of the Executive. Over 200 people attended the session in November. Other events included the launch of our 25 Year Environment Plan (H25z) in Sussex, an open day at Bewl WTW, an open discussion with stakeholders in East Sussex about our next draft WRMP29, Kent County Show and Eastbourne Airborne Show.
- ▶ Through our annual Community Chest scheme, we've supported local charities and community groups again, distributing £20,000 to good causes over the year. These included schools, a community garden, bowling club, a drop-in centre and a nature-based charity that helps vulnerable children.
- ▶ We've started our summer demand campaign earlier than ever before this year due to the exceptionally dry and warm spring weather. The focus has been on encouraging customers to make simple changes to use water wisely, such as doing water-intensive jobs at home before the summer peak demand season. More visual content using videos and online content, such as GIFs, is helping to drive engagement in the campaign.



southeastwater.co.uk/businessplan

Our strategy continued

Priority



Flexible, resilient infrastructure and service

Strengthening our network security, resilience and flexibility is critical to maintaining water supplies and improving our service to customers.

- ▶ We've invested £80 million into the water network in East Sussex, upgrading our infrastructure to provide greater flexibility to move water around the network and ensure we maintain the quality of our drinking water. Work has included completing a £7 million upgrade to Barcombe WTW in Sussex.
- ▶ The upgrade to Bewl WTW and the Bewl pipeline project, which will increase the amount of water we can treat and supply to the area, are both progressing well, with the mains upgrade on track for commissioning in the summer.
- ▶ Work on a £51.8 million WTW on Maidstone's old Aylesford Newsprint site is nearing completion. The first new WTW to be built in Kent for 18 years will allow us to treat and pump up to 20 million extra litres of water a day to the local community.
- ▶ We're investing £12 million in a two-phase project to install a new water main in areas of East Kent which experienced supply interruptions during recent record-breaking summers.
- ▶ Ground investigation works will start soon for the new Broad Oak Reservoir scheme near Canterbury. In February we set up the Stakeholder Advisory Group to help us shape the project further.



- ▶ The first of our 10 new water tankers have already been used during supply incidents, reducing the need to rely on bottled water and improving our support for customers during outages and interruptions. The tankers will also enable us to inject water into the network to return critical supplies of water as quickly as possible and keep the network up and running during key maintenance programmes. Linked to the new tankers, we've opened up a central logistics/alternative water response hub at Morley Road in Tonbridge.
- ▶ To further improve our response during incidents, a new curtainsider vehicle to move bottled water around our area more efficiently is on its way and more vehicles are in the pipeline. Additional bottled water station locations have been proactively identified in key locations using web-based mapping software in readiness for any incident.



[Find out more](http://southeastwater.co.uk/businessplan)

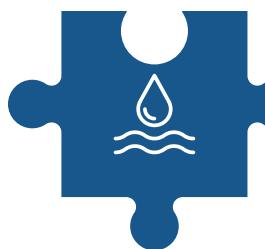
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- ▶ Our easy online reporting tool ANMEL (Accident, Near Miss and Environmental Log) has driven a five-fold increase in proactive safety observations by colleagues which we can now resolve faster.
- ▶ An operational shift pattern review is ongoing to improve working practices, reduce fatigue and enhance wellbeing, while our Mental Health First Aiders continue to support colleagues all year round.
- ▶ Recent news underlines the threat to organisations and critical infrastructure from cyber criminals. We are using industry-leading tools and techniques to constantly improve our cyber security resilience, resulting in us achieving the Drinking Water Inspectorate's standard for compliance with the Network and Information Systems regulations (NIS). We also have comprehensive staff training which is underpinned by rigorous and robust policies and procedures. Our supply chain partners and stakeholders share our commitment to the highest security standards.
- ▶ Supply interruption contingency plans have been extended and we're working with our supply chain partners to source additional alternative water supply options for major incidents while increasing our internal alternative water team. We've also identified and tested additional network hydrant tanker injection points to support customers and protect reservoir storage during interruptions.
- ▶ We now reach 70 per cent of customers impacted by an incident via our new AquAlerter messaging system. Feedback on the system, which keeps customers updated on incidents, remains very positive.
- ▶ Health and safety is always our top priority. This year we had two RIDDORS reported and a lost time injury frequency rate (LTIFR) of 4.4 against a target of 5. We are working with the British Safety Council on a formal auditing and certification process to ensure we continuously improve our approach.
- ▶ We're working with the Institute of Advanced Motorists on driver safety training and, following staff feedback, ergonomics specialists have helped us improve our vehicles for comfort and access.
- ▶ We are still playing catch-up on our flushing programme since the extreme weather experienced in 2023/24. During 2024/25, we've flushed 900 km of pipes to remove deposits which build up over time and safeguard water quality.
- ▶ We are continuing to perform strongly against the water quality target and industry average in the DWI's Compliance Risk Index performance measure. This considers water quality compliance failures at WTWs, service reservoirs and in domestic households. Our performance was 1.09 against an Ofwat deadband of 2.00 and an industry average of 5.20.
- ▶ Event Risk Index (ERI) measures the company's response to unplanned events impacting water quality and supply resilience. The company performed strongly, showing a significant improvement on the previous year with a score of 28, against a company target of 50 and an industry average of 2,229. The improvements shown are as a direct result of the investment at our treatment works and the improved procedures for managing loss of supply events.

Our strategy continued

Priority



Securing the future of water

A resilient and sustainable water supply is more important than ever due to the challenges of population growth, climate change and the need to protect and enhance our natural environment.

- ▶ The Secretary of State approved our Water Resources Management Plan 2024 (WRMP24) before we published the plan in October. This details how we'll provide a reliable and resilient water supply over the next 50 years by investing in new infrastructure, reducing leakage and encouraging water efficiency. Adequate funding for our PR24 business plan is vital to achieve the WRMP24's stretching targets.
- ▶ The Water Industry National Improvement Programme (WINEP) requires us to deliver improvement schemes that protect and enhance the natural environment with sustainability at their heart. New water sources and water transfer schemes are necessary as abstraction licences will be fewer and more tightly controlled in the future (see '*Thriving Environment*').
- ▶ Preparatory work for the Broad Oak reservoir scheme, near Canterbury is under way and we will carry out further feasibility studies on a New Arlington reservoir option in East Sussex to find the best solution. We discussed our strategy for this part of Sussex with regulators and stakeholders during a workshop at Newhaven in October.
- ▶ We have continued to liaise closely with Water Resources South East to ensure our WRMP24 aligns with the regional plan. Stakeholder engagement and technical work has already started as part of the planning for our next draft plan (dWRMP29).



- ▶ On the supply side, work is nearing completion on our new resource at the Butler water treatment works on the former Aylesford Newsprint site in Maidstone. We are improving resilience by ensuring our existing sources, such as Coggins Mill WTW in Sussex, are optimising their outputs.
- ▶ We're doing everything we can to protect our existing groundwater sources from pollution. A rise in nitrates caused by the impacts of climate change (heavy rainfall/very wet winters) and land management practices can affect raw water quality in some areas. Our Environment team is working with landowners to protect groundwater quality via our award-winning catchment management programme (see '*Thriving Environment*').



As part of our leakage recovery strategy, we are increasing the number of staff out finding and fixing leaks, and we've invested in new leak detection technology and systems

- ▶ Reducing leakage is a high priority for us and our customers. During the year we've continued to find and fix leaks across our network to protect water supplies and make them resilient for the future. At the start of the 2020 to 2025 business period (AMP 7), our leakage performance was in a strong position. However, the performance has been impacted in recent years by priorities having to be devoted elsewhere as a result of extreme weather events. Nevertheless, we have completed 18,501 network leaks repairs during 2024/25 – an increase of 12 per cent on the three-year average – and repaired over 6,000 customer-side leaks. As part of our leakage recovery strategy, we are increasing the number of staff out finding and fixing leaks, and we've invested in new leak detection technology and systems to improve the visibility of our pipeline network. We work with industry-leading specialists in leakage identification and management to continually improve our data for better leak repair and prioritisation. This helps to mitigate interruptions risk and improve network resilience.
- ▶ Satellite technology and no-dig repairs are two ways we're using innovation to find and fix leaks while minimising interruptions to customer supplies. We're also starting to use fibre optic cable networks to identify leaks and we're collaborating with industry partners on a new National Leakage Research and Test Centre where new technologies can be developed and tested out without disrupting customers' supplies or affecting water quality.
- ▶ Helping customers to use less water is another priority to secure the future of water. We arrange audits in customers' homes and in businesses to find leaks and provide water efficiency advice. We also engage with schools to raise awareness of water efficiency.



[Find out more](http://southeastwater.co.uk/businessplan)

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Our strategy continued

Priority
 <h2>Thriving environment</h2> <p>A thriving environment is essential to protecting our valuable water sources. As guardians of the environment, we work hard to protect and enhance it for future generations.</p>

- ▶ At the start of the year we launched H25₂, our ambitious 25 Year Environment Plan which sets out how we will protect and enhance the natural environment for future generations through investment, innovation, engagement and partnerships. More than 50 of our partners and stakeholders joined us in Sussex to hear more about our plan, which involved two years of consultation with customers, stakeholders and employees. Attendees learned about our River Stour chalk stream project and our involvement in the creation of the super National Nature Reserve (sNNR) near Eastbourne – the first NNR to protect raw groundwater quality.
- ▶ We've outperformed our year five target for biodiversity and improved another 23 hectares of company-owned land to benefit wildlife and biodiversity in 2024/25. This brings the total area now proactively managed for biodiversity to 1,673 hectares, or 77 per cent of company land – that's up from 54 per cent of land managed for biodiversity at the start of AMP 7 in 2020. This means we have exceeded our five-year target by 213 hectares, an area equal to the size of around 300 football pitches. We are proud to have achieved all the targets set in this challenging project and to have implemented management plans for 214 sites and a range of habitats.
- ▶ As part of the statutory Water Industry National Environment Programme (WINEP), we have continued to deliver on our commitments to enhance the natural environment and ensure any water we abstract does not have a negative impact on the environment.



We are aware there is always a delicate balance between securing the future of water supplies and protecting the rivers and streams we rely on. A key part of our work during 2024/25 has focused on delivering our Restoring Sustainable Abstraction (RSA) schemes and carrying out investigations into the sustainability of some of them. We remain in dialogue with the Environment Agency about this as our views differ about the future sustainability of some abstractions (as a result of climate change assumptions). Our detailed data, monitoring and management over many years clearly demonstrates that turning off some existing abstractions could have a negative impact, rather than a positive one, on stretches of rivers. For instance, turning off some abstractions could lead to a higher risk of flooding or threaten water quality.



► In 2024/25, we delivered two RSA investigation schemes at Bisham Brook, related to our Hurley and Cookham sources, and a second at our Crowhurst Bridge source. Investigations found that these sources were sustainable at Recent Actual abstraction volumes and water body failures were largely attributed to other pressures, such as straightened rivers and road run-off. We also successfully delivered two river restoration/adaptive management schemes on the Maidenhead Ditch, in Maidenhead, and the Itchel Brook, a tributary to the River Hart. We are in discussion with the Environment Agency and Natural England around the sustainability of some of our other sources. We have, however, delivered 12 ground and surface water catchment management schemes – see below. For our bespoke WINEP ODI for the 2020 to 2025 period, we have delivered 58 schemes, with five schemes extended into 2025/26, and two schemes not delivered (65 schemes in total). One of the non-delivery schemes relates to abstraction reductions at our Itchel source. We have not been able to apply for this because of outages at other sources due to pollution from third party sources. We are putting in treatment solutions at these other sources and, once completed, these will enable us to take the abstraction reductions at Itchel.

We were due to switch off a raw water transfer between Darwell reservoir and Hazards Green WTW due to the risk of transferring invasive non-native species (INNS). Building additional resilience into the infrastructure required to replace the raw water main led to delays to delivery. We are working closely with our regulators to explore additional monitoring and mitigation to minimise the risk from invasive species posed by the raw water transfer until the replacement schemes can be completed.

► We have delivered six groundwater catchment management schemes to reduce pollution within the groundwater aquifers this year as part of WINEP. In our Pembury catchment we've removed an old farm waste pile and are monitoring the impact of this on pollutants in the catchment. In our Tonbridge catchment we've installed an innovative treatment, in the form of a pilot permeable barrier in the aquifer to reverse historic contamination within the catchment.

Our strategy continued

Thriving environment continued



- ▶ Our work in the Woodgarston catchment has continued and we've worked closely with farmers and land managers on interventions to reduce nutrient leaching to groundwater. Over 90 per cent of farmers in the catchment are now engaged with us through tests and trials, steering groups or through our capital grants scheme. Our innovative trials in this catchment mean that our company is one of only three water companies with an Advance WINEP for 2025 to 2030, allowing us to innovate further in this area and share findings with the water industry and the agricultural sector.
- ▶ We've presented training to five local authorities in 2024/25 on the importance of Source Protection Zones (SPZ), which protect groundwater sources used to supply drinking water, from pollution. We have done this due to an increase in housing development in SPZs in some of our groundwater catchments.
- ▶ Proactive work with farmers and landowners has resulted in us outperforming our five-year Landowner ODI target of 14,217 hectares by successfully engaging with landowners who manage 15,098 hectares within our target catchments. In 2024/25 we've engaged with 43 farm businesses within ODI target areas. We've supported a Hampshire hop producer to reduce artificial fertiliser use by up to 50 per cent and to trial biological pest control, which resulted in 50 per cent of the crop requiring no chemical treatment. We also provided technical advice and grant support to enable a livestock farm in the River Teise catchment to fit 90,000 litres of rainwater harvesting equipment. This helps to reduce the farm's reliance on mains water supply, provide water to cattle and sheep where supply is temporarily lost, helps to lower the farm's water bill, and can help reduce demand on our mains supplies to our customers.



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We have continued working with partners including the South Downs National Park, University of Brighton, Environment Agency and Ouse and Adur Rivers Trust to develop an INNS strategy for the River Ouse

- ▶ There are also wider environmental benefits to our catchment management programme under the Landowner Engagement ODI. As well as managing the risks of deteriorating water quality, measures also benefit a range of other ecosystem services (benefits provided to people by the natural environment) such as air quality, climate regulation and biodiversity. We've found that some of the most impactful measures among all the ecosystem services assessed were undersowing maize with grass, arable reversion, woodland management and silvopasture. Our study also found that catchment management measures implemented between 2020 and 2024 are estimated to sequester an additional 1,001 tonnes of carbon through changes in land use type or habitat type, compared to the baseline farm management regime. The total monetary value to society from all catchment management measures implemented as part of this performance commitment has been estimated at £459,045 per year. This is the combined total of all ecosystem services benefits and disbenefits, and excludes any measures undertaken in the financial year 2024/25.
- ▶ We have continued working with partners including the South Downs National Park, University of Brighton, Environment Agency and Ouse and Adur Rivers Trust to develop an INNS strategy for the River Ouse which includes installing boot wash facilities at key sites and signage promoting good biosecurity practices.
- ▶ In October we reached an important milestone in our environmental stewardship, with 73 per cent of our company-owned Sites of Special Scientific Interest (SSSI) land now managed to a favourable condition, surpassing the industry average of 16.4 per cent.
- ▶ We're working with the Longbridge Regenerative grazing project to use Exmoor ponies in a nature-based solution to manage 181 hectares of invasive tor grassland in East Sussex.
- ▶ Common reptile numbers at our Offham WTW site are thriving thanks to our proactive habitat management and protected species monitoring. We found no less than 14 slow worms under a single survey mat, and 24 slow worms and two common lizards in total, warming up under the survey mats during the survey, near specially constructed hibernacula.

Our strategy continued

Priority



Low carbon sustainable business

As a responsible company we want to improve the sustainability of our business by becoming operational net zero carbon by 2030. We remain committed to tackling the causes of climate change and transitioning to low-carbon operations.

- ▶ Our goal is to secure long-term renewable energy supply to cover all our electricity requirements by entering into power purchase agreements (PPA). Entering into a long-term PPA will directly contribute to the development of new renewable energy capacity and enable further decarbonisation at a UK level. We hope to announce details of our first PPA for 40 per cent of our energy needs in the near future. This is an excellent carbon zero project and should spearhead the next stage to organise a second PPA for another 40 per cent of our energy needs.
- ▶ We aim to cover the remaining 20 per cent with our own on-site solar projects. We have an agreement with a third-party investor to install renewable solar energy on 20 sites, mainly water treatment works sites. In the future we may be able to work with local communities to use some of our solar projects to provide wider community benefit.
- ▶ Where appropriate, we also want to consider combining onsite battery storage alongside solar generation. This would allow us to extend solar energy beyond daylight hours and would also give sites more resilience in the event of grid outages. A pilot project is currently running at Ospringe where we are using a battery to replace a diesel generator.



- ▶ A new company-wide electric vehicle (EV) salary sacrifice scheme for employees, allowing them to lease an electric vehicle at a significantly reduced cost, is nearing sign-off. This will reduce the carbon footprint of the journeys they make for work while supporting our environmental ambitions.
- ▶ We're continuing to invest in our own EV infrastructure. During the year we've increased the number of EV charging points across company sites by 10 per cent. We are also planning a power capacity upgrade investment at our head office site at Snodland to accommodate more charging points.

“

We now have 16 EV vans in our fleet, having added six vans to the fleet in 2024/25 – that's a 60 per cent increase. 100 per cent of our company car fleet is now either electric or hybrid



► We now have 16 EV vans in our fleet, having added six vans to the fleet in 2024/25 – that's a 60 per cent increase. 100 per cent of our company car fleet is now either electric or hybrid. We are currently working with a specialist EV consultant who is using our tracking system and other information to map out a comprehensive EV strategy for us before we can finalise a plan to increase our EV fleet further. Battery range, the current cost of EVs compared to diesel versions and the battery charging infrastructure on site and at home are all issues we need to assess and resolve as part of our strategy. We need to ensure that any future investment in EVs does not compromise our frontline operational capability due to the 24/7 nature of our business. We remain involved with a UK-wide utility fleet forum which regularly meets to discuss these issues as well as sharing insight, ideas and best practice. The result of the review of the Final Determination by the CMA may also impact on the investment in this area as we plan to decarbonise our commercial fleet by 70 per cent by 2030, subject to funding. The transition to EVs will continue throughout this five-year business period but we need to await the CMA review before we know to what level we'll be able to progress the transition.



[Find out more](#)

southeastwater.co.uk/businessplan

Our strategy continued

Priority



Future-ready business

As a future-ready business, we are committed to providing our customers with the best service possible, now and in the future. Our people are key to this. By attracting and retaining top talent and equipping our diverse teams with the training and the tools they need to meet the current and future needs of all our customers, we can continuously improve our service and make our company a high performing, inclusive place to work.

- ▶ Our new HR IT system (HRIS) went live on schedule in March to future proof our business with a more user friendly, intuitive system that will connect all business areas. The system, which includes employee services such as recruitment, onboarding, payroll and a self-serve portal, will improve efficiency and give greater visibility of workflows while providing users with a better experience.
- ▶ Our recent focus has been on helping to shape our company for future challenges including the delivery of our ambitious new corporate plan. Two new directorates will be created to help us deliver our most ambitious business plan ever, the Investment Delivery Directorate (IDD) and Technology and Insight Directorate (TID). A Change team will be in place to ensure we set the business up for future success. Our new five-year people plan will play a key role in this as we support and guide staff through the process.
- ▶ We are very proud of our growing and comprehensive apprenticeship programme. At any one time, we now have between 60 and 70 apprentices in the business. We've also increased the number of apprenticeship standards we offer from five to 20, helping us to secure the next generation of talent through investment in new and emerging talent and home-grown skills. Apprentices currently account for 7 per cent of employees. Women account for more than half of all applicants for our new apprenticeships, with 33 per cent subsequently being recruited. Our collaboration with Thames Water on a joint operations apprenticeship programme continues to work well.



- ▶ Our company has been awarded Gold membership of The 5% Club for 2024/25 after an official audit. We believe we are the first water-only company to have achieved this accolade. The 5% Club recognises companies where at least five per cent of colleagues earn and learn at the same time.
- ▶ This year 89 current colleagues have undertaken internal upskilling programmes to help us meet our business's future and changing needs through our Aspire, Inspire and Lead routes. This is a 31 per cent increase compared to 2023/24. Overall, 42 per cent on upskilling programmes have again been women. Women make up 50 per cent of our Aspire programme participants. We are currently taking nine colleagues through our Preparing for Senior Leadership programme, having identified them for future senior roles through our succession planning activities.



- Work is continuing on putting together a new shift pattern and standby (on-call) structure following a review aimed at encouraging more people into operational roles. The goal is to offer more choice and greater flexibility in operational roles, as these frontline positions have traditionally required unsociable working hours which can deter some people from applying for them. Discussions are ongoing with employees about the best approach for the new structure.
- We always aim to treat colleagues, customers and partners fairly and respectfully so that they feel included and supported. Colleagues received mandatory training in equity, diversity and inclusion in June as part of this responsibility.
- Staff engagement remains high at 91 per cent according to our last pulse survey in November. There were improvements in all areas surveyed. We also improved in specific focus areas – culture and diversity and senior management – performing above the external benchmark on culture and diversity. We continue to build and support a pipeline of diverse, talented colleagues. Our mental wellbeing scores remain high but we continue to support any staff who are struggling or are unwell and use insight from the survey to do this. The results are testament to all the hard work that goes on throughout the company to make our company a great place to work.
- The latest gender pay gap report (April 2024 data) shows an improvement in the gender pay gap of 0.5 per cent to 21.1 per cent. This is another small step in the right direction but we know there is more to do. We will continue to focus on the best ways to make a lasting change in how women are represented within our company.
- We are still outperforming our industry on gender diversity, employing 40 per cent of women against an industry average of 33 per cent. Of those applying for our vacancies, 39 per cent were women, with 39 per cent of these going on to join the company.
- Grief can affect people in different ways and we remain sensitive to the individual needs of colleagues experiencing a loss. Therefore, we have extended the leave available to those suffering a bereavement and also extended the eligibility to include a broader definition of 'family', those who've suffered a miscarriage and the policy now includes one day's paid leave for the loss of a pet.



[Find out more](http://southeastwater.co.uk/businessplan)

southeastwater.co.uk/businessplan

Our strategy continued

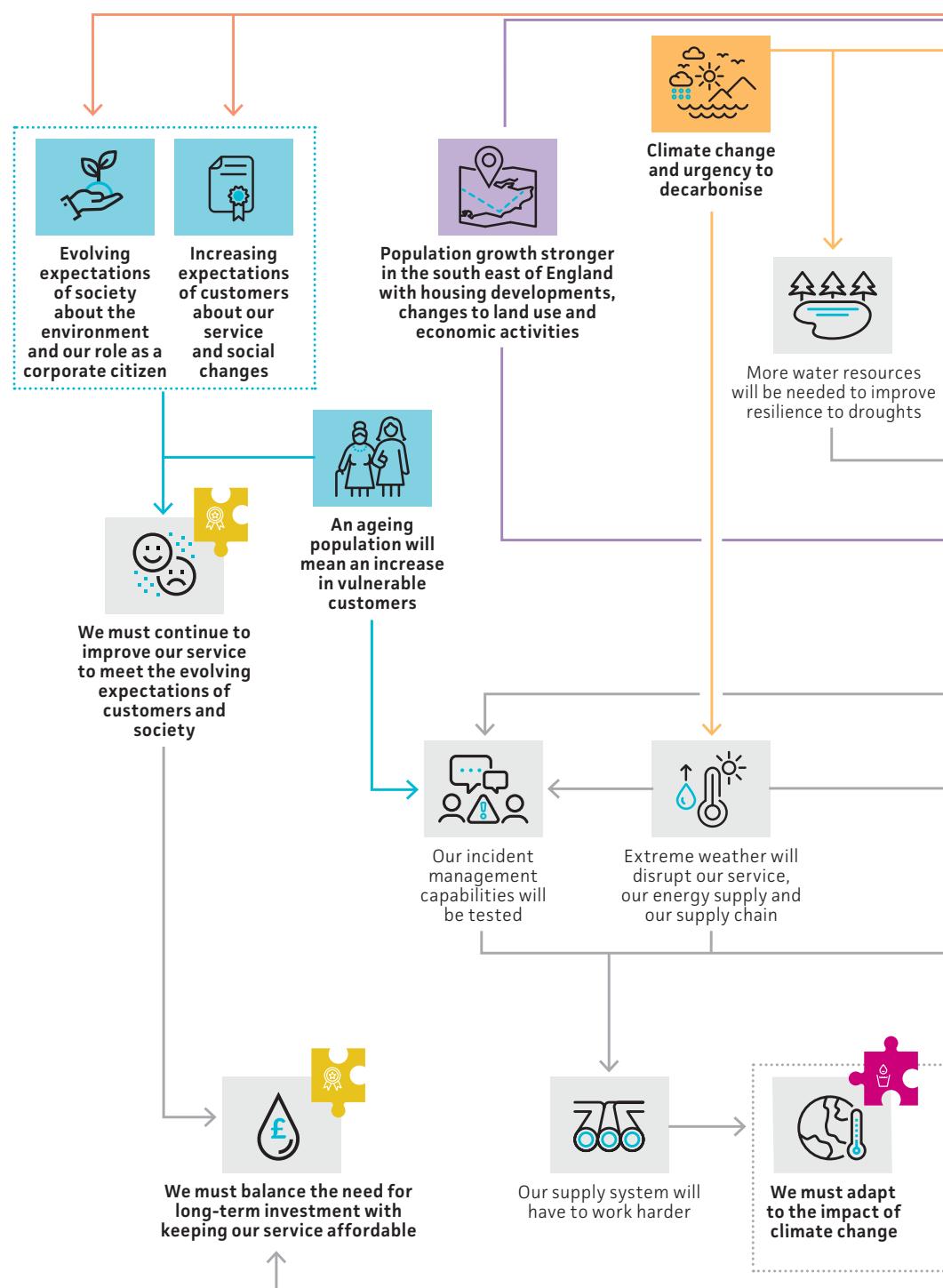
Integrated thinking

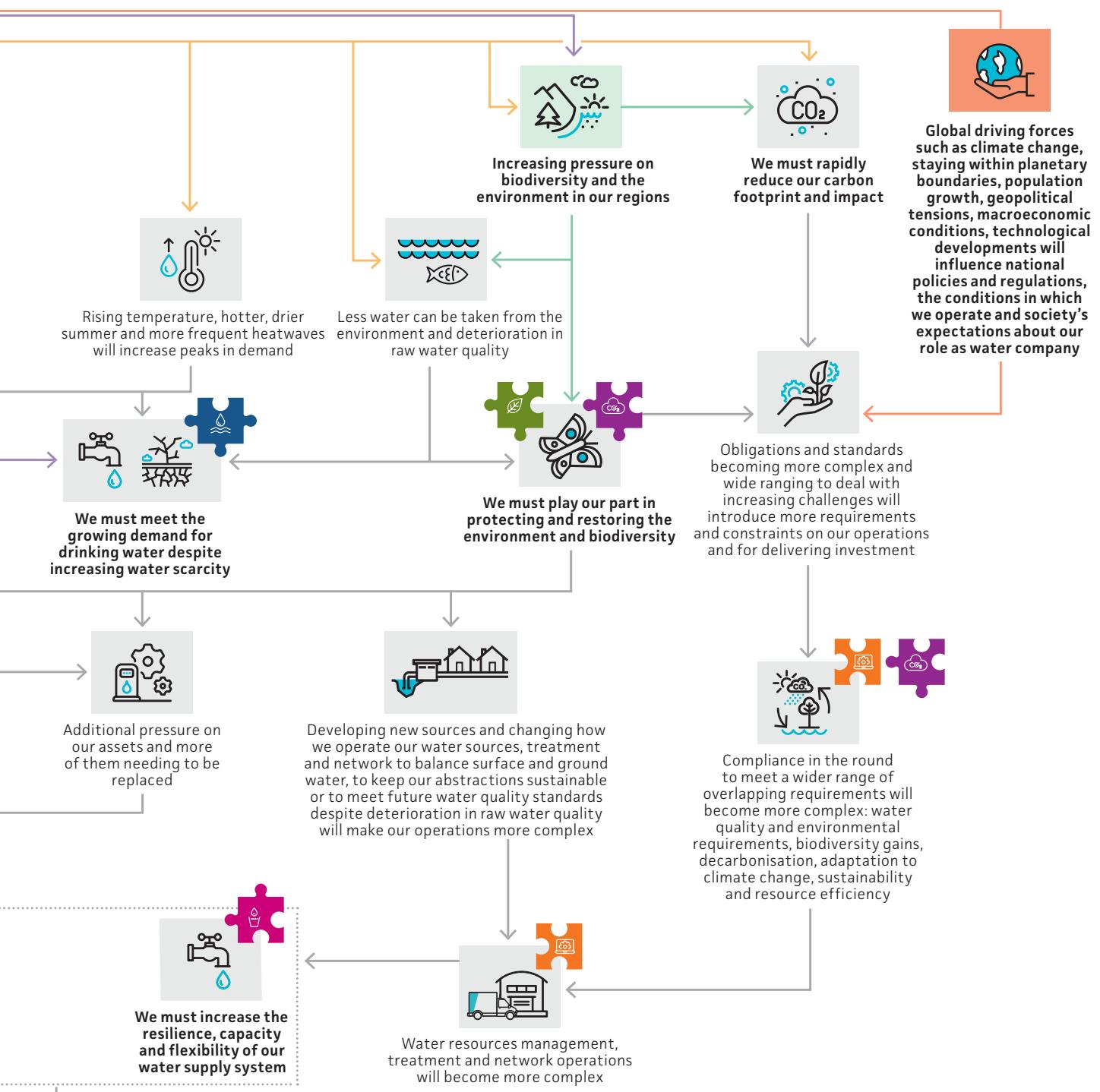
To fulfil our purpose in the long-term we must understand the combined impact of climate change, population growth, sustainable water abstraction, demand and leakage management, customers' behaviours, the need to enhance habitats and biodiversity, and the availability and maturity of relevant technology. We must also consider the impact of policies set by regulators and government on us and on other sectors.

The assessment and mitigation of climate-related risks is a key aspect of our long-term planning which guides our investment. However, focusing on these risks in isolation would not recognise the fact that our future challenges will result from multiple factors.

We promote integrated thinking by co-ordinating our actions across our long-term plans and developing our understanding of future challenges through scenario analysis.

The relations between our challenges

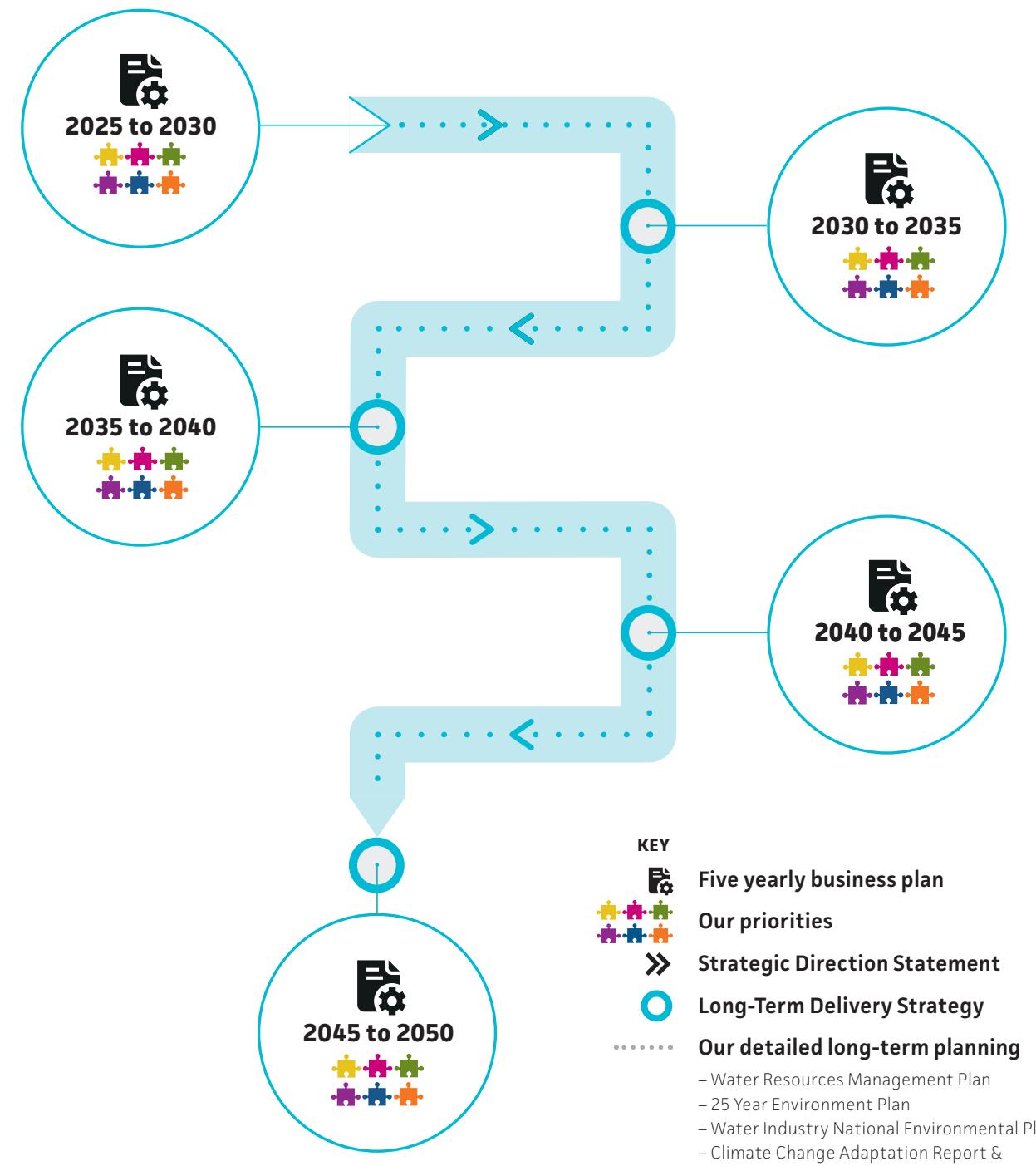




Our strategy continued

Planning for the future

Planning for the future is a very important part of what we do as a water company. “To create tomorrow’s water supply solutions” is a key part of our purpose; it is also one of our main statutory duties. We update several long-term strategies and plans every five years to anticipate and prepare for what the future holds.




Find out more
 about our long-term plans
southeastwater.co.uk/ourplans



Water Resources Management Plan

- ▶ Forecasts the impact of population growth, housing developments and climate change and how we can ensure our water resources are sufficient and water abstraction is sustainable over the next 50 years, based on different adaptive pathways.
- ▶ Is part of a regional plan, developed with all water companies in the south east of England following guidance from government and regulators, which selects the optimal water resources options for the region.
- ▶ Ensures that future water supplies will meet the demand for water and be resilient to climate change by developing new sources, transferring water within our area and between water companies, reducing leakage, and encouraging customers to use water wisely.

25 Year Environment Plan

- ▶ Sets out our ambitions and environmental management principles.
- ▶ Defines how to improve and enhance the environment, deal with sustainable abstraction, raw water quality deterioration, and biodiversity loss. It does this through nature-based solutions such as catchment management or the management of natural sites that we are responsible for.

Water Industry National Environment Programme (WINEP)

- ▶ Is a programme of actions (included in our business plan) to protect, restore, and enhance the water and wider environment and to meet existing and new environmental outcomes.

Adaptation report, net zero routemap and Task Force on Climate-related Financial Disclosures (TCFD) reporting

- ▶ Identifies and assesses our climate-related risks, and the actions we need to take to adapt to the impact of climate change and reduce our business emissions.

Drought plan

- ▶ Sets out the range of management, operational and communications actions we will take to manage the water supply in drought conditions. This includes the permits, orders and other authorisations needed to implement drought management actions, and related monitoring, mitigation, and prevention measures.

Long-term delivery strategy and asset management strategy

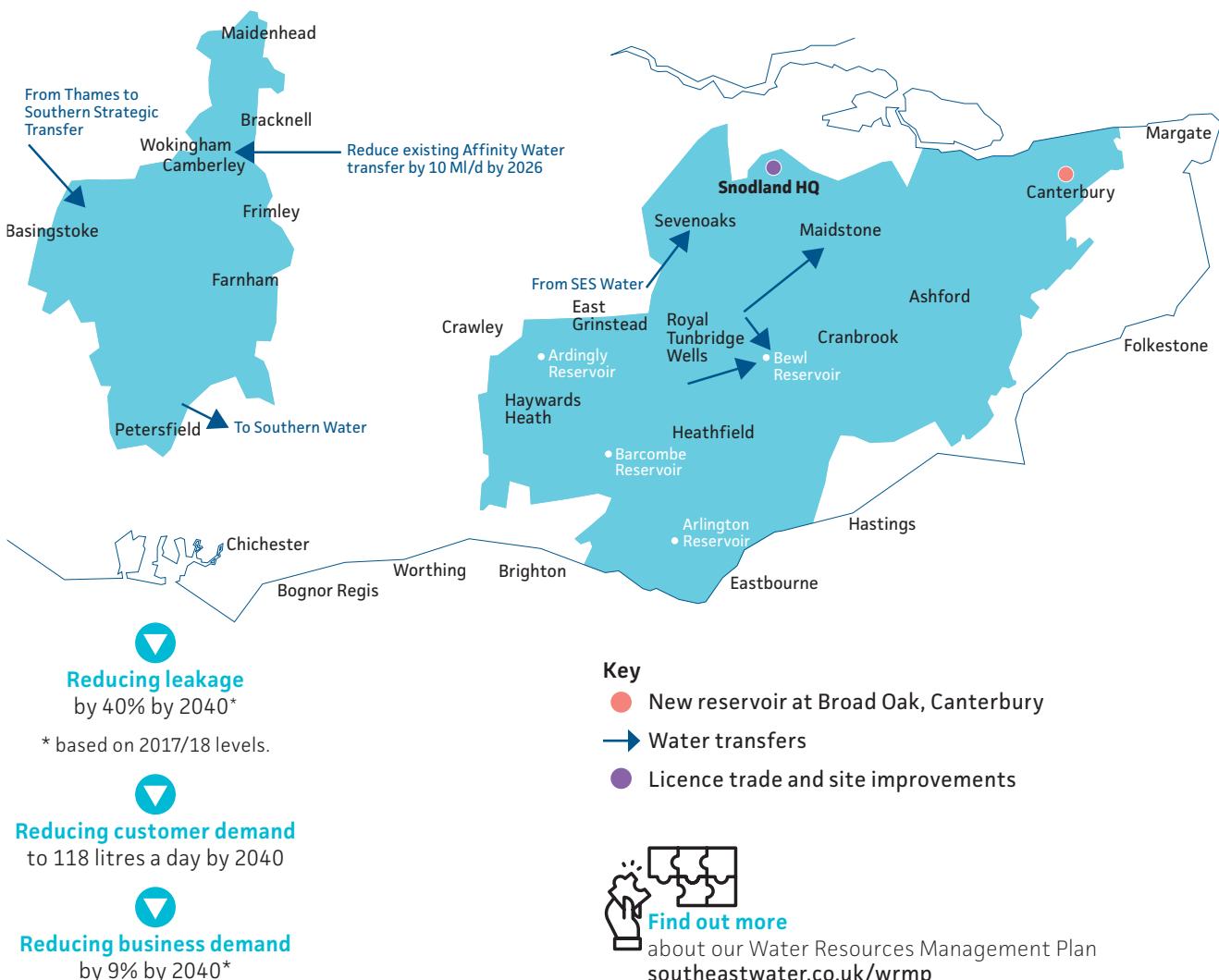
- ▶ Set out the performance and service improvements we want to achieve, the levels of performance we target and how we will prioritise and phase investment.
- ▶ Uses different adaptive pathways (combining climate change impacts with other factors) to maintain the resilience of our assets and services.

Implementation of our strategy

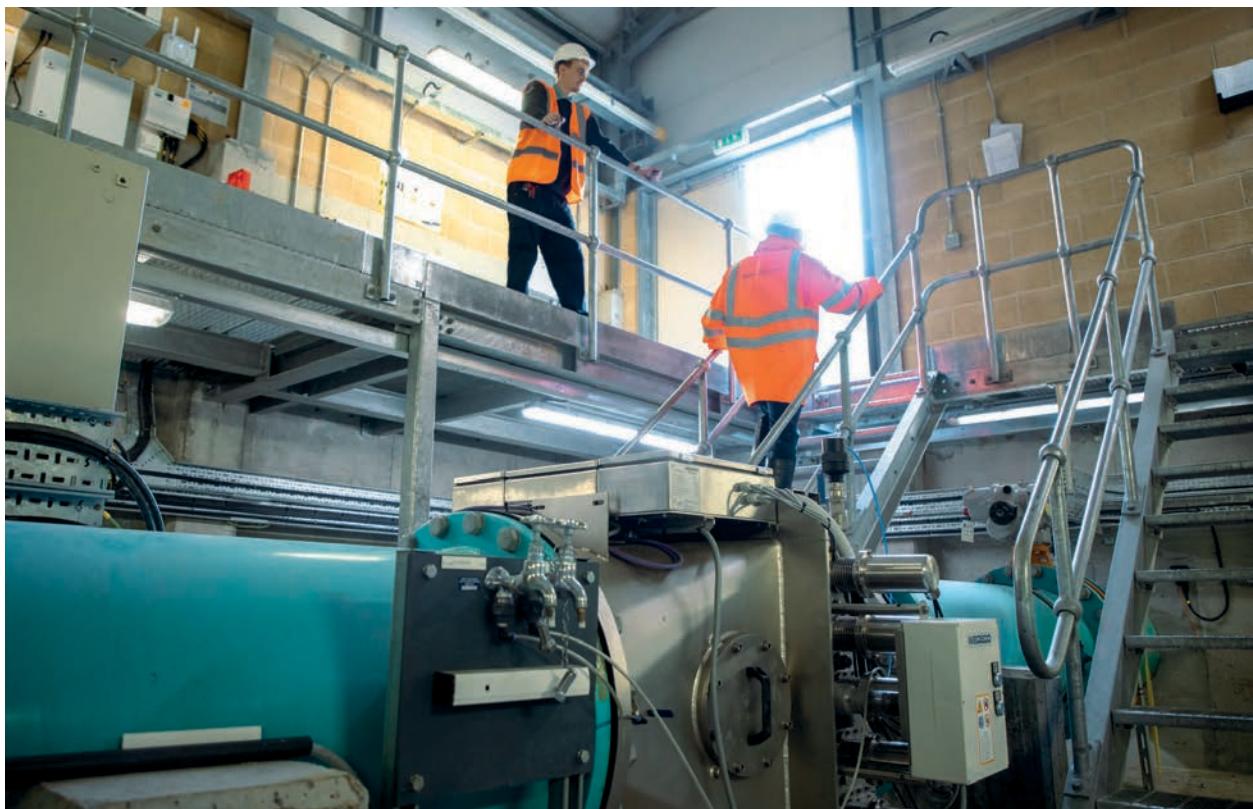
Our Water Resources Management Plan

Our main investment in water resources over the first 15 years (2025 to 2040) through our water resources management plan comprises:

- ▶ Leak reduction and water efficiency activities – saving an extra 34 million litres of water a day.
- ▶ A new smart meter installation programme with trials starting in 2025 and a full roll-out from 2027 onwards, with the goal of providing smart meters across 90 per cent of our households by 2035.
- ▶ Reducing non-household consumption with measures such as business smart meters and water efficiency audits.
- ▶ New pipelines to increase the amount of water moving between water companies and within supply area.
- ▶ A new reservoir at Broad Oak (Kent) by 2033 – providing an extra 22 million litres of water a day while reducing abstractions of groundwater.
- ▶ A new groundwater source, via a licence trade near Maidstone (Kent) by 2040.
- ▶ Sub-zonal schemes to improve our local network connectivity and reduce abstractions that could impact the environment.
- ▶ Further development work and early feasibility studies on schemes such as a new Arlington reservoir, Peacehaven recycling and Reculver desalination to ensure we are ready, if needed, to adapt to future uncertainty.



Our Business Plan – 2025 to 2030



Receiving an uninterrupted water supply is customers' top priority, together with affordable bills. Customer satisfaction is rooted in a resilient infrastructure, and we must continue to deliver improvements in performance and service quality.

Our business plan for 2025 to 2030 includes significant investment to reduce supply interruptions and strengthen network resilience. Over the next five years we propose to invest nearly £2.1 billion into our network. This is a significant increase compared with recent regulatory periods.

During our extensive engagement, customers confirmed they supported our business plan proposals to invest in regional resilience. They highlighted the need to address both short and long-term resilience challenges and understood the impact of population growth and extreme weather on the water supply.

To mitigate the impact on bills, we are proposing an even more ambitious plan to support customers who need financial help. This includes nearly doubling the numbers on our social tariff by 48,000 to a total of 104,000 customers, and increasing the qualifying threshold by 17 per cent.

Implementation of our strategy continued

A trusted and affordable service supporting customers and society

To support our customers and deliver a reliable service for all, we will:

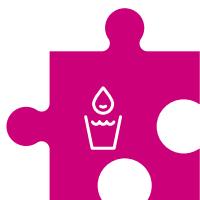
- ▶ **Implement a six point plan to reduce water poverty by 2030 comprising:**
 - ▶ A comprehensive package of financial support.
 - ▶ Improving take up of the support we offer customers through targeted engagement and by raising awareness.
 - ▶ A broad suite of non-financial support services.
 - ▶ More use of data, and data share agreements with local authorities.
 - ▶ An inclusive approach to water efficiency.
 - ▶ New tools and systems that empower our teams to improve our customers' experience and give them the support they need.
- ▶ **Increase our capacity to respond to interruptions of supply and provide support to more customers.**
- ▶ **Use new technology and channels for customer interactions.**
- ▶ **Automate our back-office systems to improve service.**



Flexible, resilient infrastructure and service

To provide a flexible, resilient infrastructure and high-quality service, we will:

- ▶ **Improve network resilience:**
 - ▶ Upgrade to the Barcombe WTW (water treatment works) improving resilience for 172,190 customers (Haywards Heath area).
 - ▶ Deliver new mains transfers and interconnectivity schemes; and extra drinking storage capacity.
 - ▶ Increase treatment works capacity at Bewl, Pembury and Tonbridge WTW, and improve flood defences at Tonbridge, improving resilience in the Tonbridge / Tunbridge Wells area.
 - ▶ Start the construction of a new 4 million litres per day company transfer from Blackhurst to Bewl, to be completed by 2033.
- ▶ **Implement a full smart network roll-out, to include installing pressure loggers, flow meters, water quality monitors, and 275,000 smart meters (reaching 90 per cent of households by 2035).**
- ▶ **Maintain excellent water quality and build three new nitrate treatment plants in our western region.**
- ▶ **Increase our incident preparedness and alternative water capability to support up to 100,000 customers (from 30,000).**



Thriving environment

To protect and improve our environment, we will:

- ▶ **Adopt a holistic approach to make the right, long-term, well-balanced decisions that:**
 - ▶ Plan and adapt for climate change on a local level.
 - ▶ Manage catchments holistically.
 - ▶ Encourage collaborating with partners wherever possible.
 - ▶ Develop more resilient use of water across our customer base.
- ▶ **Deliver 73 environment schemes as part of our environment programme (WINEP):**
 - ▶ Work with partners to improve the quality of raw water entering our catchments.
 - ▶ Improve biodiversity to support an abundance of wildlife.
 - ▶ Reduce, monitor, and prevent invasive species from entering our environment.
 - ▶ Ensure no deterioration in surface water quality and improve river flows.
 - ▶ Invest in nature-based solutions.



Low carbon sustainable business

We will undertake the following to play our part in tackling the cause of climate change and meeting the UK's emissions reduction targets:



- ▶ Increase our use of green electricity, ensuring value for money and generating renewable electricity at our sites.
- ▶ Offset carbon through tree planting.
- ▶ Replace 70 per cent of our fleet with low-carbon alternatives.
- ▶ Initiate pilot projects to switch our backup electricity generators from diesel to alternatives like battery, hybrid (diesel/electric), or hydrotreated vegetable oil (HVO) generators.

Securing the future of water

To secure the future of water, we will:



- ▶ **Increase future water supplies:**
 - ▶ Start work on a new reservoir at Broad Oak, near Canterbury, due to be completed in 2033.
 - ▶ Develop seven new sub-zonal schemes, and complete six by 2030 to improve local connectivity and enable abstraction reductions.
 - ▶ Undertake early work and feasibility studies on a new Arlington reservoir, Peacehaven recycling and Reculver desalination schemes so we are ready to implement these solutions when needed.
- ▶ **Reduce bursts and leakage by 11 million litres of water a day by 2030 by investing in technology which help us:**
 - ▶ Find leaks quicker and reduce fluctuations in pressure, which is a major cause of leaks.
 - ▶ Better understand the condition of mains and prioritise their replacement.
- ▶ **Help customers to use less water:**
 - ▶ Visit customers' homes and businesses to find leaks on their plumbing and provide water efficiency advice.
 - ▶ Engage with schools to raise awareness of water efficiency.
 - ▶ Implement a water efficiency tariff: lower usage = lower bills.

Future-ready business



- ▶ As a future-ready business, our commitment to innovation and adaptability keeps us on the path of consistent progress. To rebuild trust, we are improving how we keep all our customers thoroughly informed and updated.
- ▶ Roll out the technology, information systems and data analysis to support smart networks and smart meters that will give us real time and precise insight into supply status.
- ▶ Introduce the second phase of AquAlerter to allow us to provide customer updates at street level and improve leak reporting.
- ▶ Increase our capabilities and bring in new skills to use new technology and deliver investment in long-term resilience.



[Find out more](#)

about our business plan

southeastwater.co.uk/businessplan

Our business environment



Natural environment

Key characteristics

- ▶ We rely on, and must protect, the quantity and quality of the freshwater we take from the environment which will be impacted by climate change.
- ▶ Rainfall in the south east of England is lower than in other parts of the country and the region is an area of serious water stress.
- ▶ Due to our geography and history, we use many small groundwater sources compared with other water companies, many of which with water that is difficult to treat and corrosive to equipment.
- ▶ We are a significant landowner, managing 33 Sites of Special Scientific Interest, including the national nature reserve at Lullington Heath in East Sussex, two nature reserves at Arlington Reservoir and Ardingly Reservoir in Sussex as well as other sites within Areas of Outstanding Natural Beauty.

Key trends

Principal risks impacted by these trends [|1|](#) [|4|](#) [|5|](#) [|7|](#)

- ▶ Climate change is already impacting on our operations with more frequent severe weather which has exceeded what was anticipated in climate projections.
- ▶ Changes in requirements to ensure our abstraction is sustainable will impact how we manage our existing sources of water, especially chalk streams.
- ▶ New environmental obligations (e.g. biodiversity net gains), stronger scrutiny on compliance with abstraction licences and discharge permits, and more enforcement action by regulators.
- ▶ Greater expectation on us to extend the range of our interventions under WINEP to enhance the environment, e.g. addressing environmental issues caused by third parties.

Social environment

Key characteristics

- ▶ Everyone relies on our essential service. This has a huge influence on our work and requires regular engagement with customers and stakeholders.
- ▶ An uninterrupted water supply is customers' top priority, together with affordable bills. They expect us to reduce leakage and, if we are not successful, this makes our messaging on the importance of using water wisely less effective.
- ▶ We have a comparatively high percentage of older residents in our region who need our support on a day-to-day basis and during incidents.

Key trends

Principal risks impacted by these trends [|1|](#) [|4|](#) [|5|](#) [|7|](#)

- ▶ Water use has increased and usage patterns have changed since the pandemic, with more people working from home having an impact on peaks in demand and supply resilience.
- ▶ Recent water supply interruptions in our area have damaged customer satisfaction and their perception of us. There is also widespread criticism of the sector, fuelling distrust and influencing the political and regulatory environment.
- ▶ Customers support our business plan proposals to invest in regional resilience and expect us to address both short and long-term resilience challenges.

Political and regulatory environment

Key characteristics

- ▶ We operate within a strict regulatory environment (See key relationships on page 18).
- ▶ Changing obligations including regulatory and environmental, changes in policies and potential misalignment between policy areas or regulators, impact our performance and our ability to meet long-term challenges.
- ▶ We influence future policy through direct engagement with regulators and political representatives, our participation in consultations and as members of the water industry trade body, Water UK.

Key trends

Principal risks impacted by these trends | 7 | 8 | 12 |

- ▶ Scrutiny of the sewerage sector and criticism about storm overflows is extending to the whole water sector, with increasing challenges about the performance and ownership model of water companies, dividends, and executive pay.
- ▶ Increasing public and political scrutiny of the sector influences regulation and the enforcement practices of regulators.
- ▶ In our view, Ofwat's PR24 final determination has increased the uncertainty associated with the price review process.
- ▶ The interim report of the Cunliffe Review has presented an accurate assessment of the shortcomings of the current regulatory framework and its recommendations, if followed, could significantly improve the regulation of the water sector.

Economic environment

Key characteristics

- ▶ Macroeconomic conditions impact our costs, those of our supply chain and our customers' ability to pay their bills, and our levels of bad debt.
- ▶ We have significant funding requirements to carry out our investment programme; inflation and related interest rate rises have a significant impact on our cost of debt.
- ▶ Electricity and chemicals are essential to our operations; their prices are sensitive to macroeconomic conditions and global events.
- ▶ Combined with regulatory risks resulting from price reviews and the political environment, the economic environment influences our ability to access capital on favourable terms.
- ▶ The south east of England is a relatively affluent part of the UK, but there are pockets of deprivation and a comparatively larger number of pensioners are affected by cost-of-living increases.

Key trends

Principal risks impacted by these trends | 2 | 3 |

- ▶ Inflation has stabilised but the cost-of-living impacts customers' ability to pay their bills which have increased in 2025 to reflect the need for significant additional investment in our supply system. Our social tariff and financial support to vulnerable household customers will increase to support those who need it.
- ▶ In 2025 to 2023, the significant increase in investment in the water sector and other sectors is likely to put pressure on input costs.

Innovation and technology

Key characteristics

- ▶ Innovation and technology enable us to work more safely and efficiently and to keep up with regulatory and consumer expectations.
- ▶ Greater reliance on information and communication technology increases the risk of disruption from cyber-attacks.

Key trends

Principal risks impacted by these trends | 6 | 7 | 9 |

- ▶ Technological development (network automation, Artificial Intelligence (AI), machine learning) are increasingly relevant for meeting leakage and demand reduction targets and improve operational performance with smart networks and metering.
- ▶ Customers expect us to adopt digital technology for their interactions with us and to enable self-service.

We provide explanations on the long-term trends and challenges which determine our strategy on pages 22 and 24.

We provide more details below on how our business environment influences our principal risks and our assessment of the year-on-year trend for each risk.

Risk management and principal risks

How we manage risks

We have comprehensive internal control and risk management systems, and we monitor their effectiveness regularly in compliance with the principles of our corporate governance code.

We maintain a risk register for the identification, evaluation, and mitigation of risks. Our risk management model uses standardised risk descriptions (cause, event, effect) and scores based on impacts and likelihood. Risk scores reflect current controls and mitigation measures. A target risk score is also calculated based on planned improvements to controls and mitigation. We also assess emerging and future risks, broadly targeting a rolling 10-plus year time horizon.

Risk management is integral to the delivery and monitoring of performance and compliance with our statutory obligations. It informs our day-to-day operation and is informed by it. Individual managers and heads of department are responsible for identifying risks relevant to their area of responsibility and defining and implementing mitigations. We also take advantage of the potential for business improvement that arises from risk management and the implementation of mitigations.

We maintain a company monitoring framework. This includes a risk assessment to ensure the information we publish is accurate and reliable. External assurance of our performance reporting provides additional controls. We provide more details on the assurance of our performance and other regulatory data in the annual performance report.

Risk management is also integral to how we manage our infrastructure and to our long-term planning, which is based on our assessment of future risks and how they will be mitigated. Investing regularly to meet our long-term challenges ensures we can maintain and improve service levels and continue to meet our obligations.



Risk management is integral to the delivery and monitoring of performance and compliance with our statutory obligations

This model allows the board to assess and manage risks at a strategic level and the executives to manage risks at an operational level. The board defines our risk management framework and reviews the risks on the register and the effectiveness of the relevant mitigation measures at least once a year.

The board and the audit and risk committee review our material financial, operational and compliance controls through regular or specific updates. The board reviews monthly, quarterly, and annual performance reports which highlight risks as they arise and mitigation that are put in place. An additional board session dedicated specifically to the consideration of strategic risks has been introduced this year in the board schedule.

The executive team monitors and reviews relevant risks on a monthly basis.

The risk management systems described here have been in place for the year under review and up to the date of approval of the annual report and financial statements.



Our principal risks

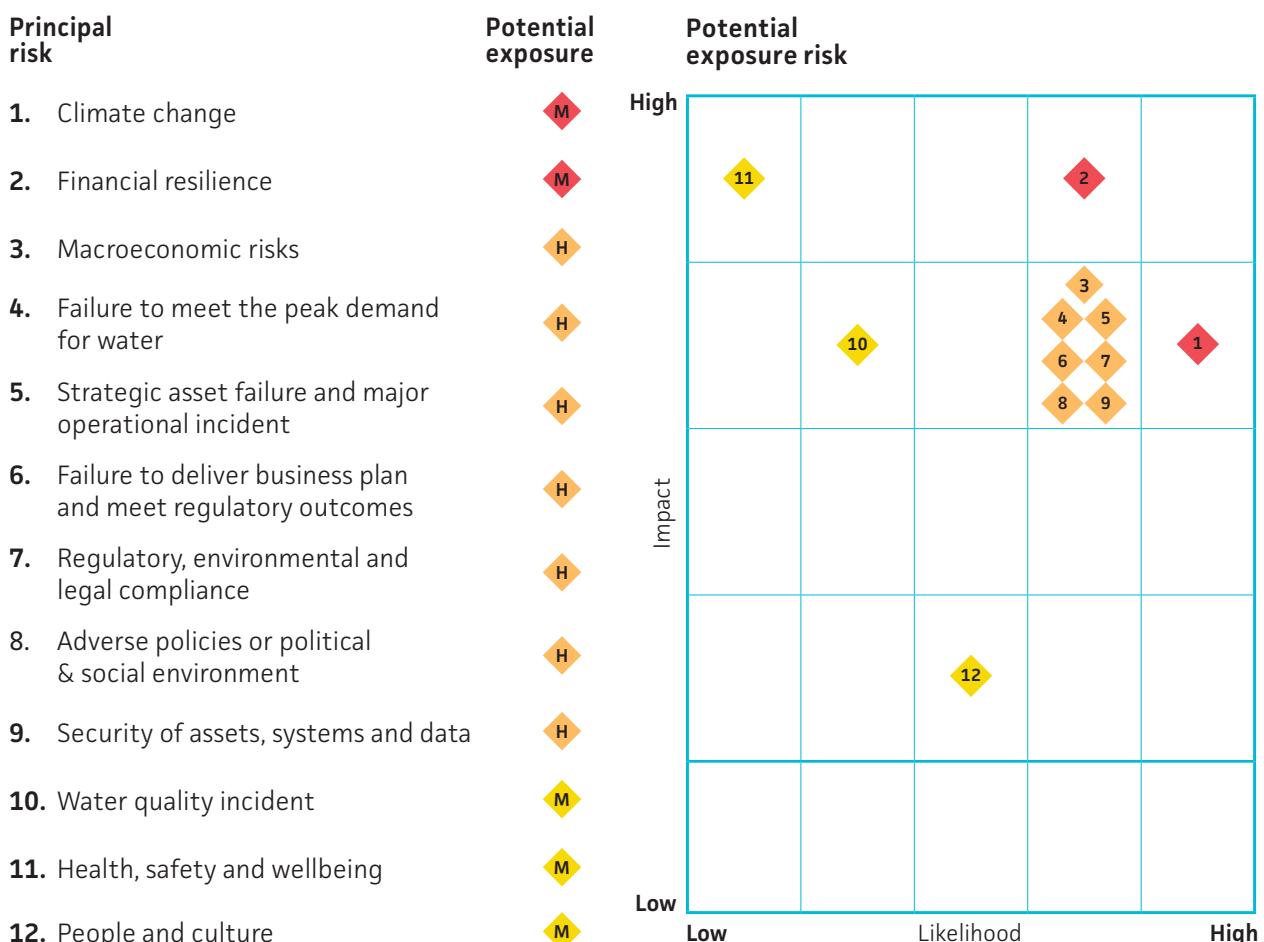
We describe our principal risks, their potential impact and how they are managed on the following pages. Principal risks are those which, due to their likelihood or magnitude, can significantly impact our company's long-term success. We consider their impact on our business model, strategy, future performance, solvency, and liquidity, and assess them in the context of our business environment.

The board carried out a review of our principal and strategic risks and the high impact and emerging risks on our risk register. Principal risks represent an aggregation of individual underlying risks in our risk register. Their current risk exposure and trend reflect the risk levels and trends of the related underlying individual risks in our risk register.

This review found no significant change this year to the definitions and presentation of our principal risks other than the updated assessment of trends to reflect changes in our environment.

Risk management and principal risks continued

Overview of our principal risks



The potential exposure indicator reflects our assessment of the overall net risk exposure, taking account of individual underlying risks in our risk register. The colour of the risk on the matrix above indicates potential exposure. The risk score shown in the diagram above reflect the current pre-mitigation assessment of the risk.

Key

Potential exposure

Major	High	Moderate	Low

Risk trend

Increasing	Stable	Decreasing

Link to our strategy

A trusted and affordable service supporting customers and society	Flexible, resilient infrastructure and service	Thriving environment	Low carbon sustainable business	Securing the future of water	Future-ready business	Key enabler

Overall assessment of our principal risks

The categorisation of potential exposure to our principal risks is comparable to that of 2023/24 but with year-on-year movements in trends.

The financial resilience risk is stabilising. Our liquidity position has improved following a first equity injection of £75 million in December 2024, and further £200 million of equity provided in May 2025, bringing our gearing to c.65 per cent at the beginning of the current regulatory period (2025 to 2030). We have also retained investment grade credit ratings. However, areas of uncertainty remain, as the refinancing revolving credit facility is still ongoing, and the outcome of the CMA redetermination will not be known until the end of the calendar year, at the earliest. A revised regulatory settlement will only apply from the second year of the current regulatory period.

Macroeconomic risks are stabilising with a relative slowdown of inflation and four successive rate cuts by the Bank of England. However, inflation remains well above the Bank's 2 per cent target without sustained reduction in recent months. There are also several factors of uncertainty, such as the impact of tariffs or trade deals on the UK economy, or tensions in the Middle East which could result in pressure on costs including energy and chemicals. The significant increase in investment in 2025 to 2030 across the water sector is likely to lead to further pressure on our input costs.

Our assessment of Ofwat's PR24 final determination and Ofwat's ongoing investigation into our supply resilience is reflected in our assessment of risk relating to the delivery of future business plan outcomes and regulatory compliance.



We have prioritised short-term resilience investment in 2020 to 2025 and our significant investment programme in 2025 to 2030

We have prioritised short-term resilience investment in 2020 to 2025 and our significant investment programme in 2025 to 2030 will progressively improve the resilience of our supply system against extreme weather and reduce supply interruptions in vulnerable parts of our system. The benefits of this investment are reflected in a stable trend for the most directly related risks relating to meeting peak demand and major operational incident. These risks are still assessed as high due to the unpredictability of the impact of climate change in the short-term and the risk of extreme weather before completion of our programme of resilience investment over the next five years.

The public and political scrutiny of the water sector and the challenges faced by Thames Water has continued to influence our political and social environment, and a willingness to fund and invest in the water sector.

The interim report of the Cunliffe Review has presented an assessment of systemic issues in the current regulatory regime and made suggestions for change, to be detailed further in its final report, currently expected in September 2025. It is assumed that any potential suggestions, if implemented, could alter conditions and enable companies to improve their performance and services to customers and society.

Risk management and principal risks continued

1. Climate change



Global warming will lead to hotter drier summers and wetter winters and to more frequent and severe acute weather events (floods, storms, droughts and heatwaves). This will impact the quantity and quality of water resources and disrupt our operations and our supply chain (e.g. electricity suppliers). This will increase the likelihood and impact of our main operational risks.

We have already been affected by more frequent and severe weather exceeding climate projections. Failure to adapt our infrastructure, improve its resilience and reduce demand will result in service disruptions, missing regulatory performance targets, additional penalties and costs which could affect financial resilience.

A failure to adapt or deliver our net zero commitments would affect customer satisfaction and cause reputational damage.

Our ability to invest in adaptation and mitigation depends on the outcome of successive price determinations and government and regulatory policies (See risk 8 – adverse policies or political and social environment).



Risk trend

- ▶ In 2022 and 2023, we experienced an exceptional combination of severe weather events driven by climate change (Storm Eunice, drought, heatwaves, flooding) and a freeze-thaw event which resulted in supply interruptions.
- ▶ Met Office climate summaries show that the UK's climate is changing (the 10 warmest years on record have occurred since 2002; 2022 was the UK's warmest year on record). Severe weather is already more likely but remains unpredictable. It will become increasingly frequent in the medium and long-term.
- ▶ Reports from the IPCC and the UN Environment Programme conclude that emissions are not reducing fast enough. The Paris goals are unlikely to be met and there are concerns about the potential effects of tipping points in the climate system.

Mitigation

- ▶ Our Water Resources Management Plan, drought plan and long-term delivery strategy, based on climate projections to determine the most appropriate solutions to develop water resources, improve the resilience of our supply system and manage demand.
- ▶ A significant programme of investment in resilience and water security in 2025 to 2030 to continue in subsequent regulatory periods.
- ▶ A significant programme of environmental schemes (e.g. managing the impact of our water abstraction and improving the resilience of our water resources to climate change).
- ▶ Scenario analysis for the assessment of climate-related risks (TCFD) and adaptation reports regularly updated.
- ▶ Greenhouse gas (GHG) emission reduction targets supported by wind/solar (PPA) and onsite solar generation.



Climate-related disclosures

Read more on our climate-related disclosures on page 98.

2. Financial resilience

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We have a significant ongoing funding requirement for our operational costs, capital programme and to refinance maturing debt. We must maintain key ratios to comply with covenants in our agreements with debt providers and credit rating agencies ratios. Failure to do this could lead to events of default, restricting further borrowing and credit rating downgrade. This would affect our ability to raise funds.

Our licence requires us to maintain an investment grade credit rating. Failure to do this would result in cash lock up under our licence, restricting our ability to pay dividends and impact our ability to raise funds on favourable terms.

The outcome of successive price determinations influences our financial resilience including allowed return and the calibration of penalties and rewards associated with performance commitments (See risk 8 – adverse policies or political and social environment).

Risk trend

- ▶ Following challenging operational conditions (affecting operating costs and in-period ODI penalties) and macro-economic conditions between 2020 and 2025, additional equity of £75 million in December 2024 and £200 million in May 2025 has brought our gearing to c.65 per cent, improving our financial resilience.
- ▶ Following credit rating agencies' assessment that the PR24 final determination increased sector risk and the downgrade of the sector, our current credit rating of BBB-/Baa3 remains below the revised cash lock-up trigger in our licence that came into effect on 1 April 2025.
- ▶ The PR24 final determination still represents a significant financeability challenge due to a low cost of capital and the risk of significant in-period penalties. The outcome of our appeal of Ofwat's price determination before the Competition and Markets Authority, including with regard to allowed return and financeability, is not yet known.
- ▶ Public and political scrutiny of the water industry, including concerns relating to investment in the sector exacerbated by the difficulties experienced by Thames Water, impact the confidence of investors and potential lenders and our ability to raise debt and future equity.
- ▶ The fact that the Cunliffe review is considering how to restore the stability and predictability of the regulatory system, which is necessary to attract investors is a positive development.



Mitigation

- ▶ Continuous monitoring and regular reporting to our board on compliance with our financial covenants and on our credit rating. We maintained compliance with our financial covenants in 2024/25.
- ▶ Regular engagement with credit rating agencies to understand how they will interpret the position of water companies.
- ▶ Robust and comprehensive financeability testing for our business plan, corporate plan and annual budget and corporate plan updates, and for our long-term viability statement.
- ▶ Requesting a redetermination of Ofwat's PR24 final determination to achieve a regulatory settlement that secures sufficient projected cashflows to achieve Baa1 credit rating thresholds for each year of the PR24 price control period under core rating agency methodologies and based on Ofwat's notional capital structure; and that the company would be able to maintain target credit ratings at least one notch above the minimum investment grade (strong Baa2) based on its actual capital structure.



Long-term viability statement

Read more on our long-term viability statement on page 118.

Risk management and principal risks continued

3. Macroeconomic risks

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Increases in our input costs and cost of debt due to inflation and rising interest rates make delivering our services and investment within our totex allowance more challenging.

Increases in our costs may be greater than the increase in our wholesale revenue, which is indexed on November CPIH, eroding financial resilience and profitability.

Challenging economic conditions may negatively affect revenue from our non-regulated activities and the level of new connections and contributions from housing developments.

Risk trend

- ▶ Inflation and interest rates have stabilised but significant increase in investment in the water sector, including our own investment programme, and in other sectors could potentially put pressure on input costs in 2025 to 2030.
- ▶ Cost-of-living challenges remain for domestic and business customers.
- ▶ Our costs of supporting vulnerable household customers will increase to mitigate the impact of a significant increase in investment on bills in 2025 to 2030.
- ▶ Uncertainty in the water sector or associated with global tensions and microeconomic conditions may still impact our operating costs (especially energy and chemical costs), and the cost and availability of debt.



Mitigation

- ▶ A mix of long-term financing arrangements, including fixed, variable and index-linked interest rates and partial refinancing, facilitated by recent additional equity (totalling £275 million).
- ▶ Monitoring the impact of macroeconomic factors on our business and on our credit ratings.
- ▶ Robust and challenging budgeting process to ensure clearly identified and controlled costs during the financial year.
- ▶ Effective debt collection processes and support to our most vulnerable customers (with significantly expanded social tariff and affordability initiatives in 2025 to 2030) to improve the business's cash position.
- ▶ Long-term pension strategy, implemented in consultation with the Pension Trustees, that has delivered the full insurance buy-out of one of our defined benefit schemes and the buy-in of the other as a first step towards a full buy-out.

4. Failure to meet the peak demand for water



Dry weather and prolonged periods of high temperatures may lead to peaks in demand that could exceed our ability to produce and distribute enough water in certain parts of our supply system. Freeze-thaw events can also result in sudden surges in leakage on our pipes and customers' with similar effects.

These incidents lead to additional production and distribution costs, compensation payments to customers, and ODI penalties for exceeding our targets on supply interruption and under the metric for customer experience (C-MeX) and leakage.

Our supply area is an area of serious water stress and densely populated. Restrictions on water abstraction to protect the environment and the effects of climate change on the availability and quality of raw water will result in additional stress on the water resources needed to meet demand from a growing population. This may also lead to higher risks of over abstraction and related prosecution and fines.



Risk trend

- ▶ Changes in consumption patterns since the Covid-19 pandemic allied with population growth continue to result in higher peak demand. When exacerbated by severe weather, high demands can cause supply interruptions especially in some parts of our Eastern region.
- ▶ The weather we have experienced was more frequent and severe than anticipated even under high emission scenarios. There is therefore significant uncertainty about the impact of climate change in the short-term and weather variability remains unpredictable.
- ▶ Due to the increasing likelihood but unpredictability of severe weather, and even after completion of the short-term investment we prioritised in the past few years, the risk of high demand events in certain parts of our network will remain until delivery of our 2025 to 2030 resilience investment which will progressively improve the mitigation of this risk.

Mitigation

- ▶ Bringing forward and prioritising investment to restore resilience in the parts of our supply system that are most under stress including 15 new resilience schemes and 2 accelerated PR24 schemes for a total of £18.9 million.
- ▶ Investment planning that addresses the specific characteristics and challenges of our regions, a significant increase in resilience investment in our business plan for 2025 to 2030 and our decision to request a redetermination of the PR24 final determination to protect water security especially in our Eastern region.
- ▶ Our water resources management plan which defines investment in future water resources and production capacity. Our drought plan, including clear steps for managing demand and securing resources in drought conditions.
- ▶ Reducing demand through metering, with 90 per cent of properties already metered. Increasing our preparedness to meet summer demand and updated communication plans to alert customers on the need to use water responsibly during peak periods.
- ▶ Working with regulators to ensure the regulatory regime addresses local resilience issues including through the development of forward-looking resilience standards.
- ▶ Mitigations relating to risk 5 (Strategic asset failure and major operational incident) also relate to the management of this risk.

Risk management and principal risks continued

5. Strategic asset failure and major operational incident



Strategic asset failures and major operational incidents may cause unplanned outages that affect our ability to deliver a safe and uninterrupted water supply to a large number of customers. These risks may affect our own water infrastructure or those of other water companies who provide us with a bulk supply of treated water.

We also rely on other utilities, especially electricity providers, to operate our facilities. Repeated blips or prolonged electricity outages can have a significant impact on our operations. These incidents lead to additional costs, compensation payments to customers, and ODI penalties for exceeding our targets on supply interruption and under the metric for customer experience (C-MeX). They may also lead to liabilities to third parties due to damage to their equipment.

We must ensure that our response to incidents always puts the safety of our workforce first.



Risk trend

- ▶ The general condition of our assets is stable, but some areas of our network remain more vulnerable to supply interruptions during operational incidents.
- ▶ The increasing likelihood of severe weather, and frequency of named storms (e.g. Storm Eunice 2022) can result in widespread and repeated electricity outages.
- ▶ Repairs and construction of alternative storage and a temporary WTW following the loss of a major service reservoir in Aylesford, bringing forward and prioritising investment to improve resilience in the parts of our supply system that are most under stress, the completion of a new water treatment work in Kent in 2025, and additional tankers are improving the mitigation of this risk.

Mitigation

- ▶ Dedicated role for the management of bottled water distributions, preparation of plans for emergency supplies to critical sites (e.g. hospitals), increasing our incident response capacity to deal with incidents affecting up to 100,000 customers (from 30,000), and improving real-time customer communication.
- ▶ Significant investment in resilience planned in 2025 to 2030 and our decision to request a redetermination of the PR24 final determination to protect water security.
- ▶ Planned maintenance scheduled to achieve minimum outages during peak times.
- ▶ Pre-emptive management of weather-related operational challenges based on weather forecasts, network modelling capability to manage incidents, and emergency plans and procedures regularly tested and independently audited.
- ▶ Formal lessons learned process followed after each significant incident. Implementation of action plans to improve our readiness, resilience and response capabilities.
- ▶ Resilience maturity assessment, improved horizon scanning and adaptation to climate change. Mitigation of key low likelihood but high impact risks (including for critical sites), risk-based prioritisation of maintenance with customer impact a primary consideration.

6. Failure to deliver business plan and meet regulatory outcomes



There are financial and reputational risks associated with a failure to deliver our business plan commitments. Our position at the next price determination may also be impacted.

Imbalances between allowed expenditure and investment, risks and regulatory penalties can make it challenging for us to deliver our business plans and meet regulatory outcomes.

We must efficiently deliver the investment necessary to maintain and improve our services to customers and to meet our future long-term obligations. The risks affecting our investment delivery are internal and external. Internal risks relate to the management of the programme delivery. External risks include extreme weather conditions, incidents affecting works, supply chain risks or significant events affecting the economy.



Risk trend

- ▶ The period from 2020 to 2025, has seen a challenging PR19 price determination and unprecedented operational events due to changes in water usage post Covid-19 in our supply area and extreme weather between 2020 and 2023 resulting in high costs, significant ODI penalties and liquidity challenges. We took significant actions to strengthen resilience, reprioritising investment and introducing new schemes and actions. This has meant exceeding our expenditure allowance.
- ▶ In our view, in its current form, the Final Determination does not adequately address our company-specific circumstances and external challenges and undermines our plans to improve operational resilience now and in the future. We do not consider that the AMP 8 Final Determination provides the right foundations for the long-term investability of the water sector. As such, we have reflected on whether it leaves a funding gap.
- ▶ Moody's has assessed our PR24 final determination was "one of the most challenging determinations in the sector for AMP 8.

Mitigation

- ▶ Detailed processes to ensure we operate within the price determination parameters (including ODIs and investment) and to ensure we plan and deliver projects on time and budget.
- ▶ Review project scopes and planned efficiencies with our engineering partner. Involving our framework contractors early to identify risks and savings opportunities.
- ▶ Steering groups monitor key measures e.g. interruption, water quality, customer services, customer perception and leakage, and implementation of resilience actions.
- ▶ Processes to continuously monitor and report regularly on our compliance with regulatory obligations at senior management and board levels and corrective actions taken.
- ▶ Our decision to request a redetermination of the PR24 final determination to protect water security, restore the balance between risk and return and ensure financeability and investability.
- ▶ Mitigations relating to risks 4 (Failure to meet the peak demand for water) and 5 (Strategic asset failure and major operational incident) also relate to the management of this risk.

Risk management and principal risks continued

7. Regulatory, environmental, and legal compliance



Our main regulators – Ofwat, the Drinking Water Inspectorate (DWI), the Environment Agency, Natural England and CCW – set standards and monitor our compliance.

Failure to ensure compliance with regulatory, environmental, and other legal requirements may lead to regulatory enforcement actions, business disruption, loss of management time, and to criminal or civil liability.

Material failure to comply with our licence obligations and duties as a water undertaker may result in an enforcement order and a fine of up to 10 per cent of appointed turnover. Persistent material non-compliance could ultimately lead to special administration and the revocation of our licence.

Underperformance or failure to comply with our obligations damages the perception of South East Water by customers, regulators, and stakeholders.



Risk trend

- ▶ Our supply resilience and performance against regulatory target, especially on supply interruptions, has been adversely impacted by high demand events between 2020 and 2023. This has led Ofwat to open an investigation in November 2023 into our supply resilience which is still ongoing.
- ▶ Increasing public and political scrutiny of the sector influences regulation and regulators' enforcement practices and has led to the introduction of additional obligations under the Water (Special Measures) Act 2025 and associated rules.
- ▶ There is greater scrutiny of environmental performance, with more stringent enforcement of abstraction licences, discharge consents and other environmental permits.
- ▶ The Environment Act 2021 introduces long-term binding environmental targets for air quality, water, biodiversity, and resource efficiency/waste reduction and environmental principles. There is an increasing expectation on us to widen our environmental programme beyond what had previously been deemed to be the core responsibility of water companies.

Mitigation

- ▶ Long-term planning to define the investment in our water supply system necessary to meet our future challenges and maintain or improve performance.
- ▶ Policies, processes and controls to ensure we meet our duties and obligations. Enhanced emergency plans and procedures for managing incidents of greater scale (i.e. affecting up to 100,000 customers) and implementation of improvement plans to address lessons learned.
- ▶ Subject matter experts available to advise colleagues and inform them of changes in requirements and recommend process improvements.
- ▶ Review processes to reflect changes to relevant market arrangements, rules and guidance; performance monitoring against market metrics and implementation of improvement action plans.
- ▶ Internal processes and external assurance to ensure reporting accuracy and mitigating risks of incorrect reporting (company monitoring framework).
- ▶ A culture of integrity and transparency, supported by a clear whistleblowing process. Regulatory mandatory awareness training for key compliance issues e.g. anti-bribery and data protection. Regular updates to the audit and risk committee and to the board on these matters.
- ▶ Mitigations relating to risks 4 (Failure to meet the peak demand for water) and 5 (Strategic asset failure and major operational incident) also relate to the management of this risk.

8. Adverse policies or political & social environment



Successive price reviews substantially determine our ability to make the investment necessary to maintain an efficient and resilient water supply system and prepare to meet our future challenges.

There is a risk that Ofwat's assessment of the amount and timing of expenditure may differ from ours at price reviews. This could result in investment underfunding, assumptions on base costs and efficiency that do not fully recognise actual cost pressures, and incorrectly calibrated performance penalties. This may make it more challenging to maintain performance in the short-term and contribute to delays in implementing the solutions required to meet our long-term challenges. Unfavourable price reviews and regulatory mechanisms, and political scrutiny of the sector reduce the confidence of investors and debt providers. It can also make it harder for us to raise equity and access debt financing on favourable terms.

The implementation of supportive and aligned policies by different regulators and policy makers is crucial to help us deliver cost-effective solutions and achieve our outcomes.

We are also exposed to risks from the social and political environment, such as the challenges to the ownership model of water companies, and reputational challenges associated with the scrutiny of the sewerage sector, and the difficulties experienced by Thames Water which impact the whole water sector.

Risk trend

- ▶ PR19 was challenging for the sector. As almost all other companies, we have spent more than our allowance and incurred significant performance penalties. Ofwat's PR24 final determination did not either adequately address our company-specific circumstances and external challenges.
- ▶ Reliance on significant demand reduction, in accordance with water resources planning guidance, will require supportive government policies and may require us to bring forward alternative options if the assumed reductions cannot be achieved in practice. Reductions in leakage will require significant investment and operating expenditure.
- ▶ The extent and timing of restrictions on water abstraction to protect the environment, can present significant challenges to water security if they do not take account of the cost and delivery time required to develop alternative sources, the necessary network infrastructure and interconnectivity.

- ▶ The interim report of the Cunliffe Review has presented an assessment of systemic issues in the current regulatory regime and made suggestions for change, to be detailed further in its final report, currently expected in September 2025. It is assumed that the changes, if implemented, could alter conditions and enable companies to improve their performance and services to customers and society.
- ▶ The recommendations of the Cunliffe Review to reduce the complexity of price reviews and ensure that Ofwat takes account of the specific characteristics of companies in its determination with less reliance on econometric models, to develop asset health and resilience standards and adopt a supervisory approach that supports improvements where necessary have the potential to improve the economic regulation of the sector leading to improved performance.

Mitigation

- ▶ A long-term delivery strategy and business plan that demonstrates to our regulator the need to invest regularly in enhancing resilience to match the specific characteristics and challenges of each of our regions (West, Sussex and Kent) as necessary to maintain or improve service levels, and our decision to request a redetermination of Ofwat's PR24 final determination to protect water security.
- ▶ Working with regulators to address local resilience issues appropriately in the WRMP and business plan and to develop forward-looking resilience standards.
- ▶ Working with the industry and stakeholders to contribute to the definition of policies, anticipate the potential effects of proposals, and ensure we identify and consider risks.
- ▶ Keeping our commercial strategy and our business structure under review to deliver efficiencies, adapt to changes and take advantage of new opportunities.

Risk management and principal risks continued

9. Security of assets, systems, and data



We must protect our sites and our water supply against accidental or deliberate security threats. The physical security of our assets and the resilience of our information and communication infrastructure is essential to maintaining our service and implementing our business continuity plans.

We increasingly rely on information and communication technology to manage our operations, and any downtime or cyber-attack potentially affects all aspects of our business.

We must keep customers' data up-to-date and safe from unauthorised access. Security or data breaches can disrupt our operations and may lead to fines, enforcement actions and legal actions. They would also cause significant reputational damage.

We must ensure compliance with the requirements of the General Data Protection Regulation as retained in the UK (UK GDPR) and the Network and Information Systems Regulations 2018.

Risk trend



- ▶ We maintain this risk as high due to the constant emergence of new cyber threats and the risk of exploitation of vulnerabilities that may not have yet been fixed by software providers. There is also an increase in cyber-attacks using AI which can more easily be deployed at larger scales.
- ▶ The overall level of alert relating to potential cyber-attacks on the company and other utilities, e.g. electricity companies has been elevated since Russia's invasion of Ukraine.
- ▶ Physical security and the risk of theft or other interference with our assets remains a constant risk.
- ▶ Our reliance on information and communication technology will increase as we implement smart networks and smart meters.

Mitigation

- ▶ Recognised cyber security certifications and investment in security measures against unauthorised access to our systems and in software to help us monitor activity on our network and adapt our defences to new threats.
- ▶ Disaster recovery systems and facilities which are regularly tested.
- ▶ Work with relevant external organisations to test the effectiveness of our resilience and security measures. Review the maturity of our security systems and procedures, including under NIS.
- ▶ Our corporate security steering group continuously monitors physical and data security and data protection matters to identify new risks and monitor the effectiveness of our security processes and the implementation of action plans.
- ▶ Department champions receive training on these issues, and we continuously promote awareness of risks and provide training to highlight how unsafe behaviour could be exploited by external threats.

10. Water quality incident



Our core purpose and most essential duty is to provide a supply of safe and high-quality drinking water. A water quality incident could lead to a failure to supply wholesome water with implications for public health. This would significantly harm customer trust. Our treatment works may be impacted by significant deterioration in raw water quality, pollution by third parties or a failure of our own treatment processes. Water quality risks relate to our own water supplies and to bulk supplies of treated water we receive from other water companies.

Water quality events may lead to significant costs being incurred, impacting our revenue and resulting in penalties for failing to meet relevant performance commitments. This may also result in investigations and enforcement actions and potential prosecutions from the DWI.

Risk trend

- ▶ Our water quality performance has remained good throughout the 2020 to 2025 regulatory period including under new metrics introduced in 2020 (Compliance Risks Index and Event Risk Index).

Mitigation

- ▶ World Health Organization (WHO) water safety plan. Round the clock monitoring of our treatment works and distribution network.
- ▶ Extensive sampling of our water every day; analysed at our specialised laboratory audited and accredited by the UK's national accreditation body, UKAS.
- ▶ Emergency plans and procedures for managing incidents, providing supplies to critical facilities, and deploying alternative supplies where necessary.
- ▶ Active management of catchments and partnerships to reduce chemical discharges by third parties.



- ▶ Programme of flushing, network management and investment in our treatment works to meet our water quality standards.
- ▶ Regular internal review of our processes and facilities and external audits by the DWI.
- ▶ Sharing of lessons learned with other companies, which we use to update and improve our own practices and procedures.

Risk management and principal risks continued

11. Health, safety, and wellbeing

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Safe in Every Way is a key principle of our culture. Our activities and assets present risks to the health and safety of our employees, contractors, and the public. We must maintain the safety of our workforce during normal operations and when dealing with emergencies.

Failure to prevent accidents could have tragic implications for individuals and their families. There are severe criminal sanctions and civil sanctions for failing to have appropriate safety measures and failure to meet health and safety standards.

Risk trend

- ▶ The underlying risks to health and safety are stable with a strong safety culture. The health and safety of our colleagues is our number one priority.
- ▶ In 2024/25, there were two RIDDOR injuries and a lost time injury frequency rate (LTIFR) of 4.4 against a target of 5.
- ▶ We need to ensure high standards of HSE are maintained across a more extensive programme of activity.



Mitigation

- ▶ Directors review health and safety performance at each board meeting. Executive team meetings include regular reviews too.
- ▶ Our annual incentive plan (AIP) and our senior managers bonus scheme include health and safety metrics.
- ▶ Our Thrive 365! safety strategy supports the company vision and provides a clear direction and roadmap for continuous improvement of our health, safety, and wellbeing performance.
- ▶ We have comprehensive health and safety processes, including policies, standard operating procedures, risk assessments and toolbox talks involving our employees, partners, and contractors. There are also a comprehensive audit programme and systematic reviews of near misses at panel reviews.
- ▶ Health & Safety committee monitoring of the effectiveness of health and safety practices, policies, procedures, training, and communication encouraging participation of employees to raise issues and monitor the progress of actions.
- ▶ Joint working groups and other forms of co-ordination and cooperation with our key contractors on health and safety to ensure the highest standards of safety for our entire workforce (directly and indirectly employed) and for exchange of best practice and alerts on potential risks.
- ▶ Managers receive a monthly manager toolkit, health and safety briefings and core briefing slides to encourage dialogue.
- ▶ Regular training and awareness campaigns to ensure our employees and contractors always adopt safe practices.
- ▶ A dynamic wellbeing and mental health strategy with 27 Wellbeing Champions and 39 Mental Health First Aiders.

12. People and culture

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Our business operates across the entire value chain within a highly regulated and technical environment, and we rely on our workforce's skills, technical and business knowledge in a wide range of disciplines. We need to attract and develop our people and manage talent to achieve our business objectives. A shortage of skills in some technical disciplines may make it harder to recruit and meet our requirements. With increasing reliance on technology, we must promote and develop new skills that support our use of technology and innovation.

We must also retain our business know-how. This presents a challenge in operational areas where our workforce is more mature and where business knowledge may have been acquired over many years in the field. We also rely on key individuals who have acquired detailed technical and company knowledge. Therefore, we must manage succession planning to avoid disruption to the business.

As the expectations of customers, stakeholders and employees change, we need to promote a culture that meets those aspirations.

Risk trend

- ▶ In a tight job market, there are challenges to attract and retain staff in certain technical and skilled areas.
- ▶ The significant increase in our investment programme during the next AMP means that we need to increase resources in investment delivery functions, such as engineering and asset management, and ensure we attract the required skills.
- ▶ The negative perception of the water sector, linked to considerable media and political scrutiny and criticism, is likely to impact on recruitment and retention.
- ▶ We need to accommodate changing expectations and changes in legislation about flexible working arrangements, while maintaining the cohesiveness and effectiveness of our organisation.



Mitigation

- ▶ Our people plan sets out our strategy, including our strategy on diversity, talent management, succession planning, and the gender pay gap.
- ▶ New resource and improvements to our recruitment process and continuous development of our successful apprenticeship scheme across the whole business to facilitate recruitment, career progression, retention and contribute to social mobility.
- ▶ Regular workforce engagement through our Staff Council, pulse surveys and bi-annual staff surveys, followed by action plans shared and implemented with staff support.
- ▶ Our Speak Up (whistleblowing) Policy allows colleagues to raise concerns to be investigated, as appropriate.
- ▶ Designated independent non-executive director for employee engagement, giving employees direct opportunities to share opinions and voice any concerns directly to the board.

Business performance

Operational performance

Ofwat has set out a group of 'common' performance measures that it wants all water companies to report against. In addition to these performance measures, we have developed an additional group of performance indicators through asking our customers what they feel we should target. While it is important to remember that no measure can ever capture everything, these metrics reflect the most important aspects of the service that we provide. If we can perform well against these targets, we will be providing a good service to all our customers, both current and future. We are always mindful that, as well as being providers of an essential service, we are also the custodians of a public asset (the water infrastructure).

These targets are referred to as 'performance commitments' (PCs).

The following table sets out what these measures are and why they are important.

Performance measures

All the measures in the first table have financial incentives attached to them (also known as Outcome Delivery incentives or ODIs).

Measure	Purpose
Supply interruptions	We aim to provide clean, safe water to 2.3 million customers, 24 hours, 365 days of the year. This measure captures the rare occasions on which supplies are interrupted. Our objective is to minimise these interruptions.
Mains repairs	The number of repairs which we have to carry out on the network is an indicator of the general health of the network, and this measure should be understood as a measure to ensure that the health of the network is being maintained. If we keep below our target (based on number of bursts per 1,000km of main), it shows that the network is being kept in a good condition for future generations.
CRI	The CRI is a measure of water quality compliance. The perfect score is a 0, and our objective is to keep this as low as possible. It should be noted that in addition to this measure there is a very strict legal framework, which includes the potential for prosecution if water is supplied that threatens human health.
Unplanned outage	This measures the frequency with which above ground assets (mostly treatment works and pumps) are out of action. This is also an 'asset health' measure. Keeping this low indicates that these assets are being kept in good health for future generations.
PCC	This is a measure of the amount of water consumed by each person in our supply area (Per Capita Consumption). If we do a good job helping customers to consume water more efficiently we will reduce the amount consumed and do well on this measure.
Leakage	All water networks have distribution losses. We can minimise leakage by keeping the network in a good condition, by fixing leaks quickly when obvious leaks occur; and by having effective systems and processes to identify and repair the many smaller leaks that are not immediately identifiable.
C-MeX	This is a comparative measure of customer experience performance designed by Ofwat. It is based on sample surveys, where a third party specialist company contacts a sample of customers and asks them about their experience of our service.

Measure	Purpose
D-MeX	This is a comparative measure of customer experience performance designed by Ofwat, which targets developer services customers. Developer services are about connecting newly built properties to our network. It is based on sample surveys, where a third party specialist company contacts housing developers who are using our connections service and asks them about their experience of our service.
AIM	The Abstraction Incentive Mechanism is a compound measure that measures how much water we extract during times of water shortage. This is designed to give us an incentive not to extract raw water from the environment in a way that might lead to low flows in rivers and streams.
Appearance of water	This is a measure of how many contacts we get from customers to tell us that there is an issue with the appearance of their water (discolouration). These incidents do not represent a threat to human health.
Taste and odour of water	This is a measure of how many contacts we get from customers to tell us that there is an issue with the taste or odour of their water. These incidents do not represent a threat to human health.
Properties at risk of low pressure	This is a measure of how many properties on our network are at risk of receiving low pressure during times of high demand. Usually such properties are at the end of the network or at the top of a hill.
Household voids	This is a measure of how many properties are empty. If a high number of properties are empty, then other customers have to pay more to compensate. This measure incentivises us to keep that number to a minimum by keeping accurate records. A small number of properties are genuinely empty.
Non-household voids	This is a measure of how many business and commercial properties are empty. If a high number of properties are empty, then other customers have to pay more to compensate. This measure incentivises us to keep that number to a minimum by keeping accurate records. There is always a proportion of commercial property that is empty, but this has increased during the Covid-19 crisis and we are suggesting to Ofwat that this measure should be adjusted to compensate.
WINEP	The Water Industry National Environment Programme is a series of projects designed to protect and enhance the natural environment. This measures whether or not we deliver those projects on time.
Engaging and working with land owners	This measure is designed to protect our raw water resources. By working with land owners we seek to prevent raw water from being contaminated with chemicals which would require costly and environmentally inefficient treatment. This is known as 'catchment management' and the incentive is based on the hectarage of land that we applied catchment management policies to.
Protecting wildlife and increasing biodiversity	This measures the hectarage of land which we proactively manage and monitor in order to produce gains in biodiversity through our conservation work.
Sites protected from flooding	This measures the number of sites that the company has protected against a one in 1,000 flood risk. Although customers will not notice any effect of this work immediately, its completion will mean that customers are receiving a much more resilient service.

Business performance continued

Operational performance continued

The rest of the Performance Commitments do not have ODIs attached to them. For ease of reference, they are grouped into three separate tables below.

Customer satisfaction measures

We have seven measures of customer satisfaction. They are designed to remind us that what we really want to achieve is customer satisfaction, not just good service levels and metric performance.

If the metrics are well chosen, they will automatically achieve customer satisfaction as they measure the things that customers care about. However, this is not automatic, especially in a rapidly changing world in which these performance metrics are only changed once every five years. We therefore think there is value in measuring customer satisfaction directly.

Measure	Purpose
Customer satisfaction by segment (measures)	This measure is divided into six customer segments. The purpose of these different segments is to remind us that water customers are not all the same. Different people have different needs and priorities. This measure therefore identifies the satisfaction levels of six different groups based on research of our customer base: 'mindful optimists'; 'global advocates'; 'just me and mine'; 'careful neighbours'; 'busy juggler'; and 'living for today'.
Value for money	This is a measure of customers satisfaction measured via a survey.

Measures relating to vulnerable customers

As a company which operates a natural monopoly we have an unusual public service responsibility to make sure that we take care of vulnerable, or potentially vulnerable, customers within our customer base. The following measures are designed to measure how effectively we do that:

Measure	Purpose
Satisfaction of household customers who are experiencing payment difficulties	This measure targets a specific group. It measures (via a customer survey) the satisfaction levels of customers who are finding it hard to pay their bills. This is a group of vulnerable, or potentially vulnerable people and we need to interact with them with particular care and empathy.
Satisfaction of household customers who are receiving, or applying for, non-financial support	This is another measure that is designed to make sure that we pay particular attention to a group of potentially vulnerable customers. In this case, customers who are on, or applying to be on our Priority Services Register. Customers can be on this register for a variety of reasons such as age, health, or disability. Such customers can be prioritised for additional support in certain circumstances, such as the delivery of bottled water to their homes in the case of an interruption.
Satisfaction of household customers on our vulnerability schemes during a supply interruption	This measure is another survey measured metric which specifically measures the satisfaction of customers on the Priority Services Register with the services that they receive during a supply interruption. This is designed to measure how well we protect this vulnerable group during supply interruptions.

Measures relating to vulnerable customers continued

Measure	Purpose
Household customers receiving financial support	This is a measure of the number of customers that are receiving financial support in the form of bill control or bill reductions. Such reductions are offered to vulnerable customers and this measure tracks our performance in ensuring that these customers are supported.
Satisfaction of stakeholders in relation to assistance offered	This is a measure (based on surveys) of the satisfaction of vulnerable customers and their representatives.
Priority Services for customers in vulnerable circumstances – Reach	This is a measure of the percentage of overall households which appear on our Priority Services Register. Vulnerable customers can be hard to identify and this metric measures our effectiveness at reaching out to them.
Priority Services for customers in vulnerable circumstances – Attempted contact and actual contact	This measures the percentage of customers on our Priority Services Register that we have attempted to contact over a two year period. This is a measure of how effective our proactive contact with these customers is. The actual contact part of the metric measures how many of those customers we have actually made contact with.

Other performance measures

Measure	Purpose
Gap sites	Gap sites are properties that exist, but are not included in our billing system. Such properties receive free water at the expense of other customers. This metric incentivises us to find those properties and add them to our system.
Risk of severe restrictions in a drought	This is a measure of the percentage of our customers who are exposed to the risk of severe restrictions during a drought period. Severe restrictions means discontinuity in supply, not just hosepipe restrictions. Our target is nil.
ERI (Event Risk Index)	This is a composite measure produced by the Drinking Water Inspectorate (DWI). It measures the risk to customers of water quality events and incentivises us to reduce the risk of such events.
Delivery of Water Industry Environment Programme requirements (WINEP)	This is a simple measure of whether we have 'met' or 'not met' all of these requirements.
Greenhouse gas emissions	This measure commits us to achieving an 80 per cent reduction in greenhouse gas emissions by 2025 (compared to 2017/18). We have a further commitment to achieve net zero emissions by 2030. This will reduce and then eliminate the carbon footprint of our operations.
Engaging and working with abstractors to improve catchment resilience to low flows	This metric encourages us to engage with other abstractors of water (mostly farmers) to help them find ways to reduce their water use and to thereby help avoid low flows in the environment. This specifically measures the percentage of a target list that we have engaged with. The target list is produced in conjunction with the Environment Agency.

Customers can also visit the website discoverwater.co.uk which gives everyone access to comparative information on the performance of water companies. We believe this is an important tool which enables customers and stakeholders, in particular our Customer Challenge Group, to compare the progress against our targets with other water companies to ensure we are striving for continuous improvement and stretching ourselves to provide the best possible service.

Business performance continued

Other performance measures continued

The following table shows all of our Performance Commitments, the targets for 2024/25 and the incentives or penalties earned. Overall, there is a net penalty of £12.8 million (including an estimate of penalties under C-MeX and D-MeX), compared to a net penalty of £8.5 million in 2023/24 (including the final C-MeX and D-MeX figures as assessed by Ofwat). Also excluding PCC and Business voids as at the time Ofwat had not determined these impacts.

In our Final Determination in December Ofwat stated that we have to pay the penalty accrued for Business Voids and they applied a reduction to our accrued PCC penalty. For this year we have had to submit what our penalty would be under the per-reduction methodology. These figures are included in the figure above and the table below. We will be asking Ofwat to review our PCC penalty to bring it in line with the Final Determination methodology.

The net penalty will be returned to customers in the form of bill reductions in the 2025 to 2030 years.

Performance Commitment	Unit	Target in 2024/25	Actual performance in 2024/25	Penalty or Reward (£m)
■ Leakage	% reduction	9.7	-8.0	(8.278)
■ Mains repairs	Per 1,000km of main	164.3	138.2	0.000
■ CRI	Score	0	1.09	0.000
■ Unplanned outage	%	2.34	2.1	0.000
■ PCC	% reduction	7.2	1.0	(1.251)
■ Supply interruptions	Min : Sec	00:05:00	00:44:06	(3.373)
C-MeX*	Score out of 100	N/A	71.82	(0.388)
D-MeX*	Score out of 100	N/A	83.56	(0.634)
■ AIM	ML/d	0	-153	0.000
■ Appearance of water	Per 10,000 population	0.79	0.92	(0.289)
■ Taste and odour of water	Per 10,000 population	0.29	0.36	(0.056)
■ Properties at risk of low pressure	Per 10,000 population	0.5	1.9	(0.120)
■ Household voids	%	2.1	1.73	0.315
■ Non-Household voids	%	8.1	9.47	(0.459)
■ WINEP	Schemes	65	58	(0.455)
■ Engaging and working with land owners	Hectares	14,217	15,097.6	0.386
■ Protecting wildlife and increasing biodiversity	Hectares	1,460	1,673.0	1.266
■ Sites protected from flooding	Number of sites	92	59	(0.024)
■ Strategic main Wellwood to Potters Corner	% delivered	0	69	0.597
■ Customer satisfaction by segment 1 – ‘mindful optimists’	Score out of 5	4.5	3.7	**
■ Customer satisfaction by segment 2 – ‘global advocates’	Score out of 5	4.5	3.9	**
■ Customer satisfaction by segment 3 – ‘just me and mine’	Score out of 5	4.5	3.9	**

Performance Commitment	Unit	Target in 2024/25	Actual performance in 2024/25	Penalty or Reward (£m)
■ Customer satisfaction by segment 4 – ‘careful neighbours’	Score out of 5	4.5	4.1	**
■ Customer satisfaction by segment 5 – ‘busy juggler’	Score out of 5	4.5	4.0	**
■ Customer satisfaction by segment 6 – ‘living for today’	Score out of 5	4.5	3.7	**
■ Value for money	Score out of 5	4.0	3.4	**
■ Satisfaction of household customers who are experiencing payment difficulties	Score out of 5	4.5	4.3	**
■ Satisfaction of household customers who are receiving, or applying for, non-financial support	Score out of 5	4.5	4.1	**
■ Satisfaction of household customers on our vulnerability schemes during a supply interruption	Score out of 5	4.1	3.5	**
■ Household customers receiving financial support	Number	75,000	72,397	**
■ Satisfaction of stakeholders in relation to assistance offered	Score out of 5	4.0	3.5	**
■ Priority Services for customers in vulnerable circumstances – Reach	%	10.8	14.1	**
■ Priority Services for customers in vulnerable circumstances – Actual Contact	%	35	38.9	**
■ Priority Services for customers in vulnerable circumstances – Attempted Contact	%	90	90.5	**
■ Gap sites	Number of sites	25	40	**
■ Risk of severe restrictions in a drought	%	0	17.8	**
■ ERI (Event Risk Index)	Score	0	28.1	**
■ Delivery of Water Industry Environment Programme requirements (WINEP)	Met/Not Met	Met	Not Met	**
■ Greenhouse gas emissions	kgCO ₂ e/MI	57.6	198.3	**
■ Engaging and working with abtractors to improve catchment resilience to low flows	%	20	38	**

* These are relative measures and because of Ofwat's processes, the penalty and reward numbers will not be completely finalised at the time of publication. (estimates are shown).

** Measures are reputational (i.e. no financial penalty)

- Target met
- Target not met

For further information on all of our outcomes and targets please refer to our performance, people and planet report at performance.southeastwater.co.uk and our annual performance report at southeastwater.co.uk/about/resources/publications/financial-reports

Group structure and financing

Group structure

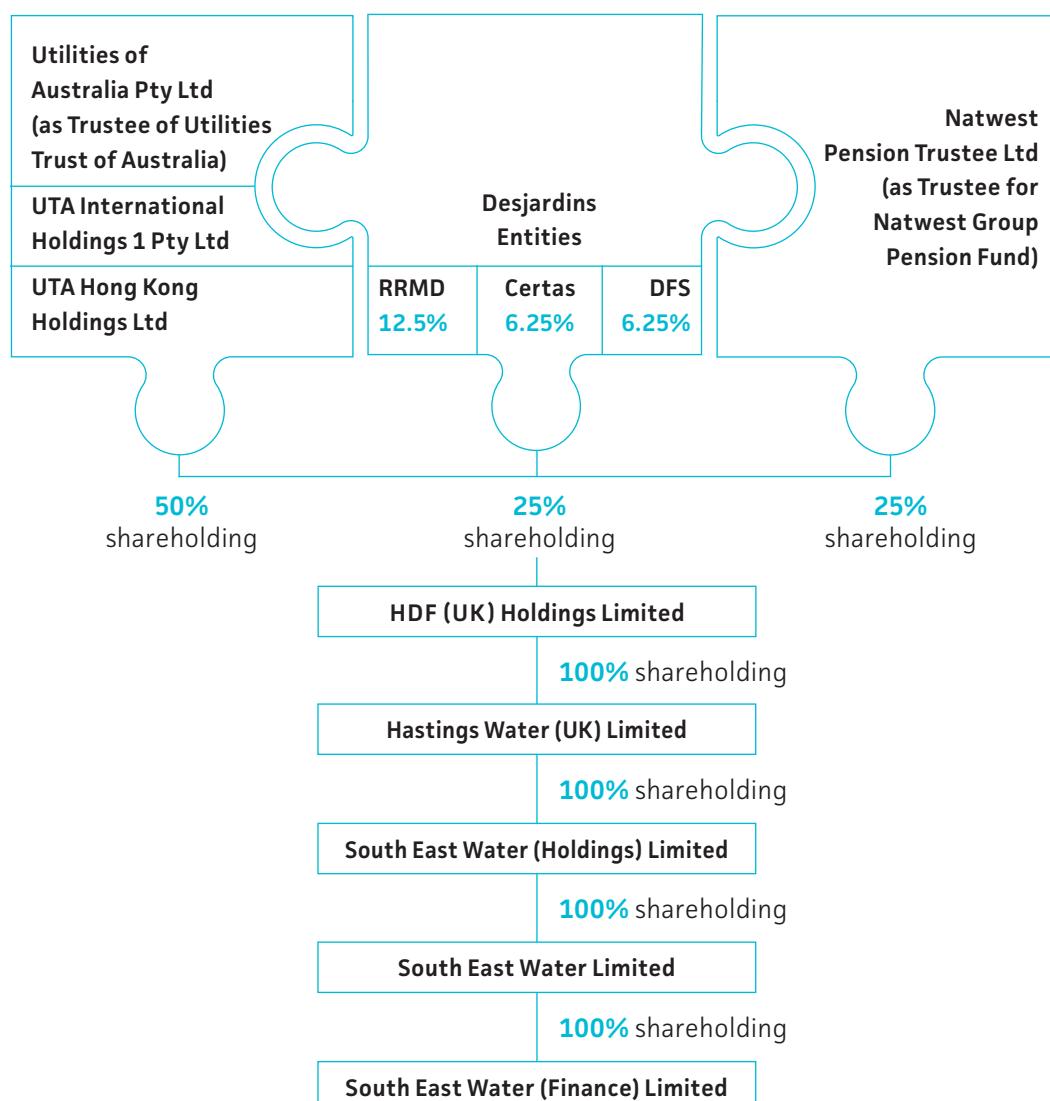
South East Water Limited is the main operating company in the group of companies headed by HDF (UK) Holdings Limited ("HDF"). There are two intermediate holding companies between South East Water and HDF: South East Water (Holdings) Limited and Hastings Water (UK) Limited, both of which, together with HDF, are registered and resident in the UK.

The ultimate owners of HDF are Utilities of Australia Pty Ltd (as Trustee of Utilities Trust of Australia), NatWest Pension Trustee Ltd as trustee for the NatWest Group Pension Fund (Main Fund Section) and three entities of the Desjardins cooperative financial group based in Quebec (Régime de Rentes du Mouvement Desjardins, Desjardins Financial Security Life Assurance Company and Certas Home and Auto Insurance Company).

Recent debt financing has been arranged directly through South East Water Limited. Historically, debt financing of South East Water has been arranged through our only subsidiary, South East Water (Finance) Limited. South East Water (Finance) Limited is a company registered in the Cayman Islands but does not gain any tax benefit from this as the company is resident for tax purposes in the UK.

The only further external debt finance in the HDF group is shareholder loans, which are issued by HDF (UK) Holdings Limited.

Group of companies



Sustainability finance framework

South East Water has developed a Sustainability Finance Framework to finance a range of activities, not only environmental projects but also ones which will benefit society such as improving drinking water quality. The framework highlights how our activities are supporting five of the United Nations Sustainable Development Goals, including climate action and sustainable cities and communities.

In order to ensure this Sustainability Finance Framework is followed correctly, we have set out that we will comply with the ICMA Green Bond Principles (GBP), Social Bond Principles

(SBP), Sustainability Bond Guidelines (SBG) and LMA Green Loan Principles. These principles are each a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of the sustainable finance market by clarifying the approach for Sustainable Finance issuance.



ICMA GBP/SBP category	Brief description of South East Water eligible sub-categories list	Examples of eligible projects	UN SDG*
Sustainable water and wastewater management / Affordable basic infrastructure (Clean drinking water).	<ul style="list-style-type: none"> ▶ Water demand-side management and customer-side growth. ▶ Water supply schemes. ▶ Water quality. ▶ Raw water environmental works. ▶ Capital maintenance: replacement and enhancement on a proactive basis of existing assets. ▶ Network extension: to provide a sustainable supply of clean drinking water to all new properties. ▶ Resilience. 	<p>Investment and operating expenditures in, but not limited to:</p> <ul style="list-style-type: none"> ▶ Improved metering for more frequent data to identify and address issues such as leakage. ▶ Water efficiency programmes. ▶ Water Resources Management Plan – a twin track plan to ensure a sustainable supply of water 60 years into the future, through demand reduction and new supply options. ▶ Restoring sustainable abstractions. ▶ New infrastructure to replace unsustainable resources. ▶ New infrastructure to replace ageing water mains. ▶ Groundwater and surface water catchment management. ▶ Water treatment works refurbishments that improve efficiency (water/energy/chemicals). ▶ Connections of water supply from network to new properties. ▶ Flood defences at treatment works, boreholes and pumping stations to ensure resilience and maintain a clean water supply at times of flood. 	   
Terrestrial and aquatic biodiversity conservation.	<ul style="list-style-type: none"> ▶ Protecting wildlife and increasing biodiversity. 	<p>Investment and operating expenditures in, but not limited to:</p> <ul style="list-style-type: none"> ▶ Invasive Non-Native Species (INNS) projects included in Water Industry National Environment Programme (WINEP). ▶ Delivery of biodiversity enhancements on water company landholdings. ▶ Management of company owned Sites of Special Scientific Interest (SSSIs). 	

* United Nations Sustainable Developments Goals

Financial performance

The financial year ended 31 March 2025 was the final year of the 2020 to 2025 Asset Management Period (AMP 7). The financial performance of the group has improved during the year due to a significant reduction in the group's finance costs. Operating conditions remain difficult with operating profit falling compared to the previous year as costs continue to rise faster than revenues.

During the financial year, we continued to make progress on the commitments set out in our five-year plan for AMP 7 in areas such as our local environment, support for our more vulnerable customers and the resilience of our network. We have also put in place arrangements to meet our commitments within our AMP 8 five-year business plan.

We have been investing in enhancing and renewing our network infrastructure in the year to meet the demands of an ever-growing population in our supply area and improve network resilience to safeguard future supplies for our customers. We have gone above and beyond what our regulator, Ofwat, determined we could spend on infrastructure investment. Over the five years in AMP 7 we have invested £567 million on the company's assets, bringing forward major projects at Barcombe, Bewl and in East Kent. AMP 8 will see the company embark on its most ambitious business plan ever, to improve network connectivity and drinking water storage capacity – all to ensure that we improve regional water security.

In December 2024 our shareholders injected £75 million of new equity into South East Water, which brought gearing to 75 per cent at 31 March 2025. Our shareholders injected an additional £200 million

of equity in May 2025 which reduces gearing to c.65 per cent and further reinforces the financial stability of the group. The equity injections by shareholders in the group do not alter our conclusion, as set out in our Statement of Case presented to the Competition and Markets Authority, that we do not consider that the AMP 8 Final Determination provides the right foundations for the long-term investability of the water sector.

Discussions with our lenders on the renewal of our revolving credit facility are at an advanced stage and we expect this process to conclude over the summer. Further information on this and its effect on the going concern assessment, including the related material uncertainty is set out on pages 128 to 129.

The group uses a number of financial performance indicators to monitor our business. These are linked to the key strategic financial requirements of our instrument of appointment and to those of our investors, which underpin our capital structure and the financial governance that we apply to our business. In addition, we monitor profitability, capital expenditure and cash performance. The table below shows these indicators and measures for the 2024/25 and the 2023/24 financial years.

Key Performance Indicator (KPI)	Measure	2024/25	2023/24
Credit rating	Standard & Poors	BBB-	BBB
	Moody's	Baa3	Baa2
Interest Cover	multiple	2.66	2.88
Adjusted Interest Cover	multiple	1.22	1.20
RCV (Regulated Capital Value)	£m	1,816.0	1,736.1
Net debt to RCV	%	75.2	77.7
Turnover	£m	285.5	280.6
Operating profit	£m	54.5	63.8
Adjusted EBITDA ¹	£m	119.9	130.2
Loss before tax	£m	(19.8)	(36.7)
Capital expenditure	£m	157.3	123.8
Cash generated from operations	£m	128.4	118.8
Cash	£m	36.1	5.0

¹ Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation, exceptional items and atypical items. This is reconciled to IFRS operating profit below.

There are a number of covenants placed on the group as part of our borrowing programme. The interest cover ratio (ICR), the adjusted interest cover ratio (AICR) and net debt to Regulatory Capital Value ratio (RAR) reported in the table shown on previous page are three key covenants. Breach of the ICR of 1.4 times would result in an Event of Default. Breach of the AICR of 1.1 times would result in a Trigger Event. The RAR covenant limits this ratio to a maximum of 85 per cent and breach would result in Dividend Lockup.

The group financial statements are set out on pages 200 to 283. The financial statements are prepared under UK-adopted international accounting standards and report the consolidated results for the South East Water Limited and its subsidiary, South East Water (Finance) Limited.

Revenue

The turnover for the year was £285.5 million compared to £280.6 million in the previous year. The increase of £4.9 million included an increase in water revenue of £6.0 million offset by a decrease of non-water income of £1.1 million.

Under the regulatory price control mechanism, the tariffs are adjusted annually to reflect the impact of inflation and changes in projected consumption. The regulatory model set the inflationary uplift in this year's allowed revenue based on CPIH in November 2023. We also projected marginally lower consumption and our regulated revenue for the year consequently included an increase in tariffs of 4.5 per cent. The additional revenue generated from the price increase was £12.1 million.

Household water revenue was £5.5 million higher than previous year. This included £9.5 million additional revenue from the increase in tariffs, partly offset by £1.4 million falling demand because of the wetter summer in 2024 compared to 2023. In addition, there was an increase of £2.6 million in the amount of revenue considered uncollectable at the time of billing. Non-household water revenue was £0.5 million more than previous year, which included price inflation of £2.6 million, partly offset by a fall in demand with the wetter summer and challenging economic conditions for businesses.

Revenue resulting from non-water sales decreased by £1.1 million in the year to £10.0 million due primarily to a reduction in developer infrastructure fee income, owing to an increased impact from changes to the regulatory regime.

Other income has increased by £1.1 million to £14.5 million during the year. The increase in other income is due to a mixture of increased laboratory activity and higher billing and collection commissions.

Operating expenditure

Our operating costs for the year, including charges for doubtful debts, have increased from £230.2 million to £245.5 million, an increase of £15.3 million. Operating costs in the year included no atypical costs relating to exceptional weather events. This compared to £3.1 million of atypical costs incurred for extreme weather events in 2023/24.

Staff costs increased by £4.9 million net of capital recharges, driven by an average company pay award of 4.5 per cent, increased headcount as we gear up for AMP 8 and bring in additional resource to improve resilience. Depreciation and amortisation increased in the year by £2.1 million, reflecting new assets brought into operation in the financial year. Other notable increases in operating costs were higher operational incident response costs of £2.4 million and higher contractor costs of £2.5 million relating to increased reactive maintenance, reservoir cleaning, water efficiency and meter reading activity. Additionally, we incurred higher computing costs of £2.6 million as the business continues its transition to cloud-based arrangements, which bring higher operating expenditure and lower capital expenditure, plus we also increased spend on cyber security measures. Furthermore, we experienced higher energy costs of £2.3 million owing predominantly to increased prices, plus other net increases of £2.5 million, including no covid insurance cost recovery compared to £0.9 million received in 2023/24.

The charge for bad debts in the year was £4.1 million compared to £4.5 million in 2023/24. This is almost exclusively relating to household debt.

Financial performance continued

Profit from Operations

Operating profit for the period fell from £63.8 million in the prior year to £54.5 million as detailed above.

Finance income

Finance income for the period, comprising interest earned on bank deposits and returns on pension scheme assets, was £2.5 million (2024: £1.7 million) due to higher average cash balances held.

Finance costs

Finance expenses for the period were £76.8 million (2024: £102.2 million). The decrease of £25.4 million reflects lower indexation charges on our index-linked loans of £26.5 million, due to lower inflation over the period, partly offset by an increase in interest on our index-linked loans by £2.0 million due to the higher balances outstanding including in respect of the new £50 million index-linked loan taken out in the year, and £1.8 million higher interest on our revolving credit facility due to higher average balances outstanding in the year. Interest capitalised in the period is £3.2 million higher than in 2024, reflecting an increase in the capital programme and more expenditure on projects that meet the criteria for capitalisation.

In August 2024, we entered into a new £50.0 million index-linked loan, which was used to part repay our revolving credit facility ("RCF"). The balance on the RCF at 31 March 2025 was £69.0 million (2024: £97.0 million).

Alternative performance measure

Adjusted EBITDA is earnings before exceptional items, atypical costs, interest, tax, depreciation and amortisation. It is a key profit indicator that can be used to assess underlying performance. Our adjusted EBITDA has decreased in the year, largely due to operating costs rising faster than revenues as detailed above. A reconciliation to the statutory measure is included below.

	2024/25 £m	2023/24 £m
Operating profit (IFRS measure)	54.5	63.8
Add back asset expenses (note 6)	65.4	63.3
EBITDA including exceptional items/atypical costs	119.9	127.1
Add back atypical costs – 2023 heatwave	-	3.1
Adjusted EBITDA	119.9	130.2



Loss before tax

The loss before tax for the year was £19.8 million compared to the loss of £36.7 million in the prior year. The improved result is largely due to the decrease in finance costs in the year.

Loss after tax

The group returned a loss after tax of £13.5 million in the year compared to a loss of £28.0 million in the prior year.

The tax credit in the year of £6.2 million (2024: £8.6 million) comprises:

- ▶ **Current tax credit of £0.04 million (2024: £0.1 million).** The current tax credit in the year is in respect of the research and development claim received in the year.
- ▶ **Deferred tax credit of £6.2 million (2024: £8.5 million).** The deferred tax credit is due to losses in the year and deferral of capital allowances.

Further details on the current and deferred tax calculations are set out in note 9 to the accounts.

Pensions

South East Water is the sponsoring employer for the South East Water and the Mid Kent Water defined benefit schemes, which both closed on 31 March 2015 to future accrual. During the year the group paid contributions to the South East Water scheme of £7.0 million (2024: £6.6 million) in respect of the actuarial deficits on the scheme. No contributions were made to the Mid Kent Water scheme during the current or previous year following the decision in December 2022 by the trustees of the Mid Kent Water scheme to enter into an insurance arrangement to fully insure the future pension scheme liabilities. In December 2024, the trustees of the South East Water scheme entered into an insurance transaction to fully insure the future pension scheme liabilities of that scheme. No further deficit contributions will be paid to the South East Water scheme after 31 March 2025.

Further details on the schemes are set out in note 23 of the accounts.

In addition, the company operates and funds a stakeholder pension scheme which is a defined contribution scheme. During the year 1,250 (2024: 1,074) employees contributed to the scheme and the company made payments of £3.4 million by way of employer contributions to this scheme (2024: £3.1 million).

Financial performance continued

Net debt and cash flow

We use a combination of funds from operations, long-term funding and short-term working capital funding to finance the capital programme and to fund the ongoing business operations. During the year, cash generated from operations was £128.4 million (2024: £118.8 million). Net payments in respect of capital expenditure in the year totalled £141.9 million compared to £127.7 million in the prior year. Net payments in respect of interest and other finance income and costs were £49.5 million in the year compared to £45.9 million in 2024.

The higher net interest paid in the year is due to higher interest rates in the year and higher borrowings (see below).

The group statement of cash flows on page 222 shows an increase in the cash balance, from £5.0 million at the beginning of the financial year to £36.1 million at the end of the year.

Treasury

Our treasury policy seeks to ensure sufficient funding is available to meet foreseeable requirements and maintain appropriate headroom for contingencies. We manage the financial risks of the business through a series of hedging policies and ensure our short and long-term facilities are appropriate to the business's strategic objectives. Our policy considers inflation risk, interest rate risk and investment criteria set by the board. The obligations of our securitisation structure underpin the policy. Our assessment of the associated risks is set out in note 21 and details of our long-term loans are set out in note 18.

During the year, our use of our £125 million revolving credit facility comprised drawings of £51 million and repayments of £79 million. This activity reduced the total outstanding amount to £69 million by March 31, 2025, compared to £97 million at the same time in 2024.

The group entered into a new loan arrangement in the period for £50 million index linked to CPI with a nominal interest rate of 3.5 per cent. This loan matures in September 2040.

Dividends

We pay dividends to our shareholders in accordance with our dividend policy. Under this policy dividends should provide a suitable return to shareholders for their investment whilst ensuring the company can finance its functions and meet its obligations as a water undertaker without impairing its ability to meet current and future investment needs or its long-term financial resilience.

When considering dividends, the board takes account of a wide range of considerations consistent with Condition P30 of the company's licence, including delivery for customers and the environment, current and future investment needs, and financial resilience. It also considers employees' interests and other obligations such as health and safety, the provisions of the Companies Act 2006 including s172, and other metrics e.g., ESG performance.

Dividends are considered by reference to forecast financial and operational performance to ensure they do not compromise the company's future performance.

Other factors considered by the board in relation to proposed dividends include the company's actual and forecast level of gearing, the need to maintain its credit ratings, the allowed cost of capital, and any outperformance achieved or forecast.

Our policy is that the base level of ordinary dividend for the appointed business should be set and paid at a level that is within the allowed returns determined by Ofwat in the current price determination and having regard to the reasonable base nominal yield on equity (currently 4 per cent) within the relevant parameters set out in that determination (such as the size of the investment programme or considerations relating to financial resilience).

Following due consideration of the factors above, no dividends were paid during the year (2024: £2.25 million). Further details are given in note 10 of the financial statements. No dividends have been proposed and unpaid at the balance sheet date.

We provide more information on how the board has considered compliance with Condition P30 of the company's license in our annual performance report under accounting and performance disclosure.

Credit rating

Under our instrument of appointment, we must maintain two investment grade ratings. Our credit ratings continue to meet investment grade with both our rating agencies. We are currently rated BBB- (negative outlook) by Standard and Poor's and Baa3 (stable outlook) by Moody's. We continue to target solid investment grade credit ratings going forward.

Gearing

The group operates a securitisation structure. Our loans and borrowings at the end of March 2025 amounted to £1,395.4 million (2023: £1,348.4 million) (see note 18). Our senior net indebtedness (loans and borrowings excluding unamortised issue costs and net of cash) at the end of March 2025 was £1,365.0 million, which represents c.75 per cent of our regulated capital value. By May 2025, following further capital investment, gearing was c.65 per cent. Our securitisation requirements are that we should maintain a level of gearing of 85.0 per cent or less.

Taxation and tax policy

Our taxation policy is set out in the directors' report and the regulatory annual performance report. A more detailed explanation of our tax policy is available on our website. We continue to have a large and growing capital investment programme and therefore expect to have a significant amount of capital allowances available to offset tax liabilities in future years.



We manage our capital structure in a way that enables us to retain our investment grade credit rating and comply with our loan covenants

Responsible business

In this statement we explain:

- ▶ How the company and the board have considered the environment and key business relationships, and engaged with employees, customers, and other stakeholders (regulators, communities, environmental groups, suppliers, political representatives).
- ▶ How the board had regard to the company purpose, the matters set out in section 172(1) of the Companies Act 2006, and the interests of stakeholders in reaching key decisions and considering their impact.

Matters for consideration in section 172(1)	
The likely consequences of any decision in the long-term.	The impact of the company's operations on the community and the environment.
The interests of the company's employees.	The desirability of the company maintaining a reputation for high standards of business conduct.
The need to foster the company's business relationships with suppliers, customers and others.	The need to act fairly as between members of the company.

Purpose led

Fulfilling our purpose, balancing the matters in s172(1), and maintaining high standards of business conduct are interconnected. There are numerous examples throughout this strategic report of how the board achieves this.

Since the incorporation of our purpose into our articles of association, the duty of our directors goes beyond the standard duty set out in section 172(1). Our directors are required to act in a way that fulfils our purpose, both for the benefit of shareholders and to have a positive impact on society and the environment. In doing so, they must have regard to the matters set out in s172(1).

This is achieved within a decision framework that combines governance, internal systems of control and risk management, and an inclusive approach to stakeholder engagement.

Decisions taken by the board must balance the long-term and short-term interests of the company with the interests of its customers, employees, and the environment. Decisions must consider how to maintain key relationships and current and future regulatory requirements.

All these considerations are integral to strategic decisions and the monitoring of our performance, which aims to ensure we deliver targeted outcomes for customers and the environment, and the investment in infrastructure required to support our communities.

Purpose and high standards of business conduct

<p>Our corporate governance framework, corporate governance code, and culture (purpose and values) and board practices.</p>	<ul style="list-style-type: none"> ▶ A corporate governance framework focused on engagement, stakeholder inclusiveness, integrated thinking (i.e. balancing all relevant considerations in our decision-making including those in section 172(1) CA06). ▶ A purpose and values focused on delivery for customers, planning for the future, protecting the environment and contributing to society. ▶ A corporate governance structure that ensures all aspects of the business receive the appropriate scrutiny. 	<p>Our corporate governance framework southeastwater.co.uk/about/who-we-are/governance</p> <p>Our purpose and culture on pages 14 and 15.</p> <p>Board leadership and company purpose on page 136.</p> <p>How our board, committees and executive team operate on page 142.</p>
<p>Stakeholder participation.</p>	<ul style="list-style-type: none"> ▶ Engagement which ensures stakeholders are directly involved in our decision process: including our Customer Challenge Group, Water Horizon Forum and partnerships for the delivery of our environmental programme, our employee and stakeholder engagement programme. ▶ Extensive engagement programmes and consultation for all our key plans. 	<p>Stakeholder engagement on page 82.</p>
<p>Systems of risk management and internal controls.</p>	<ul style="list-style-type: none"> ▶ Risk management systems that consider aspects related to or impacting s172(1) matters. ▶ Analysis of key trends affecting our business model, strategy and performance also related to s172(1) matters. 	<p>Our business environment and key trends on page 48.</p> <p>Our principal risks on page 50.</p>

Our non-financial and sustainability information statement on page 96 sets out additional information on our approach to the environment, employee relations, social matters, as well as human rights, and anti-bribery and corruption.

Responsible business continued

Focused on the long-term

Consideration of the long-term is an essential component of our purpose, strategy and management of our infrastructure. Balancing the different matters and interests in s172(1) is an integral and necessary part of planning for the future.

Long-term planning and sustainable success		
Our business model.	► A business model focused on value creation through responsible business, with a long-term focus and collaborative engagement with stakeholders.	Our business model on page 16.
Our long-term planning and strategy.	<ul style="list-style-type: none"> ► Long-term water resources and drought planning is a core function to ensure we can meet future demand for water. ► Our long-term adaptive planning also seeks to ensure we will be able to provide our service and that our water supply system is resilient to future challenges. 	<p>Long-term trends, challenges, and priorities on page 22.</p> <p>Integrated thinking on page 40.</p> <p>Planning for the future on page 42.</p> <p>Our Water Resources Management Plan on page 44.</p> <p>Our draft business plan on page 45.</p> <p>Our climate-related disclosures on page 98.</p>

Stakeholder engagement

Stakeholder engagement is more important than ever, due to shifting customer expectations, rising scrutiny and the demand for transparency. Effective engagement with our stakeholders is therefore vital to our long-term success. By listening to and understanding the needs, values and priorities of stakeholders, we can focus on the issues that matter most which will enable us to make better decisions.

Undertaking quality engagement helps us to build strong connections, trust and buy-in for our initiatives. It also leads to a greater awareness and understanding of our work. Effective engagement leads us to set stretching commitments and maintain accountability while driving innovation. Stakeholders are experts in their field which means it is crucial that we listen and collaborate with them when it comes to strategic planning and decision-making.

Stakeholder engagement is an important part of everyone's role, and it is down to our leaders to make sure all levels of the business understand the purpose and the significance of engagement and how it will be undertaken to reach business and departmental objectives.

Our Stakeholder Engagement Strategy clearly sets out why, when, and how stakeholder engagement should take place, as well as how to record feedback and feed it into business decisions. It sets a direction of travel to embed best practice engagement methods throughout the business to enable us to gather valuable insights. This will create meaningful

two-way partnerships with wide-ranging stakeholder networks, representing all relevant environmental and societal areas.

The AccountAbility AA1000 Stakeholder Engagement Standard is recognised as the global benchmark for high-quality stakeholder engagement. We are committed to adhering to this standard which ensures our engagement remains inclusive, responsive, material and impactful.

We also collaborated with the now former Consultation Institute to create a robust stakeholder engagement framework. The Consultation Institute set the standards for best practice in public engagement and consultation around the globe. Our standards and commitments follow the Gunning Principles, Ofwat's engagement standards, Consumer Challenge Group standards and our own requirements. They focus on engagement with clarity and purpose, inclusive and accessible stakeholder participation, meaningful and effective engagement, engagement with integrity, and how we'll consider and report back on feedback received from stakeholder engagement and its influence on the decisions we make.

Engagement can take many forms, based on how relationships are mapped on a case-by-case basis. We monitor stakeholder feedback through our perceptions audit, undertaken every year. We also track media coverage, social media, and websites. Where we consult and involve our stakeholders, we undertake surveys, focus groups, meetings,

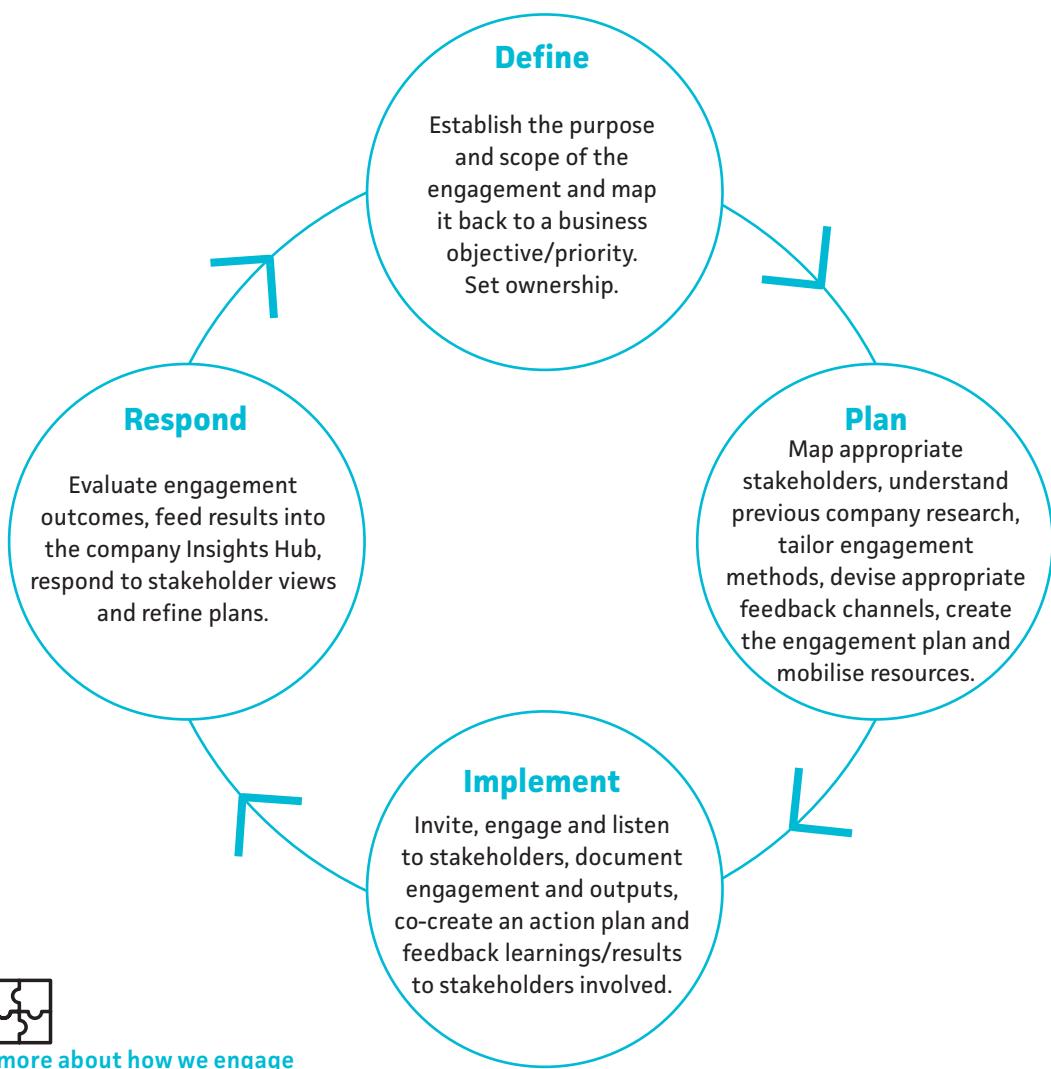
workshops, and panels to create a two-way dialogue, enabling learning for both stakeholders and the company. Our aim is that stakeholder engagement takes the form of collaboration and empowerment.

We continue to monitor and evaluate the engagement tools available and will test and embed where appropriate. For example, we have adopted the robust online EngagementHQ consultation platform which turns input into actionable insights. We continue to investigate other tools that may help manage our relationships with stakeholders in one complete system. Our insight hub is a key tool for us to capture learnings in a way that supports the creation of actionable insight which helps to shape our

approach. Outcomes from engagement are fed into the insight hub and then weighted using a consistent and defined methodology. This enables insight from different sources to be collated and triangulated against varied data sources. This actionable insight is then used to drive our business decisions in the areas of delivery processes, strategy, planning, company culture, investment in infrastructure and priorities in activities. This provides the golden thread from 'You said' to 'We did' demonstrating how the views of our stakeholders are reflected in what we do and why.

See our *Engagement Strategy* for more information. More details on our key stakeholders can be found below in this report.

We follow a process of define – plan – implement – respond. This ensures we consider previous insight/knowledge, we define the reason why we need to engage, and we use the most appropriate engagement method to get the best results to inform the business in future planning:



For more about how we engage

southeastwater.co.uk/engagementstrategy

Responsible business continued

Our customers and communities

Why is this stakeholder group important to us?

- ▶ Why we do what we do – we provide an essential service that is also a human right.
- ▶ Meeting their expectations is a key condition of our licence to operate.
- ▶ Our performance is assessed based on customers' feedback.
- ▶ Customers need to change their behaviours as water resources become more scarce.
- ▶ Their feedback helps us develop plans for the future that they support.

What are the key issues for this stakeholder group?

- ▶ A safe, wholesome supply of water.
- ▶ A reliable water supply and service performance.
- ▶ Great customer service.
- ▶ Affordability and value for money.
- ▶ Stable bills.
- ▶ Assistance in times of need.
- ▶ Well-managed street works.
- ▶ Local employment.
- ▶ Proactive role in relevant community issues.

How we engage

The development of our plans and strategies always includes significant engagement with customers to understand their priorities, expectations, and their support for our proposals.

Our independent Customer Challenge Group (CCG) provided challenge to us on our engagement programme and also on how we reflect findings in our decisions and in a range of areas during 2024/25.

We are members of the Institute of Customer Service (ICS) and have been awarded their ServiceMark accreditation in recognition of our customer service standards and our commitment to upholding those standards. Membership of the ICS gives us access



to benchmarking and advice on good practice to continuously improve our service and demonstrate objectively high standards of service.

We engage with our My Account customers with a monthly newsletter – *Behind the Tap* – which is sent to more than 500,000 customers a month. This explains what we're doing to provide the public water service and also offers water efficiency tips and advice. We are conducting more home water efficiency audits for customers, where we discuss water usage, fit water-saving devices and fix any internal leaks we find. These audits also allow us to promote our package of support to our vulnerable customers and those struggling to pay their bills by raising awareness of our PSR and affordability tariffs.

Our customer incident messaging system AquAlerter allows us to engage with customers quickly and effectively during incidents. We'll keep customers automatically updated on progress during an incident in their area and customers can now also report leaks they find themselves through the system.

We continue to work and share knowledge and data with several specialist groups such as National Energy Action, the national charity working to end fuel poverty, and UK Power Networks, to help us understand affordability issues in our area. These partnerships help us understand customers' changing needs and expectations so we can support them better in the future.

We value all the partnerships we have with organisations that can help us support our customers in relation to customer service, vulnerability, affordability, and community support. These include charities, housing associations, local authorities, government organisations and other utilities. Our Community Partnership Leads help us to link up with organisations across our supply area to raise awareness of our Priority Services Register (PSR) and build trust through community engagement. They attend dozens of community events and sessions promoting other support services for signposting such as Citizens Advice centres, Jobcentres and foodbanks. They also help us to develop important relationships with community groups, councils and other stakeholders. We teamed up with East Sussex County Council to do a door drop of nearly 190,000 properties. This helped us to pass on water efficiency advice and to reach digitally excluded customers.

We have engaged with customers and communities through a virtual Q&A session – “Behind the tap: Your drinking water questions answered” which allowed customers the chance to speak directly with members of the Executive. We were also at Kent County Show and Eastbourne Airborne Show.

For all capital programme works we assess the impact on our customers and communities near the works. We consult systematically and extensively with those affected, using a range of methods to understand views, how we can mitigate disruptions and to explain the reasons for and benefits of our works. These include engineering project drop-in sessions.

In 2024/25 we engaged with CCW and received feedback on our customer services practices and performance as well as on some escalated complaints. We hold events for retailers and non-household groups, and developers to discuss and obtain feedback on service improvements and tariff changes.

Feedback received and action taken

Our PSR numbers have risen strongly again, with 29,583 customers added to reach a total of 130,452. Now, 14.12 per cent of our customers are on the PSR, up from 11.03 per cent 12 months previously. We continue to identify and support more customers through community outreach and data sharing with energy companies.

For the second year running, our services for vulnerable customers have been recognised with the prestigious BSI Inclusive Service Kitemark with zero non-conformities after a rigorous review in January. We've received positive feedback on our Vulnerability Strategy published at the end of June. Ofwat has classed the strategy as “exemplary” in three of five assessment areas.

In April, we launched the new social tariff which applies a tiered discount based on household income, replacing the previous capped approach. This structured system was informed by stakeholder and customer feedback, best practices, and benchmarking. Our Helping Hands grants scheme offers financial assistance to customers who demonstrate they are taking steps to achieve financial stability but need help clearing water bill debt which has built up over the years.

In November we launched a new partnership with Kidney Care UK who will refer people they are supporting within our supply area directly through to our vulnerability team so our customers can have access to better tariffs and any further support we can provide. Colleagues are receiving training on issues such as chronic kidney disease so they have the knowledge and the tools to support customers more effectively too.

In 2024/25 we gave away 198,555 free water-saving devices to customers, including leaky loo detection strips and water-saving shower heads. This is 10 per cent more than we gave away in the previous year.

The number of customers registering for our My Account services remains high. By 31 March, 535,957 customers had registered, up from 484,053 in 2023/24. This represents 58 per cent of our customers, compared to 52 per cent the previous year. Customers now complete on average 28,000 self-serve transactions a month via My Account.

We've achieved 9th on the C-MeX (Customer Measure of Experience) Q4 table, our highest position since 2017, when there was a different performance system in place. This puts us 12th overall for the year.

Responsible business continued

The environment

Why is the environment important to us?

- ▶ We take raw water from the environment to provide our service.
- ▶ We rely on ecological services from catchments for our water resources.
- ▶ We operate in an area of serious water stress.
- ▶ We manage a large number of protected sites.

What are the key environmental issues?

- ▶ Minimising our impact on water bodies and the wider environment.
- ▶ Sustainable abstraction.
- ▶ Raw water quality deterioration.
- ▶ Enhancing biodiversity and restoring habitats.
- ▶ Mitigating the impact of climate change and population growth.



This allows us to build stronger and relevant relationships on the ground in specific catchments and obtain a more diverse set of opinions which can help influence and shape our future water resource plans.

This approach seeks to build on our successful catchment management programme where we have forged positive relationships with farmers and landowners in specific catchments to improve raw water quality by stopping soil, fertiliser and pesticides washing from fields into rivers and groundwater. The programme also has wider benefit in terms of air quality, climate regulation and biodiversity. We have run events and workshops with farmers and landowners, including an event at Arlington in June where we raised awareness of our capital grants programme.

Feedback received, actions and key decisions

We need to make the right, long-term, well-balanced environmental decisions so that we protect and, where possible, improve our environment – and our water supply as a result. Partnership and collaboration underpin our approach because we can't solve the problems by ourselves.

How we engage about environmental issues

Partnerships is one of four key pillars in our 25 Year Environment Plan which was co-created with stakeholders and customers. Building and strengthening relationships, positive engagement and collaborative working are therefore at the forefront of our approach to environmental issues.

We work with regulatory bodies, industry experts, academics, environmental organisations, community groups and other partners and stakeholders to share information, provide assistance, and to deliver innovative solutions that will drive long-term environmental benefits and wider societal change.

However, the way we engage is changing due to feedback we've received – see below. A more collaborative, catchment-focused approach is replacing our Environmental Scrutiny Group to enable us to focus on specific, local issues, challenges and priorities.



We have been working with Longbridge Regenerative, a collection of businesses that focus on sustainability, in a nature based solution to manage 181.3 hectares of invasive tor grassland in East Sussex

In 2024/25 we engaged with 43 farm businesses within our ODI target areas – the largest number we've engaged in a single year across our five-year business plan period. We continue to support and work in partnership with farmers and other land users by offering advice, sharing information, providing financial support and working collaboratively on rainwater harvesting projects, soil improvement trials and schemes to reduce chemical use. Over the last five years, we've successfully engaged with landowners who manage 15,098 hectares within our target catchments. Our catchment management programme has brought wider environmental benefits too. Between 2020 and 2024 the measures implemented are estimated to have sequestered an additional 1,001 tonnes of carbon through changes in land use type or habitat type, worth around £459,045 per year in total to society.

We are developing a new catchment-based approach to engagement about environmental issues following feedback from a successful event we organised with Southern Water and Lewes District Council in Sussex in October 2024. We brought together regulators, local authorities and environmental organisations from across the Newhaven, Lewes and Eastbourne area for an open discussion about the future of drinking water in the area. We aim to adopt a more local approach as we start preparing our next water resources management plan which will be published in 2029.

We are now working with South East Rivers Trust and independent catchment partnerships to see how we can extend this approach to other key catchments to involve local communities and organisations in future discussions about water resources.

We have showcased our 25 Year Environment Plan (H25₂) to more than 50 of our partners and stakeholders in Sussex, updating attendees on our plans to protect and enhance the natural environment for future generations through investment, innovation, engagement and partnerships.

A catchment-scale Invasive Non-Native Species (INNS) strategy to protect the River Ouse from the introduction and impact of INNS has been developed alongside partners from the South Downs National Park Authority, University of Brighton, Environment Agency and Ouse and Adur Rivers Trust. The implementation stage will involve more stakeholder engagement to raise awareness of the threats posed by INNS. Engaging with landowners is a vital part of the plan and is fundamental to the project's overall success as they can help us manage INNS and ensure a rapid response to any new invasive species found in the catchment.

In another valued partnership, we have been working with Longbridge Regenerative, a collection of businesses that focus on sustainability, in a nature-based solution to manage 181.3 hectares of invasive tor grassland in East Sussex. Exmoor ponies, which naturally graze on this type of coarse vegetation, will help manage the conservation of rare chalk grassland within the South Downs National Park. This will help increase our groundwater resilience and also improve biodiversity and nature recovery. Research has shown that rare chalk grassland is the best type of material to improve the quantity and quality of the groundwater below. We've again worked with the South Downs National Park to plant 3,750 trees over the past year as part of their Trees for the Downs initiative. This project seeks to restore community trees that have been lost to pests and diseases.

In partnership with Kew at Wakehurst Place, we have installed sand martin nesting banks and tern nesting rafts on the Wakehurst arm of Ardingly reservoir. This initiative has seen success with three healthy tern chicks hatching on the nesting island for the first time in 2024.

Responsible business continued

Our People

Why is this stakeholder group important to us?

- ▶ In a 24/7 365-day-a-year service, our people are our most important asset.
- ▶ They make our purpose, values, and culture a reality.
- ▶ They help develop and implement our strategy.
- ▶ They drive our progress and innovation.
- ▶ They are our main source of knowledge and experience.
- ▶ They deliver our service 24 hours a day, every day of the year.

What are the key issues for this stakeholder group?

- ▶ Purposeful jobs that make a difference.
- ▶ Health, safety, and wellbeing.
- ▶ Diverse and inclusive workplace.
- ▶ Opportunities to reach full potential.
- ▶ Open and honest environment.
- ▶ Fair pay and reward and recognition.
- ▶ Flexible working and work life balance.

How we engage

By listening to our colleagues and engaging positively with them, our Board gains a better understanding of how our purpose, company values and business strategy are being embedded. Effective engagement with colleagues is critical to our company's long-term success as it helps us to understand their needs, concerns and priorities and to ensure we continually improve the way we do things to make our company a great place to work and to deliver the best service for our customers.

Our staff council representatives ensure that colleagues are directly engaged within our company. The staff council, as our employee representative body, encourages and values conversation and the exploring of ideas with the business and teams. It helps us to continually improve and to provide a better working environment.



We run regular company-wide pulse surveys with colleagues to measure participation, engagement and obtain valued feedback from colleagues on key issues. Every view counts in these surveys. The results are shared with our colleagues, all levels of management and with our independent non-executive independent Director Célia Pronto, Remuneration Committee Chair, who has a keen focus on general engagement with colleagues. Our CEO David Hinton presented the latest survey results (June 2024) to colleagues. This has been followed up with a 'You said, We did' session with all colleagues to share the action taken as a result of their views.

Colleague engagement remains high at 91 per cent. There was a seven per cent increase in the number of colleagues who believe our senior leaders proactively engage with employees and work to understand their needs and a six per cent increase in numbers who say the communications they receive from senior leaders help them to feel more connected with the company. These positive increases have in part been driven by the development of our Leading for Change development programme, the introduction of regular roadshow events with our CEO, and visible leadership tours around the business. In addition, we engage with colleagues via our employee intranet. This platform allows us to share important business updates to everyone within the company but is also a great way for everyone to exchange news, event information and key communications.

Managers receive a monthly manager toolkit and health and safety briefings. Every colleague is actively encouraged to raise any issue or concern, however small, through our new easy online reporting tool ANMEL (Accident, Near Miss and Environmental Log). We have health and safety representatives throughout our company who attend health and safety committee meetings to ensure the voices of our colleagues are heard.

Feedback received and action taken

We pride ourselves on listening to colleagues and taking action to improve the way we work and the environment in which we work. This is borne out by the results of our last pulse survey when 71 per cent agreed that we took action as a result of survey findings. We are particularly pleased that this was a nine per cent increase on the previous survey's score for the same question.

We want our colleagues to have a better experience when they first join the company and throughout their careers with us. Our new HR IT system (HRIS) will provide more efficient and accessible services for colleagues, including recruitment, onboarding and payroll services, and a self-serve portal. It is more user-friendly and intuitive and will allow us to connect all areas of the business to improve efficiency and give greater visibility of workflows.

We are continuing to discuss plans for a new shift pattern and standby structure with operational colleagues to ensure we adopt the best approach, following a review aimed at improving operational resilience and encouraging more people into operational roles. Working patterns was a key topic raised by colleagues in the open comments section of our last pulse survey. We want to offer more choice and flexibility in the future so that people are not deterred from taking frontline roles in our company due to the traditionally reactive and unsociable working hours associated with these roles.

The number of apprenticeship standards we offer has risen from five to 20 reflecting our commitment to invest in new and emerging talent and home-grown skills. Women make up more than half of all applicants for our new apprenticeships. Apprentices currently account for seven per cent of our employees.

Colleagues want us to help them develop and reach their full potential and this is important because this helps us to retain top talent and enables us to meet the future and changing needs of our business. In the last year 89 colleagues have undertaken internal upskilling programmes through our Aspire, Inspire and Lead routes, a 31 per cent increase on the previous year. Nine colleagues are also going through our Preparing for Senior Leadership programme.

Our commitment to investing in the next generation and providing opportunities for professional and personal growth is at the heart of our workforce strategy and has been recognised with Gold membership of The 5% Club. This recognises companies where at least five per cent of colleagues earn and learn at the same time.

As a result of our new ANMEL reporting tool (see above), proactive safety observations by colleagues have increased five-fold. This helps to keep health and safety front of mind for everyone and is enabling us to resolve issues much faster. This proactivity shows colleagues that we take their health and safety seriously.

We also take wellbeing seriously and we are using insight from the pulse survey to continue to find ways to support our colleagues. Our Mental Health First Aiders are on hand across the business to offer support to colleagues whenever they need it too.

Following feedback from colleagues, we have extended the leave available to those suffering a bereavement and also extended the eligibility to cover a broader definition of 'family', to include those who've suffered a miscarriage, and the policy now includes one day's paid leave for the loss of a pet.

Responsible business continued

Our stakeholders and regulators

Why is this stakeholder group important to us?

- ▶ They influence or set policies that determine our long-term success.
- ▶ They assess our performance.
- ▶ They can take actions in case of shortcomings.
- ▶ They represent the key interests we need to consider.
- ▶ They are a source of knowledge and insight.

What are the key issues for this stakeholder group?

- ▶ Performance against regulatory outcomes.
- ▶ Trust and transparency.
- ▶ Governance and compliance.
- ▶ Sustainability and protection of the environment.
- ▶ Resilience and investment in the future.

How we engage

We maintain close communication and collaboration with regulatory bodies such as Ofwat, the Drinking Water Inspectorate (DWI), the Environment Agency and Natural England, as well as relevant government departments such as Defra (Department for Environment, Food and Rural Affairs) and the independent consumer body, the Consumer Council for Water (CCW). This involves direct interaction, participating in consultations and discussing key issues to find solutions together.

Our independent Customer Challenge Group (CCG), consisting of representatives from the CCW, environmental organisations, local councils, engagement specialists and charities, has continued to hold us to account for the promises we make to customers. The CCG has ensured the community voice has remained at the heart of our decision making in 2024/25.

We prioritise stakeholder engagement, recognising the expertise and understanding of local community needs among the more than 2,500 stakeholders in our supply area. Their views are central to our decision-making and strategy-setting processes.



Through Water UK, the trade association for the water industry, we engage with government, regulators and other decision-makers to contribute to policy development.

We organise annual events focused on inclusive and accessible services, inviting delegates from various sectors to improve customer support, share best practices and foster partnerships.

Our non-executive directors attend Ofwat's annual engagement session, with outcomes discussed at subsequent board meetings. The CEO updates the board on stakeholder activities and feedback at each meeting. Further, new directors are also interviewed by Ofwat prior to appointment, and action is taken on Ofwat's observations.

We produce a monthly update for regulators and a quarterly report (The Source) to keep stakeholders informed of our activities and relevant issues, maintaining regular communication to generate feedback.

Customer satisfaction surveys and analysis of performance data help us understand and adapt to customer feedback and expectations.

Our insight teams manage regular stakeholder engagement activities and specific programmes with customers, local authorities, charities, NGOs, and regulators for strategic and regulatory planning.

Feedback received and action taken

In February we founded the Broad Oak reservoir stakeholder advisory group, made up of external professional organisations from the fields of tourism, business, culture and heritage, environmental bodies, community groups and residents' associations, alongside parish councils and city councillors. Their role is to help us shape the Broad Oak reservoir project, submit views on behalf of the wider community, and to provide in-depth specialist knowledge and insights, ensuring we mitigate potential issues and understand local feeling.

Although our last water resources management plan (WRMP) was only published in October, stakeholder engagement about our next draft plan (dWRMP29) has already begun. More than 20 stakeholders (regulators, local authorities and environmental organisations) across the Newhaven, Lewes and Eastbourne area met with us, Southern Water and Lewes District Council in October for an open discussion about where drinking water will come from in the future. Everyone in attendance has agreed to be part of future conversations to identify the best way to solve this challenging issue. We plan to work at a more local level for our next plan.

Our stakeholder perceptions audit has been sent to 545 stakeholders who opted in to undertake surveys. There was positive feedback from this, highlighting that stakeholders really value in-person meetings, workshops and events. We plan to arrange more in-person meetings going forward. The key areas stakeholders want to understand more about are the environment, water resources, water efficiency and leakage.

We regularly liaise with MPs and value their interest in our services and the challenges we face. In November we were pleased to show Nus Ghani, MP for Sussex Weald, around the site of our £12.1 million investment project to install 17km of new water main between our Bewl water treatment works and our drinking water storage tanks at Wadhurst and Rotherfield. Visits like this enable us to highlight key investment in infrastructure being made across our operating area and also give stakeholders the opportunity to learn more about our work and to ask us questions about the service we provide.

In December we met with Kieran Mullan, MP for Bexhill and Battle, and several local councillors to discuss our response to supply interruptions experienced in the Robertsbridge/Hurst Green area of Sussex in 2024. At the meeting we discussed how we are developing resilience in our network, how we are improving our response when incidents do occur

and how we can work closer with local councils to further improve our alternative water plans. We've discussed the Broad Oak reservoir with Rosie Duffield (MP for Canterbury) and Sir Roger Gale (MP for Herne Bay and Sandwich) and facilitated meetings covering projects, incidents, network resilience, finance and future water resources with other MPs over the past year, including James MacCleary, Mike Martin, Laura Trott and Tom Tugendhat.

We invited all MPs and their staff from across our supply area to join us for an interactive webinar in January to explain the customer bill increases. The aim was to equip MPs and their teams with the information they need to answer any price increase enquiries they receive from constituents. We also talked through the range of financial and non-financial help we offer our customers. Feedback from this webinar was universally positive, with all those who attended telling us they would like to attend future webinars to better understand the work we do.

Our annual Vulnerability Stakeholder Conference in February brought together 61 attendees from 45 separate organisations across the charity, utility, housing, financial and community sectors to discuss challenges facing vulnerable customers and access to support. Input from our stakeholders has helped to inform and shape our final Vulnerability Strategy which has received positive feedback from the regulator Ofwat and the CCW, with Ofwat classing the strategy as "exemplary" in three of five assessment areas.

In November we invited stakeholders (and customers) to find out more about our new five-year investment plan. More than 200 people attended our independently chaired 'Behind the tap: Your drinking water questions answered' virtual meeting. The meeting gave attendees the opportunity to ask our Chief Executive and other senior colleagues questions on any topic and let us know their priorities. Also in November, we met with councillors from both East Sussex and Kent County Council to update them on our WRMP24 and our latest business plan (PR24).

We gave 50 members of the Kent Ambassador group a behind-the-scenes glimpse of all the work we do at our Bewl water treatment works to extract, treat and pump water to customers' taps in February. Kent Ambassadors is a group of business leaders and influential people who promote the county across the country and further afield.

Responsible business continued

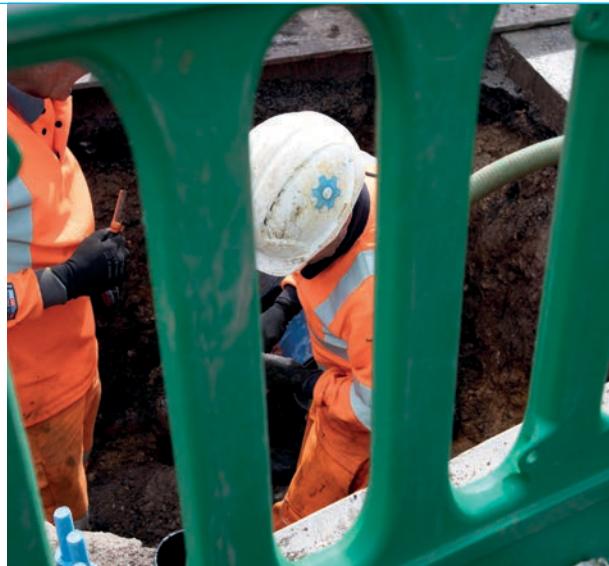
Our suppliers and partners

Why is this stakeholder group important to us?

- ▶ The safety of the entire workforce (employed by us or our contractors).
- ▶ Achieving our performance commitments.
- ▶ Delivering our investment programme and efficiencies.
- ▶ Technical expertise for our long-term plans.
- ▶ Maintaining our reputation and high standards of business conduct.
- ▶ Ensuring the continuity and resilience of our operations.
- ▶ Bringing innovative solutions and new technologies.
- ▶ Improving the sustainability of our business.

What are the key issues for this stakeholder group?

- ▶ The safety of the entire workforce.
- ▶ Balanced contractual arrangements.
- ▶ Profitable business.
- ▶ Fair payment terms.
- ▶ Collaborative working.
- ▶ An equitable supply chain.
- ▶ Mutually beneficial and predictable business relationships.



How we engage

We engage and collaborate with our suppliers and partners to ensure all our business dealings are conducted with integrity, fairness and in compliance of our legal and ethical responsibilities. Effective engagement and ongoing collaboration enables us to build mutual trust which helps us all to maintain the highest standards and to continuously improve our approach.

This extends to our procurement processes which include a number of checks and reviews to ensure the suppliers we engage with can meet our Ethical Purchasing Policy requirements. These checks form part of the evaluation and selection criteria for the goods and services we procure. Our Ethical Purchasing Policy also incorporates requirements relating to modern slavery. Alternatively, our suppliers must have an equivalent policy themselves. We also have standard contractual provisions to allow for periodic and targeted compliance audits and our key suppliers have a duty to notify us of any non-compliance with our ethical purchasing policy.



We also engage with our supply chain to promote innovation and to give them visibility of our investment plans to help secure sufficient capacity to deliver our investment

We require our supply chain to carry out due diligence checks and adhere to similar standards as ourselves in relation to their employees (including paying a living wage). We also require compliance with our policies such as data protection and IT security, as appropriate. We carry out audits of our suppliers' compliance and internal control systems following a risk-based approach.

Regular performance review meetings with key suppliers help us to monitor performance against KPIs (which reflect our own performance commitments). At these meetings, both parties can raise issues and suggest improvements.

We proactively engage with our suppliers to address potential supply chain disruptions. This is particularly the case for essential chemical supplies that ensure we can maintain water quality. Such issues are often managed at industry level to ensure coordination and to facilitate mutual aid between companies and in liaison with relevant government departments.

We also engage with our supply chain to promote innovation and to give them visibility of our investment plans to help secure sufficient capacity to deliver our investment.

Feedback received, actions and key decisions

Joint working groups (and other forms of coordination and cooperation) exist with our key contractors to ensure the highest standards of health and safety for our entire workforce (directly and indirectly employed). These also allow us to exchange best practice and share alerts on potential risks.

Partnering arrangements with some key suppliers enable their teams and ours to work side by side. We also have forums for early engagement of construction and engineering partners in the planning or design of works. These help us to pinpoint issues early on and to benefit from their input to identify efficiencies and innovative solutions as soon as possible.

We have engaged through our trade body, Water UK, with British Water and the water supply chain to prepare for the delivery of a much larger investment programme across the water sector in 2025 to 2030.

We also conducted our own assessment of the deliverability of our increased engineering and non-engineering programme of investment for 2025 to 2030 with our supply chain and our key suppliers, particularly those involved in our capital programme delivery.

When we agree payment terms with our suppliers, we have regard to the size and nature of their businesses.

Responsible business continued

Key decisions in the year

We provide examples below of some key decisions taken by the Board in 2024/25 to illustrate how we considered stakeholders' views as well as other s172 matters.

We provide a summary of the board's activities in 2024/25 on page 145.



PR24 and decision to request a redetermination

This year was dominated by our response to the draft determination and our decision to request a redetermination of Ofwat's PR24 final determination, which was published in December 2024.

Following oversight of the preparatory process, the board took the decision to support a business plan for 2025 to 2030 (AMP 8) focused on the need to invest in enhancing resilience in a way that matches the specific characteristics and challenges of each of our regions (West, Sussex and Kent). The business plan is predicated on a necessary increase in expenditure compared with recent regulatory periods including crucial investment to reduce supply interruptions and strengthen network resilience.

Drawing on its thorough understanding of our business plan proposals, the board formed a view that in its draft determination Ofwat did not recognise the need for a significant proportion of the company's expenditure including for the enhancements required for resilience. After consideration of the wider context in which the company operates, the board supported the company's response to the draft determination, in

which we maintained our proposals for investment and provided more evidence of the need for and appropriateness of the solutions advanced. Ofwat's final determination still did not, in the board's view, adequately address our company-specific circumstances and external challenges. The board reflected on whether this could leave the company facing an overall funding gap, including in key areas of water security (impacting resilience now and in the future), and a material imbalance in risk and return (including the risk of significant penalties for water supply interruptions). The board's ability to recognise the seriousness of these risks led to its decision to seek a redetermination by the CMA.

s172 matters and stakeholders considered

To reach its decision, the board considered a range of complex short and long-term implications for the company, its customers and the environment.

In the short-term, requesting a redetermination could affect the company's relationship with Ofwat, which the board acknowledged as a delicate consideration whilst its investigation into supply

resilience was ongoing. The board recognised that prioritising this for the company would not appropriately balance the needs of other stakeholders. Taking a longer-term outlook, the redetermination process would mobilise significant management resources in the crucial first year of AMP 8, requiring a step up in the delivery of investment and the implementation of an important change programme. Initiating a redetermination process would create uncertainty that could negatively influence the decision of potential lenders and credit rating agencies at a point when the company needed to improve its liquidity position. In the context of heightened public scrutiny of the sector, a request for a redetermination could cause negative reputational consequences. Importantly, the company would incur significant costs to appeal Ofwat's final determination and there was a residual risk that a CMA redetermination could potentially be less favourable than Ofwat's final determination. However, the board also weighed up the fundamental impacts that it believes the final determination would have for the company and all its stakeholders and it formed a view that not requesting a redetermination would cause more significant issues for all stakeholders longer-term.

In light of the changes to consumption patterns experienced since the Covid-19 pandemic and the more frequent exceptional weather, the board considers that investment in water security in AMP 8 is essential, and having regard to the long-term, must be the foundation for further investment in subsequent regulatory periods to face the challenges of population growth and climate change.

A central consideration of the board was whether a redetermination would be likely to be beneficial to customers. The board formed the strong view that the company is only likely to be able to deliver for its customers if its regulatory settlement enables sufficient resources at a manageable level of risks. The company had extensively engaged with customers, who confirmed that they supported our business plan proposals to invest in regional resilience. Receiving an uninterrupted water supply is customers' top priority, together with affordable bills. They highlighted they want the company to address both short and long-term resilience challenges and showed awareness of the impact that population growth and extreme weather will have on the water supply. The board noted that the company's proposals to mitigate the impact of investment on bills through a new social tariff

would be matched to the level of investment requested by the company in its statement of case to the CMA.

The prospect of the company and financial resilience were also key considerations. The board was aware that there had already been significant uncertainty among investors and debt providers at a time when the company had committed to deliver additional short-term investment in resilience in AMP 7 leading to an increase in financial requirements. The board believed that the final determination was seen by credit rating agencies as unfavourable, representing a significant increase in sector risks that further impacted our ability to access debt and equity. A decision to appeal the final determination would add to this uncertainty but also potentially remedy what the board had assessed to be the damaging imbalance of Ofwat's final determination.

In this context, the board considered the interest of ultimate shareholders, who had already contributed an additional £75 million equity in December 2024 and were in the process of securing £200 million of further equity in order to preserve the financial resilience of the company, without the prospect of a reasonable return under the final determination. The board also noted Ofwat's duty to ensure companies can finance their functions.

Outcome and impact

This led our board unanimously to request a redetermination to protect water security, restore a balance between risk and return, take account of its environmental obligations and ultimately enable the company to improve service to its customers in AMP 8 and beyond.

Despite the cost and risks associated with requesting a redetermination, the board concluded that a more balanced regulatory settlement was necessary for the company to be able to fulfill its purpose as a provider of the public water service now and in the future, and to be able to carry out essential work to protect our water resources and the environment it relies on.

The final decision of the CMA is not known at the time of writing, and the board remains hopeful that it has overseen a compelling appeal, so that the CMA decision will deliver a balanced regulatory settlement that puts the company on a better footing in 2025 to 2030 and beyond.

Non-financial and sustainability information statement

This statement provides an overview of the information in the annual report on non-financial and sustainability matters to help readers understand our development, performance, position, and the impact of our activity. It includes our climate-related disclosures on page 98.

Non-financial and sustainability information

Description of our business model	
Our business model focuses on value creation through responsible business, a long-term focus, engagement with stakeholders and collaboration.	Our business model on page 16 Our strategy and our 2025 to 2030 business plan on pages 22 to 45 Our purpose on page 14 – Our culture on page 15
Non-financial key performance indicators	
Our performance commitments, set out in our price determination by Ofwat, measure key aspects of our service and the delivery of our statutory duties. Our annual incentive plan (AIP) and our senior managers bonus scheme include health and safety and responsible business metrics.	Our business performance on page 66 Our AIP metrics on page 183
Principal risks relating to the matters considered in the statement	
Our principal risks and factors impacting these areas of risk.	Our long-term challenges on page 22 Our risk management and principal risks on page 50
Overview of our approach and practices on matters relevant to this statement	
	Our strategic direction statement on page 23 and at southeastwater.co.uk/about/our-plans/strategic-direction-statement How we create value for others on page 21 Our section 172(1) statement on page 80

Our key policies, strategies, and outcomes on:

The environment	
<ul style="list-style-type: none"> ▶ Protecting and enhancing the environment is part of our purpose which is incorporated into our articles of association and our directors' duties. ▶ Our corporate environmental resilience policy. ▶ Our 25 Year Environment Plan which sets out how we will limit our impact on the environment and improve its overall health and how we will work to improve environmental resilience to the effects of drought, flooding and increasing demand for tap water. ▶ We deliver an extensive environmental programme including biodiversity improvements on our SSSIs (WINEP). ▶ We have specific environmental performance commitments. ▶ We manage long-term water resources through our Water Resources Management Plan in a way that ensures sustainable abstraction, delivers environmental ambition, and takes account of climate change. 	Our strategic direction statement on page 23 Our 25 Year Environment Plan at southeastwater.co.uk/25yp Our Water Resources Management Plan on page 44 Our net zero routemap at southeastwater.co.uk/routemap

The environment continued

- ▶ Our drought plan sets out steps to manage drought in a way that minimises our impact on the environment.
- ▶ We contribute to the water industry's public interest commitment to achieve net zero carbon emissions by 2030 and to reduce leakage by 2050.
- ▶ We have adopted a carbon reduction strategy for 2020 to 2025, a net zero routemap to achieve operational net zero by 2030 and a net zero target by 2050 including embedded emissions.
- ▶ Mitigation and adaptation to climate change is an integral part of our strategic planning.

Our climate change adaptation report at southeastwater.co.uk/climate
 Our performance commitments on page 66
 Our environment on page 86
 Our climate-related disclosures on page 98

Our employees

- ▶ Our comprehensive people plan defines our strategy on all employment and people matters, including diversity and inclusion and development.
- ▶ Our apprenticeship scheme that promotes social mobility.
- ▶ Our values and behaviours are part of our assessment of employees' performance.
- ▶ We are a Living Wage employer.
- ▶ We have a comprehensive Thrive 365! health, safety and wellbeing strategy including mental health and a Thrive 365! Leadership Charter.
- ▶ We ensure fair pay, reward and recognition for all employees and to reduce our gender pay gap.

Our people on page 88
 Our gender pay gap report at southeastwater.co.uk/paygap
 The health, safety and wellbeing metrics in our AIP, page 186

Social matters

- ▶ BS 18477 certification on inclusive service provision.
- ▶ Our business plan commitments on priority service and vulnerability.
- ▶ Our vulnerability strategy increases our support to customers and helps them access our services.
- ▶ Water industry public interests commitments social mobility pledge.

How we create value for others on page 21
 Our customers and communities on page 84
 Our stakeholders and regulators on page 90

The respect for human rights

- ▶ Ethical purchasing policy.
- ▶ Modern slavery policy and statement explains how we monitor our own compliance and our supply chain compliance with modern slavery legislation.
- ▶ Our procurement selection process considers matters related to human rights and modern slavery.
- ▶ We require our supply chain to apply similar standards to ours.

Our modern slavery statement is available online at southeastwater.co.uk/modern-slavery

Anti-corruption and anti-bribery

- ▶ We provide regular mandatory training to our employees on anti-corruption and anti-bribery.
- ▶ Hospitality gratuities and gifts policy.
- ▶ Conflict of interests policy.
- ▶ Speaking Up (whistleblowing) policy, including a confidential independent channel for protected disclosures, with systematic reporting to the board in conditions that ensure the protection of whistleblowers.
- ▶ We require our supply chain to apply similar standards to ours.

Our people on page 88

Every year, we publish a performance, people and planet report with information on our non-financial performance and our corporate social responsibility in a clear and accessible format. Our performance, people and planet report is at performance.southeastwater.co.uk

Non-financial and sustainability information statement continued

Climate-related disclosures

These climate-related disclosures have been prepared following the requirements of section 414CB of the Companies Act 2006 and the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

We aim to follow a comprehensive approach to the management of climate-related risks that is integrated into our long-term planning. These disclosures present our current approach to the management of these risks and opportunities, our reporting on emissions, and cover the four thematic areas in the TCFD recommendations: governance, risk management, strategy, and metrics and targets.

Identification and management of climate-related risks

Risk management

We carry out specific scenario analysis in line with the TCFD recommendations and complementary assessments for our climate change adaptation reporting to Defra under the Climate Change Act. These processes identify climate-related risks, their impact and mitigation, and feed into our long-term plans.

Our long-term adaptive plans are based on different emissions' assumptions and incorporate adaptive pathways to define how we address key challenges arising from the combination of population growth, environmental ambition, and climate change. We submitted and published an updated climate change adaptation report in November 2024 in the fourth round of voluntary reporting to Defra under the Climate Change Act 2008.

Climate-related risks are recorded in our corporate risk register and scored following our standard risk methodology, allowing specific reporting and monitoring. We regularly review the effectiveness of our controls in compliance with our corporate governance code principles.

Independent assurance partners assure our performance monitoring against our commitments and compliance with our statutory obligations. This is a key part of how we manage operational and other business risks, including where climate-related risks affect performance.

All the processes described above inform how we define and assess our principal risks which include climate change and consider the impact of climate change on the other principal risks.

Governance and risk management

Board oversight

The board is responsible for promoting our long-term sustainable success and for all aspects of our regulated business. A core component of our purpose is to "create tomorrow's water solutions". Our main duty is to develop and maintain an efficient water supply system. Our service is inherently linked to the environment from which we collect raw water and our operations are directly impacted by the climate and weather events. Climate change is therefore an essential consideration for our board.

- It reviews our principal risks (which include the risk of climate change) and an annual risk report that assesses our climate-related risks.
- It approves our annual reporting including our disclosures under the TCFD recommendations and our emissions reporting under the streamlined energy and carbon reporting (SECR).
- It receives regular updates on and approves our long-term plans that set out our responses to climate change (our WRMP, Drought plan, adaptation report, net zero routemap).
- It receives regular updates on the delivery of our capital programme (including on the delivery of our flood resilience schemes or drought resilience schemes).
- It approved proposals to enter into power purchase agreements that will help us demonstrate our contribution to the development of new renewable energy capacity and considered our strategic direction statement, as well as our WRMP24 and long-term delivery strategy along adaptive pathways that reflect different assumptions on the impact of climate change.



Responsible business committee

The committee has direct oversight of our responsible business policies, including the management of climate-related issues and of our TCFD disclosures.

Audit and risk committee & remuneration committee

The audit and risk committee reviews and recommends for approval by the board our annual reporting, including reporting on climate-related risks, with a focus on consistency with financial statements. This role will increase as we develop our financial disclosures in coming years. It also has oversight of the effectiveness of our risk management and systems of internal controls.

The remuneration committee has set targets related to TCFD disclosures and objectives relating to aligning our approach with the Science Based Targets initiative.



Management's role

Executive team

The executive team, under the direction of the CEO, comprises the CFO, regulation and strategy director, customer services director and operations director. It defines and implements our strategy and manages the operational and financial performance of the company. It coordinates how climate-related issues are identified and managed consistently across the various areas of the business.

Key

 Sets direction, advises and provides challenge

 Implements, reports, monitors and escalates

Regulatory strategic group and thematic working groups

The regulatory strategic group provides oversight for the development of our main long-term regulatory plans and policies which define our strategy to respond to the long-term effects of climate change.

Other working groups relating to investment and operational issues also consider the impact of climate change in their decisions.

Key business functions

Several teams are responsible for assessing and managing climate-related risks across the business, especially for our long-term planning. The main issues that each role deals with are:

- **Company secretary:** disclosures under the TCFD recommendations.
- **Head of water resources:** the impact of climate change in our WRMPs working with WRSE.
- **Head of environment:** the impact of climate change on our environmental policies and practices, including relating to water sources.
- **Head of asset management:** ensuring that our water supply system will be resilient to climate change through adaptation and adaptive planning.
- **Head of economic regulation and strategy:** ensuring our business planning reflects our long-term goals on resilience to climate change.
- **Carbon strategy and economic manager:** managing our risk management process (including for climate-related risks), implementing our net zero routemap, PPAs as well as emissions reductions & reporting.

Responsible business steering group

It implements actions and develops proposals on responsible business initiatives, including relating to climate change, and reports to the responsible business committee.

Members of the responsible business steering group are also non-director members of the responsible business committee which ensures that the committee has access to a wide range of expertise and is able to consider transversal and complex issues across the business.



Read more

- on our risk management systems and principal risks on page 50.
- on our long-term planning and how it addresses our challenges including climate change on page 42.

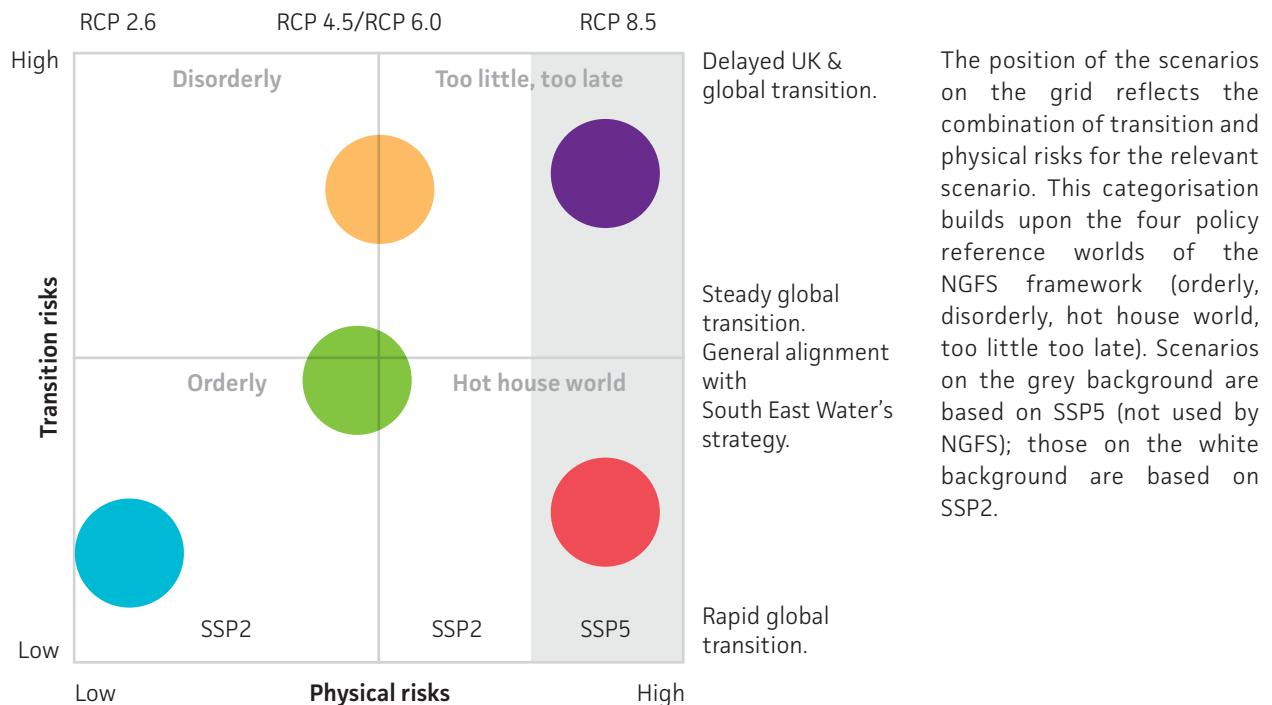
Climate-related disclosures continued

Scenario analysis

We have identified and assessed climate-related risks and opportunities using five scenarios derived from the SSP-RCP framework. These combine representative concentration pathways, shared socioeconomic pathways, and policy assumptions adapted from the network of central banks and supervisors for greening the financial system (NGFS). Ofwat's common reference scenario assumptions and insights from our own STEEP analysis have also been incorporated as relevant driving forces.

These scenarios reflect different combinations of assumptions on the implementation of climate policy, environmental ambition, water demand reduction, technological changes and on the alignment of these drivers with our strategy.

Overview of scenarios used for our analysis		
Description	Key Parameters	Key assumptions
 Optimistic: Rapid global & UK transition	SSP2 RCP2.6 +1.5°C	<ul style="list-style-type: none"> ▶ Rapid global and UK policy changes by 2030 and significant investment in low carbon technologies. ▶ Significant regulatory changes and high environmental ambition in water and other sectors. ▶ Steady increase in physical risks but with relatively lower frequency and magnitude plateauing in 2050.
 Orderly: Steady global & UK transition	SSP2 RCP4.5 +2.6°C	<ul style="list-style-type: none"> ▶ Steady global and UK policy changes by 2030 and progress of the UK's net zero roadmap with moderate investment in low carbon technologies. ▶ Moderate environmental ambition outside of the water sector, and more ambitious environmental and demand reduction targets for the water sector with moderate investment in water-saving technology. ▶ Steady increase in physical risks' frequency and magnitude.
 Disorderly: Delayed global & UK transition	SSP2 RCP4.5 +2.6°C	<ul style="list-style-type: none"> ▶ Limited global and UK policy changes by 2030 and the UK falling behind on its net zero roadmap with moderate investment in low carbon technologies. ▶ Misalignment in environmental ambition, policy, legislation, and technological development. Moderate environmental ambition and delayed investment in water-saving technology in the water sector and limited in other sectors. ▶ Steady increase in the frequency and magnitude of physical risks.
 Hot house: Delayed global transition & Steady UK transition	SSP5 RCP8.5 +4.2°C	<ul style="list-style-type: none"> ▶ Limited global policy changes by 2030 and steady progress of the UK's net zero roadmap with moderate investment in low carbon and technologies. ▶ More ambitious environmental and demand reduction targets in the water sector with moderate investment in water-saving technology; moderate ambition and investment in other sectors. ▶ Steady then more rapid increase in the frequency and magnitude of physical risks as critical temperature thresholds are exceeded leading to severe physical risks over the long-term.
 Pessimistic: Delayed global & UK transition	SSP5 RCP8.5 +4.2°C	<ul style="list-style-type: none"> ▶ Delayed and limited global policy changes and the UK falling behind on its net zero roadmap with delayed and limited investment in low carbon technologies. ▶ Misalignment in environmental ambition, policy, legislation, and technological development. Moderate environmental ambition and delayed investment in water-saving technology in the water sector; limited in other sectors. ▶ Steady, then more rapid increase in the frequency and magnitude of physical risks as a late transition leads to critical temperature thresholds being exceeded and severe physical risks over the long-term.



Transition risks have been assessed to 2035 reflecting the greater uncertainty that arises from relevant drivers (policy, technology, and market) beyond that horizon. This aligns with our commitment to achieve operational net zero by 2030 and encompasses our next two regulatory periods.

Physical risks have been assessed to 2080. This is consistent with our capital planning and investment horizons, including our WRMP and the life of major assets.

Scenarios & horizons used for the assessment of transition and physical risks					
	Transition risks	Physical risks			
	Short-term To 2035	Short-term To 2035	Medium-term 2035 to 2050	Long-term 2050 to 2080	
Low emissions	Optimistic	–	–	–	Optimistic
Central emissions	Orderly Disorderly	Orderly Disorderly	Orderly Disorderly	Orderly Disorderly	Orderly Disorderly
High emissions	–	–	–	–	Hot house Pessimistic

Climate-related disclosures continued

Climate-related risks, impact, and strategic response

We have used the TCFD categorisation of risks for the assessment of climate-related risks and their impact.

Transition risks

Our analysis of transition risks considers technology risks, market risks, policy, regulatory and legal risks and reputational risks. We also consider how policy areas (e.g. carbon reduction, environmental ambition and water demand reduction) across sectors, and how other factors, such as public awareness, may support or hinder our strategy. Regular stakeholder engagement have informed our views.

1. Technology risks relating to the transition to lower-carbon operations	
Impact and variations between scenarios	<ul style="list-style-type: none"> ▶ Orderly: A more progressive implementation with supportive regulation limits uncertainties and facilitate risk mitigation. Net Zero targets are likely to be substantially met. ▶ Disorderly: Delayed energy transition and misaligned policies leads to slow technology development and less capacity in the supply chain, keeping the unit cost of low carbon technology and products high, with a greater risk of missing net zero targets (or of relying on carbon offset) and increased transition risks approaching 2050. ▶ Optimistic: Net Zero objectives would be met with ambitious targets, and high pace of transition and decarbonisation. A rapid roll-out of technology would increase risks of disruption to operations, maintenance, and investment delivery and of skills shortage and supply chain bottlenecks. This would lead to high initial costs of technology that may later be superseded.
Financial impact	Strategic response
<p>Expenditure</p> <ul style="list-style-type: none"> ▶ Increase in totex and operating costs in line with planning assumptions but with greater risk of exceeding them in a rapid transition context or disorderly transition. ▶ See transition risk 3 below for related potential impacts of price reviews and misalignment of policies. <p>Assets and liabilities</p> <ul style="list-style-type: none"> ▶ Potential write-off or impairment of high-emissions assets especially in a rapid transition context requiring a higher rate of asset replacement. ▶ Potential write-off or impairment of unsuccessful low carbon technologies especially in a rapid transition context. 	<ul style="list-style-type: none"> ▶ Adaptive planning and working with suppliers and stakeholders to map out in advance the key steps required to upgrade and future-proof assets and rationalise expenditure. ▶ Innovation programme with gated investments and collaboration with other water companies for joint procurement and investment into new technologies. ▶ Potential increase in offsetting by 2030 to ensure optimum replacement of existing assets. ▶ Potential change to depreciation of relevant assets. ▶ Potential use of offsetting until end of life of assets especially for large M&E assets with a life of 20 to 40 years.

2. Market risks relating to the cost of technology, materials and energy

Impact and variations between scenarios

Uncertainty about the ability of supply chains to scale up production and meet demand for low-carbon processes and technology (e.g. construction methods and materials, vehicles, machinery, renewable energy, chemicals).

Macroeconomic factors, and high demand for relevant products and technologies may increase pressure on supply chains, transportation, and drive up the cost of materials and commodities as decarbonisation deadlines approach (2030 and then 2050).

Increasing development costs of solar and wind farms, green hydrogen and of adapting the electricity grid leading to higher electricity costs and grid charges.

Electricity prices under long duration PPAs for wind and solar might exceed future assessment of electricity prices by Ofwat.

Procuring low carbon options to reduce embedded carbon and potential expansion of carbon pricing may increase our input costs.

► **Orderly:** Competing demand for low carbon technologies, products and materials may lead to cost increases but less so than under an optimistic scenario. Relative balance between supply and demand for renewable electricity would have a lesser impact on the cost of renewable electricity.

► **Disorderly:** Low availability of new technologies and low carbon products would keep prices high with potential for delays in decarbonising operations and reducing embodied carbon. Relatively low renewable capacity generation would lead to high costs of renewable electricity (but demand would be lower than under the other scenarios).

► **Optimistic:** Fast transition across sectors would lead to high demand for low carbon products and materials and significant cost increases. High demand for renewable electricity would lead to higher costs (on-site renewables, PPAs or grid renewables).

Financial impact

Expenditure

- Increase in totex (including for our investment programme) and operating costs in line with planning assumptions but with greater risk of exceeding them in a rapid transition context or disorderly transition.
- See transition risk 3 below for related potential impacts of price reviews and misalignment of policies.

Strategic response

- Adaptive planning and working with suppliers and stakeholders to match supply and demand, capacity building and ensure the deliverability of investment at efficient costs.
- Procurement strategies to limit costs and maximise efficiencies through the supply chain.
- Collaboration with other water companies to develop joint procurement and joint investment into new technologies, materials and processes.
- Entering into PPAs (wind and solar) as well as development of renewable generation on own sites and adjacent land to diversify our renewable electricity sources.

Climate-related disclosures continued

3. Policy, regulatory and legal risks	
Impact and variations between scenarios	
<p>Ofwat's assessment of the amount and timing of the required expenditure in mitigation (operational net zero by 2030 and net zero by 2050) and adaptation may differ from ours, resulting in underfunding at price reviews, assumptions on efficiency and base operating costs that do not fully recognise actual pressure on costs, and performance penalties incorrectly calibrated.</p> <p>The potential misalignment of different areas of policy may make the transition to lower-carbon operations and investment in adaptation more challenging and costly. This includes insufficient controls on third parties causing raw water deterioration, reduction of both our and third parties' abstraction without an alternative for the latter, new drinking water quality standards that increase the energy and chemical intensity of treatment, competing pressures on land use including for biodiversity gains.</p>	<ul style="list-style-type: none"> ▶ Orderly: A more progressive rate of change and better alignment of policies reduce the risk of a significant regulatory funding gap to achieve 2030 and 2050 emission reduction goals, unplanned investment, and unforeseen costs. ▶ Disorderly: Slower and more challenging progress, and greater risk of delay in meeting our 2030 (or greater reliance on offsetting) and potentially 2050 emission goals with reputational impact. Misalignment of policies increases the risk of a significant regulatory funding gap, unforeseen costs and delays. ▶ Optimistic: Rapidly changing carbon policies as well as requirements to meet ambitious environmental targets (potentially conflicting due to the pace of change) require significant and potentially unplanned investment, but relevant costs would be recovered through price reviews due to strong policy drivers.
Financial impact	Strategic response
<p>Expenditure</p> <ul style="list-style-type: none"> ▶ Increase in totex (including for our investment programme) and operating costs in line with planning assumptions but with greater risk of exceeding them in a rapid or disorderly transition context and greater risk of underfunding in a disorderly scenario. 	<ul style="list-style-type: none"> ▶ Proactive identification of conflicts and inconsistencies of regulatory requirements and associated costs in our investment plans, business plan, and regulatory plans (e.g. WRMP, WINEP) to limit the risks of underfunding and imbalanced incentives at price reviews. ▶ Use of alternative delivery models and funding from other sources (e.g. government grants) to cover funding gaps (under the optimistic scenario and orderly scenario). ▶ Industry collaboration to address challenges with conflicting targets and regulation, engagement with regulators and policymakers to promote alternatives. ▶ Engagement with stakeholders and customers to gain their support for adapting net zero commitments based on the actual support and phasing recognised by the policy or regulatory context under a disorderly scenario.

Physical risks

We used spatially coherent temperature and precipitation daily timeseries in 12km grid-squares from the UKCP18 regional climate model (RCM) for RCP2.6, PCP4.5 and RCP8.5 to better understand the impact of climate change on our assets and operations in Kent, Sussex and Western regions.

Winters will become wetter, with more frequent heavy rainfall events. Summers will become significantly hotter and drier, with clear upward trends in frequency of metrics above the thresholds of risk to our assets and operations and increasing events severity and duration.

<p>1. Supply demand balance and impact of droughts. Risk to supply demand balance and impact of droughts leading to stretched or insufficient water resources to meet demand and/or low flow limiting abstraction.</p> <p>Main climate-related metrics considered Dry weather (low precipitation) Dry weather with heatwave (compound)</p>		
<p>Short and medium-term impact</p> <p>Pressure to the supply demand balance is expected to progressively increase but consistently with water resources planning assumptions.</p> <p>► Disorderly: Greater uncertainty and risk of misaligned policies to achieve leakage and demand reductions.</p> <p>Heavy rainfalls and extreme temperatures resulting in ground movement would also increase leakage and pipe bursts.</p> <p>Long-term impact</p> <p>More frequent dry years / droughts with less recovery time occur under all scenarios.</p> <p>► High emissions: Greatest chronic pressure on the supply-demand balance exacerbated by more frequent acute weather events.</p> <p>► Optimistic: Ambitious sustainability reductions in abstractions could compound pressures on the supply demand balance and require bringing forward new water sources.</p> <p>► Disorderly and pessimistic: Greater misalignment of drivers (e.g. less demand reduction, unsustainable abstraction or pollution by third parties) would impact the effectiveness of our strategy.</p>	<p>Financial Impact</p> <p>Expenditure</p> <ul style="list-style-type: none"> ► Totex in line with planning assumptions but in the medium to long-term potentially with higher cost options and/or acceleration of investment being required. ► Capital investment in smart networks, smart meters and supporting technology (IT systems, software, data management). ► Operating costs relating to droughts/dry weather and conjunctive use of sources increasing in the medium to long-term. <p>Revenue</p> <ul style="list-style-type: none"> ► Impact of drought restrictions on revenue and associated impact on revenue allowance associated with ODI penalties. <p>Assets and liabilities</p> <ul style="list-style-type: none"> ► In the medium to long-term write-off linked to loss of sources consistent with water resources planning assumptions on the development of new sources. 	<p>Strategic Response</p> <ul style="list-style-type: none"> ► Investment in WRMP options including new reservoirs. ► Planning for a 1 in 500-year drought resilience for 2040. ► Leakage reduction using smart networks and operational changes to the networks as well as demand management. ► Water use restrictions to manage droughts. ► Conjunctive use of water sources to efficiently use surface and groundwater sources. ► Long-term adaptive planning using investigations carried out in the short and medium-term and improved modelling. ► Bringing forward investment in water resources if sufficient demand reductions can't be achieved in the short and medium-term. ► Additional water resources options, potentially including water reuse, bankside storage, new reservoir, and potentially desalination in the long-term.

Climate-related disclosures continued

2. Heatwave peak demand. Peak demand during heatwaves may exceed network capacity for water distribution, leading to service disruptions and interruptions of supplies.

Main climate-related metrics | Prolonged high temperatures | Dry weather with heatwave (compound)

Short and medium-term impact	Financial Impact	Strategic Response
<p>Peak demand may exceed our supply system capacity especially at locations with network constraints (e.g. areas at the end of the network or supplied from a single source) which have a greater risk of supply interruption.</p> <p>Long-term impact</p> <p>An increased risk of heatwaves appears under all scenarios.</p> <ul style="list-style-type: none"> ▶ High emissions: Higher risk of heatwaves, dry years or droughts combined with higher risk of disruptions caused by acute weather events (see risk 5) which can cause damage to assets or outage and reduce our ability to cope with peaks in demand. ▶ Optimistic: Greater sustainability reductions in abstraction from high environmental ambition, may lead to the need to develop or bring forward new sources. ▶ Disorderly and pessimistic: Less demand reduction would fail to mitigate the impact of heatwaves on high demand. 	<p>Expenditure</p> <ul style="list-style-type: none"> ▶ Totex in line with planning assumptions but potentially with acceleration of investment in the short-term (e.g. drinking water storage, network connectivity and increased treatment capacity) and in the medium to long-term higher cost options being required (e.g. mains replacement or new sources). ▶ Operating costs linked to heatwaves incident management and customer compensation, with increasing likelihood and quantum in the medium to long-term. <p>Revenue</p> <ul style="list-style-type: none"> ▶ Impact on revenue allowance associated with ODI penalties (interruptions and C-MeX) with a greater likelihood and quantum in the medium to long-term but potentially mitigated by appropriate investment in resilience. ▶ Lower revenue following implementation of use restrictions. 	<ul style="list-style-type: none"> ▶ Short-term resilience schemes to address existing network pinch points. ▶ Use of drought plan to implement water use restrictions to dampen peak demand. ▶ Increased enhancement expenditure focused on resolving supply resilience issues in our PR24 business plan. ▶ New tariffs (in conjunction with enhanced demand management relying on smart networks/ meters) to flatten peak demand and encourage water efficiency. ▶ Resilience schemes and increasing interconnections between water resource zones. ▶ Water efficiency initiatives and campaigns enhanced during heatwaves and droughts. ▶ Mains replacement to reduce leakage and/or acceleration of resource schemes if leakage reduction and demand management options do not deliver the expected results.

3. Raw water quality deterioration. Risk of raw water quality deterioration and increased algae presence affecting resource availability and treatment.

Main climate-related metrics considered | Dry weather (low precipitation) | Prolonged high temperatures | Dry weather with heatwave (compound) | Hot spells followed by heavy rainfall (flash floods) | Heavy rainfall and prolonged wet periods

Short and medium-term impact	Financial Impact	Strategic Response
<p>Higher concentration of pollutants or other biological material in raw water during prolonged hot periods (e.g. low river flows).</p> <p>Release of sediments, pollutants, increased turbidity, and sewerage overflow following heavy rainfall.</p> <p>Blue-green algae increasingly all year round in raw water reservoirs.</p> <p>Potential damage to biodiversity and reputational damage if algal water overflows from reservoirs following heavy rainfall.</p> <p>► Disorderly: Less effective controls on third parties' pollution and abstraction insufficiently mitigate these risks.</p>	<p>Expenditure</p> <ul style="list-style-type: none"> ► Totex in line with planning assumptions, with greater risk of acceleration of investment in treatment or sources in the medium to long-term. ► Operating costs relating to operational changes (e.g. reservoirs and sources management) increasing in the medium to long-term. ► Operating costs relating to additional treatment increasing in the medium to long-term. <p>Revenue</p> <ul style="list-style-type: none"> ► Impact on revenue allowance associated with ODI penalties (interruptions or potentially ERI) increasingly in the medium to long-term. <p>Assets and liabilities</p> <ul style="list-style-type: none"> ► Write-off linked to loss of sources but consistent with water resources planning assumptions on the development of new sources but with greater risk of acceleration in a disorderly and high emission scenario. ► Potential liabilities associated with the release of algal waters. 	<ul style="list-style-type: none"> ► Increased monitoring and investigations to identify main causes and develop action plans. ► Catchment management and nature-based solutions. ► Engaging with sewerage companies and other entities, the EA and local authorities so they address causes of raw water deterioration. ► Engaging with the EA, Natural England and local authorities about land management measures to protect raw water quality (e.g. new source protection zones). ► Dredging of reservoirs and changes to operation of reservoirs (e.g. to avoid filling after high flow events). ► Treatment alternatives to mitigate raw water quality deterioration with increased likelihood in the medium to long-term. ► Additional treatment or alternative sources if interventions with third-party are not sufficient (with increased likelihood in the medium to long-term for nitrate removal and to enable the conjunctive use of different sources at different times). ► Additional bankside storage to enable changes to how reservoirs are filled and operated.
<p>Long-term impact</p> <p>Similar impacts as in the short to medium-term but with increased likelihood and frequency under all scenarios.</p> <p>► Disorderly: Similar to short and medium-term risks with expected increase in climate change impact.</p> <p>► High emissions: Highest risk with significant chronic increase in summer temperatures and heatwaves, and flooding and heavy rainfall during the year.</p>		

Climate-related disclosures continued

4. Impact of storms, high wind, extreme heat, and floods on supply system

Acute weather events may take assets temporarily out of operation or disrupt our operations and water supply.

Main climate-related metrics | Heavy rainfall and prolonged wet periods | Hot spells followed by heavy rainfall (flash floods) | Prolonged high temperatures | Storms and high winds

Short and medium-term impact	Financial Impact	Strategic Response
<p>Flooding may disrupt or interrupt the operation of our water treatment works causing disruptions or interruptions to the water supply.</p> <p>Extreme summer temperatures may lead to the overheating of assets and mechanical systems.</p> <p>Secondary impacts of flooding and storms such as loss of access to sites may temporarily reduce operation resilience, including from secondary failure where the delivery of supplies, maintenance or repairs are hindered preventing normal operations.</p>	<p>Expenditure</p> <ul style="list-style-type: none"> ► Totex in line with planning assumptions, with increasingly higher level of investment in adaptation required in the medium to long-term especially under high emissions scenarios. ► Capital investment in resilience to power supply blips and interruptions. ► Operating costs linked to the management of acute weather events and related incidents, increasing in the medium to long-term especially under high emissions scenarios. <p>Revenue</p> <ul style="list-style-type: none"> ► Impact on revenue allowance associated with ODI penalties (interruptions and C-MeX) increasing potentially in the medium to long-term, but potentially mitigated by appropriate investment in resilience. <p>Assets and liabilities</p> <ul style="list-style-type: none"> ► Potential write-off or impairment of assets that may not be resilient to flooding or that need accelerated replacement to ensure resilience of the water supply system to acute weather events. 	<ul style="list-style-type: none"> ► Flood resilience investigation and mitigation schemes (resilience to 1-in-500-year event by 2040) with investment in redundancy for sites that can't be fully protected. ► Additional generators (avoiding fossil fuels), battery storage and alternative power supplies at WTWs and pumping stations for resilience to blips (leading to temporary sites' shutdown) and longer supply interruptions. ► Investment in asset resilience and in active or passive cooling for critical network equipment. ► Ensure availability of suitable vehicles in all conditions (including with transition to zero emission vehicles). ► Investment in remote automated restart of production sites to minimise disruption and improve post-event recovery. ► Continuation of the short-term and medium-term responses set out above, with increases in the level of investment to match additional impact in the long-term and under higher emissions scenarios.
<p>Storms and high winds may cause loss of power and telemetry and affect the transport infrastructure, resulting in disruptions or interruptions to the water service.</p> <p>The impact of acute weather events on our supply chain (e.g. chemicals, construction partners and material suppliers) may affect operations and investment delivery.</p>		
<p>Long-term impact</p> <p>Similar direct and cascading impacts as in the short and medium-term but with increased likelihood and frequency under all scenarios.</p> <p>► High emissions: Greater intensity, frequency and proximity of acute weather events exacerbate these impacts, recovery from them, and reduce the time windows for the outages required for maintenance and construction works.</p>		

5. Sinkholes and ground movement. Sinkhole damaging or disrupting the operation of key assets and ground movement increasing pipes bursts or leaks.

Main climate-related metrics considered | Dry weather | Dry weather with heatwave (compound) | Heavy rainfall and prolonged wet periods

Short and medium-term impact	Financial Impact	Strategic Response
<p>Sinkholes linked to chronic climate impact on heavy rainfalls and prolonged dry weather, damaging key assets requiring emergency works or asset replacement.</p> <p>Increased pipe bursts and leakage caused by ground movements resulting from heavy rainfall, extreme temperatures, and dry soils.</p>	<p>Expenditure</p> <ul style="list-style-type: none"> ▶ Totex planned and unplanned for emergency repairs or asset replacement. ▶ Operating costs linked to sinkhole incident management. <p>Revenue</p> <ul style="list-style-type: none"> ▶ Impact on revenue allowance associated with ODI penalties (interruptions and C-MeX). <p>Assets and liabilities</p> <ul style="list-style-type: none"> ▶ Write-off or impairment of assets damaged by sinkholes. 	<ul style="list-style-type: none"> ▶ Geological surveys, modelling of risks of sinkholes and monitoring for current and future assets in the short to medium-term. ▶ Continuation of short-term and medium-term responses above and specific investment where appropriate in the long-term.
<p>Long-term impact</p> <p>Similar impacts as in the short and medium-term but with increased likelihood and frequency under all scenarios.</p> <p>▶ High emissions: The risks of sinkholes and ground movement would be relatively higher with greater frequency and intensity of high temperatures and heavy rainfall during the year.</p>		

Climate-related disclosures continued

<p>6. Sea level rise and coastal erosion. Sea level rise and coastal erosion affecting access to or causing saline intrusion in some of our groundwater sources.</p>		
<p>Main climate-related metrics Sea level rise</p>		
<p>Short and medium-term impact</p> <p>Erosion from sea level rise may compromise access to one of our coastal sites.</p> <p>Long-term impact</p> <p>Sea level rise may potentially lead to the permanent loss of certain sites, under all scenarios. Resting of groundwater sources to mitigate saline intrusion would require developing alternative water sources.</p> <p>► High emissions: Greater sea level rise would be likely to result in saltwater intrusion in some aquifers requiring changes to treatment processes or leading to the permanent loss of some water sources.</p>	<p>Financial Impact</p> <p>Expenditure</p> <ul style="list-style-type: none"> ► Totex in line with planning assumptions including specific schemes for the protection of affected sites. In the long-term especially under high emissions scenarios, higher investment would be required (e.g. to develop new sources or new treatment processes). ► Operating costs relating to additional treatment and changes to the operation of sources (e.g. resting groundwater) in the long-term. <p>Assets and liabilities</p> <ul style="list-style-type: none"> ► Write-off of sources or assets permanently affected by coastal erosion or saline intrusion. 	<p>Strategic Response</p> <ul style="list-style-type: none"> ► Monitoring of beach and cliff with ad-hoc maintenance and material replenishment. ► Re-routing access roads to sites vulnerable to erosion. ► Investment in alternative water sources to replace sources lost due to coastal erosion or saline intrusion.

Strategic planning and resilience of our strategy

Climate change has contributed to the exceptional combination of weather events that led to supply interruptions in network hotspots in Kent and Sussex between 2020 and 2023. In response, we have brought forward and prioritised investment in resilience during the 2020 to 2025 regulatory period and have exceeded our cost allowance. Our business plan for 2025 to 2030 includes a significant increase in resilience investment in Kent and Sussex and our long-term delivery strategy has identified further investment in subsequent periods. We have requested a redetermination of Ofwat's price determination by the CMA, as Ofwat had not fully accepted the need or extent of the resilience investment we had requested. Subject to the outcome of the redetermination by the CMA and subsequent prices reviews, our planned adaptation is expected to address physical climate risks in the short to medium-term.

Short-term impact of physical risks is felt through severe weather events and their impact on additional costs and lower revenue through ODI penalties. Stress testing for our long-term viability assessments reflects these impacts.

We use our five-yearly planning process based on adaptive planning to address challenges arising from the combination of population growth, environmental ambition and climate change, and ensure our strategy responds to different 'worlds' in our scenarios.

Climate-related risks are drivers of investment in water resources, our environmental programme and in our infrastructure and are an integral part of our long-term delivery strategy and business plan. We have identified a range of options in our long-term planning, including low-regret solutions to achieve a baseline level of resilience across the scenarios considered in our analysis. Their implementation may vary across scenarios as external factors will determine when and how they should be implemented, as well as their costs and effectiveness. Under the most severe scenarios, the implementation of additional responses will be required (above that baseline level of resilience) and the operation of our business may be significantly altered.

Our continuous infrastructure investment programme addresses factors that determine the need for maintenance, renewal, replacement of infrastructure or additional infrastructure. We consider the impact of physical risks on costs, asset lives, and potential impairment when defining our investment programme. This includes investment in adaptation and to extend the useful life of assets or develop alternative assets (e.g. new sources of water to replace those that will no longer be sustainable). Write-offs and impairment risks are more likely to materialise in the medium to long-term as climate projections indicate most significant shifts in climate patterns from mid-century.

Ensuring long-term resilience should involve regular and appropriate investment in adaptation and mitigation within the short-term and medium-term. Delays in adaptation would be likely to result in excessive exposure in the long-term when operational risks associated with capital works on the water supply system, environmental constraints and the strongest expected chronic and acute physical impacts of climate change would converge.

In this context, policy and regulatory risks substantially determine the financial impact of transition and physical risks and whether our capital and operating expenditures in a given scenario may exceed Ofwat's cost allowances and whether performance incentives are appropriately calibrated. This is also discussed in respect of principal risk 8 (Adverse policies or political & social environment).



on our long-term planning and how it addresses our challenges including climate change on page 42.

Climate-related disclosures continued

Metrics and targets

Our emissions reduction commitments

Performance commitment for 2020 to 2025

Our performance to-date against our targets for 2020 to 2025 is set out below.

	2020/21	2021/22	2022/23	2023/24	2024/25
Target kgCO₂e/ML	152	120	82	65	58*
Actual kgCO₂e/ML	192	30	207	203	198

* This target includes all scope 1, 2, and some scope 3 emissions and represents a reduction of our operational emissions of 80 per cent by 2025 (when compared to 2017/18). This is based on the scope of operational emissions as defined before the introduction by Ofwat of the additional categories of scope 3 emissions – as set out below – and uses a 2019/20 emission conversion factor for all years in the 2020 to 2025 period.

Our decision not to purchase REGOs as originally anticipated explains the variance between actual and targeted emissions from 2022/23. Volatile energy markets have led to significant price increases and REGOs no longer provide good value for our customers. Our focus is instead on securing direct green PPAs which add renewable capacity in the UK, even if this means that our market-based GHG emissions will be above our target until PPAs come into commercial production. We continue to monitor the REGO market and downward change in cost could lead us to resume purchases as part of our intermediate strategy.

Net Zero commitments

We outline our strategy to achieve operational net zero by 2030 in our net zero routemap. It represents a 98 per cent reduction in our operational direct carbon emissions, with the remaining two per cent requiring insetting (e.g. carbon sequestration on company land) and offsetting regionally or in the UK. This reduction is measured by reference to a 2018/19 operational emission baseline.

We are implementing our routemap in a way that contributes to the development of new renewable energy capacity in the UK. Our board has approved entering into a power purchase agreement (PPA) relating to a wind farm, which is expected to meet c.40 per cent of our electricity requirements from 2026. To cover the rest of our electricity needs, we are considering one or more other PPA and are working with partners to develop solar generation on our sites and adjacent land.

We continually review how we can minimise our carbon emissions, including in-depth energy management reviews, extended metering, and our capital maintenance programme of replacing older assets such as pumps with newer more efficient pumps which will reduce our energy consumption and carbon emissions.

We have developed analytics and reporting surrounding energy per mega litre produced at our major operational sites, which allow us to optimise energy use and identify sites that are less efficient based on energy trends and would benefit from a revised process or improved assets.

Our strategic direction statement also includes a net zero commitment by 2050 in respect of all our operational emissions, including embedded emissions. We will work with our supply chain to deliver this objective.



about our net zero routemap and on our strategic direction statement
southeastwater.co.uk/netzero



Emissions reporting

Reporting methodology

To measure and report our emissions under scope 1, 2 and 3 we use the UKWIR Carbon Accounting Workbook (CAW) provided for all UK water companies to give a consistent and transparent approach for accounting for greenhouse gas (GHG) emissions from annual operational activities. The CAW provides estimates of the GHGs identified in the Kyoto Protocol, which are produced as a result of the operational activities of water companies, including water treatment and distribution and sludge management. Estimates are made following guidance published by Defra and the Department of Energy Security and net zero, as well as international guidance.

UK water companies use the tool to report progress internally and prepare information for reporting performance to regulatory bodies, voluntary reporting schemes and customers. It is updated annually as required in line with UK publication of conversion factors used for estimating GHG emissions. The report is therefore a suitable tool for reporting SECR requirements.

The data comes from various sources across the business and is placed into a carbon accounting information pack before being transcribed into the appropriate areas of the CAW. This allows the CO₂e figures for the company to be compiled for external auditing. This data is then used to calculate the total associated kWh for purchased energy and transport using recent year emission factors.

External assurance of the processes and data for our GHG emissions has been carried out by Ricardo.

Emissions are reported in-line with the GHG protocol across scope 1, 2, and 3 categories. Undertaking the verification exercise, Ricardo has therefore reviewed our carbon footprint data collection and calculation methodologies in line with the GHG protocol. In addition we are seeking to renew our ISO 14064 accreditation with the process underway at time of publication and due by close of July 2025.

Included in the assurance review was:

- ▶ **The data held within our Carbon Accounting Workbook v19 (CAW) which is used to manage our carbon management and footprinting.**
- ▶ **The primary data on which the CAW is based (contained within the 'Carbon accounting info pack').**
- ▶ **The process manual which defines the methodology we used for our carbon management and reporting processes.**

Based on the assurance review, Ricardo noted the methodology to be robust and includes all the necessary documentation controls and checks. Also demonstrated was an effective step-by-step process of the methodology for each of the table lines, tracing back to the raw data sources.

We provide below information on our performance commitment for 2020 to 2025, reporting on emissions as required under Part 7A, Schedule 7 Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and emission reporting according to Ofwat requirements.

Climate-related disclosures continued

Streamlined energy and carbon reporting

Location Based Greenhouse gas (GHG) emissions	2021/22	2022/23	2023/24	2024/25	Unit
1 Annual quantity of GHG emissions for the purposes of transport. No gas is used for the purpose of transport. The consumption of fuel for the purpose of transport falls into several categories: fleet vehicles, company cars.	1,576	1,821	2,006	2,057	tCO ₂ e
2 Annual quantity of GHG emissions resulting from the purchase of electricity for own use (including for the purpose of transport). The electricity usage is divided into four categories: pumping, treatment, administration and transport.	30,530	28,790	31,140	30,126	tCO ₂ e
3 Aggregate equivalent kWh for emissions under 1 and 2 above.	151,516,643	156,239,208	158,910,754	154,288,911	kWh
4 GHG emission intensity metric – Operational GHG emissions per mega litre of treated water based on the emissions set out under 1 and 2 above.	164	155	166	160	kgCO ₂ e /MI
Market Based Greenhouse gas (GHG) emissions	2021/22	2022/23	2023/24	2024/25	Unit
1 Annual quantity of GHG emissions for the purposes of transport. No gas is used for the purpose of transport. The consumption of fuel for the purpose of transport falls into several categories: fleet vehicles, company cars.	1,576	1,821	2,006	2,057	tCO ₂ e
2 Annual quantity of GHG emissions resulting from the purchase of electricity for own use (including for the purpose of transport) The electricity usage is divided into four categories: pumping, treatment, administration and transport.	0	62,827	57,596	66,631	tCO ₂ e
3 Aggregate equivalent kWh for emissions under 1 and 2 above.	151,516,643	156,239,208	156,910,754	154,288,911	kWh
4 GHG emission intensity metric Operational GHG emissions per mega litre of treated water based on the emissions set out under 1 and 2 above.	8	327	299	342	kgCO ₂ e /MI

Note: For SECR reporting we utilise both location and market based reporting. Further details on the methodology and assurance process for the data used for our streamlined energy and carbon reporting (SECR) please refer to explanations set out on page 113.

Scope 1, 2 and 3 emissions

We measure and report on our scope 1, 2 and 3 operational emissions annually to Ofwat and a summary is provided below for:

- ▶ **Scope 1 (direct) emissions:** Emissions from activities owned or controlled by us that release emissions into the atmosphere.
- ▶ **Scope 2 (energy indirect) emissions:** Emissions associated with our consumption of purchased electricity, heat, steam and cooling.
- ▶ **Scope 3 (other indirect) emissions:** Emissions that are a consequence of our actions and that occur at sources that we do not own or control, and that are not classed as scope 2 emissions (for example, emissions from business travel by means not owned or controlled by us or emissions associated with our supply chain). Our regulatory reporting of operational emissions has been expanded since 2022/23 to cover the following additional scope 3 emissions categories: (i) purchased electricity (including extraction, production, transmission and distribution), (ii) purchased fuels (including extraction, production, transmission and distribution), and (iii) chemicals.



Climate-related disclosures continued

Scope 1, 2 and 3 emissions continued

In the tables below, CO₂e or Carbon dioxide equivalent means the number of metric tons of CO₂ emissions with the same global warming potential as one metric ton of another greenhouse gas.

Location Based	2020/21	2021/22	2022/23	2023/24	2024/25	Unit
Scope 1						
1 Direct emissions from burning of fossil fuels (including natural gas CHP* generated onsite)	508	510	1,747	1,554	1,818	tCO ₂ e
2 Process and fugitive emissions**	1,250	1,393	1,274	1,107	1,084	tCO ₂ e
3 Transport: Company owned or leased vehicles	1,612	1,576	1,821	2,006	2,057	tCO ₂ e
Scope 2						
4 Total grid electricity used by company (including CHP* electricity purchased)	34,200	30,845	28,790	31,140	30,126	tCO ₂ e
Scope 3						
5 Business travel on public transport and private vehicles used for company business	40	29	45	51	27	tCO ₂ e
6 Outsourced activities (if not included in scope 1 or 2) Energy and other	3,560	3,230	3,074	3,055	3,055	tCO ₂ e
7 Total grid electricity used by company (including CHP electricity purchased) – Transmission and Distribution***	2,940	2,730	N/A (replaced with following line)	N/A (replaced with following line)	N/A (replaced with following line)	tCO ₂ e
8 Purchased electricity; extraction, production, transmission and distribution	N/A	N/A	10,155	7,500	9,932	tCO ₂ e
9 Purchased fuels; extraction, production, transmission and distribution	N/A	N/A	1,577	839	909	tCO ₂ e
10 Chemicals	N/A	N/A	5,914	6,680	4,937	tCO ₂ e
Gross emissions						
11 Gross operational emissions	44,110	40,313	54,397	53,932	53,945	tCO ₂ e
Intensity metric						
12 Operational GHG emissions per mega litre of treated water	192	185	275	272	269	kgCO ₂ e /ML

This metric includes all scope 1, 2 and 3 emissions for energy for pumping and treatment except energy emissions relating to administration. (This metric includes emissions from diesel generators used at sites and from ozonation at sites.) Since 2022/23 this metric has been simplified as including all emissions in the table.

Market Based	2020/21	2021/22	2022/23	2023/24	2024/25	Unit
Scope 1						
1 Direct emissions from burning of fossil fuels (including natural gas CHP* generated onsite)	508	510	1,747	1,554	1,818	tCO ₂ e
2 Process and fugitive emissions**	1,250	1,393	1,274	1,107	1,084	tCO ₂ e
3 Transport: Company owned or leased vehicles	1,612	1,576	1,821	2,006	2,057	tCO ₂ e
Scope 2						
4 Total grid electricity used by company (including CHP* electricity purchased)	41,800	0	62,827	57,596	66,631	tCO ₂ e
Scope 3						
5 Business travel on public transport and private vehicles used for company business	40	29	45	51	27	tCO ₂ e
6 Outsourced activities (if not included in scope 1 or 2) Energy and other	3,560	3,230	3,074	3,055	3,055	tCO ₂ e
7 Total grid electricity used by company (including CHP electricity purchased) – Transmission and Distribution***	2,940	2,730	N/A (replaced with following line)	N/A (replaced with following line)	N/A (replaced with following line)	tCO ₂ e
8 Purchased electricity; extraction, production, transmission and distribution	N/A	N/A	10,155	7,500	9,932	tCO ₂ e
9 Purchased fuels; extraction, production, transmission and distribution	N/A	N/A	1,577	839	909	tCO ₂ e
10 Chemicals	N/A	N/A	5,914	6,680	4,937	tCO ₂ e
Gross emissions						
11 Gross operational emissions	51,710	9,468	88,434	80,388	90,450	tCO ₂ e
Intensity metric						
12 Operational GHG emissions per mega litre of treated water	230	30	447.3	405	450	kgCO ₂ e /ML

This metric includes all scope 1, 2 and 3 emissions for energy for pumping and treatment except energy emissions relating to administration. (This metric includes emissions from diesel generators used at sites and from ozonation at sites.) Since 2022/23 this metric has been simplified as including all emissions in the table.

*CHP – Combined Heat and Power – a process that captures and utilises the heat that is a by-product of the electricity generation process.

**Process emissions are a consequence of physical or chemical processes (for example in our water treatment).

Fugitive emissions include intentional and unintentional releases (for example refrigerant in air conditioning units).

***Electricity which is lost in the transport and distribution system used for delivering purchased electricity.

Embedded carbon emissions

Since 2022/23, in addition to direct operational emissions we are required to report scope 3 embedded carbon emissions relating to capital projects and purchased goods and services.

No regulatory target will be set in respect of embedded emission for the 2025 to 2030 period allowing the water industry to develop their reporting and deliver a consistent dataset. We have worked with Ricardo Energy and Environment to develop our initial embedded carbon reporting. Initially our reporting of carbon emissions is calculated based on our spend activity but moving forward our intention is to refine this analysis with more detailed and specific carbon/material reporting from our suppliers.

Long-term viability statement

To prepare our long-term viability statement, we have conducted our long-term viability assessment, taking into consideration our business model, our current financial position, and principal risks that can affect our business.



Our long-term viability assessment reviewed the company's prospects and considered the principal risks and uncertainties

The company is a regulated long-term utility business characterised by multi-year investment programmes and stable revenues. The water industry in England and Wales is currently subject to economic regulation rather than market competition and Ofwat, the economic regulator, has a statutory obligation to act in the manner best calculated to secure that water companies are able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of their appointed activities. Ofwat meets this obligation by setting price controls for five-year Asset Management Periods (AMPs). This mechanism reduces the potential for variability in revenues from the regulated business. The current AMP (AMP 8) runs until March 2030.

We do not consider that the regulatory allowances and targets in Ofwat's PR24 Final Determination provide an appropriate balance of risk and return to investors and deliverability for customers and the environment, particularly when considering the substantial investment required both for South East Water and across the UK water sector during this AMP and the next. We have therefore referred the matter to the Competition and Markets Authority (CMA) for redetermination. While we consider we have a strong case, the redetermination process is ongoing and, pending its conclusion, there is significant uncertainty regarding our level of allowances and ODI targets for the next five years. An appropriate regulatory determination for PR24 will have a strong influence on the long-term viability of the company.

Our assessment of the current financial position is set out on page 74.

Our long-term viability assessment reviewed the Company's prospects and considered the principal risks and uncertainties. Downside sensitivities have been developed based on an assessment of the plausibility and financial scale of these principal risks. Stress tests have been performed based on these downside sensitivities (individually and in combination) to assess the potential impacts of these risks and uncertainties. The assessment also considered the mitigating actions that might be taken to reduce the impact of such risks and uncertainties and the likely effectiveness of mitigating actions. Additional detail on the downside sensitivities tested is set out below.

Assessment period

We have considered the appropriate length of time over which to provide the viability assessment. In making an assessment, we have taken account of the balance between the length of the period assessed and robustness of such analysis, alongside guidance from Ofwat. In considering our outlook period we had regard to the long-term nature of our business and the characteristics of our regulatory regime as described above.

On the recommendation of the Audit and Risk Committee, and in line with Ofwat's guidance, we have assessed the prospects of the company over a period of 10 years to March 2035.

Regulatory mechanisms

We note that at this stage in the regulatory process the outcome for PR24 is uncertain. We have assessed two potential outcomes from the CMA process, one in which it remains unchanged from Ofwat's PR24 Final Determination (FD Case) and one in which it is adjusted in line with the submissions made in our Statement of Case. Our base case for each potential regulatory outcome assumes that the company performs in line with the P50 level implied by our statistical risk analysis and expected expenditure based on our detailed cost forecasts. We have also considered variance in performance in our sensitivities. The financial sensitivities considered include positive cashflow adjustments arising from PR19 regulatory true up mechanisms such as cost sharing and the RPI/CPIH wedge.

These result in positive adjustments to AMP 8 revenues and opening RCV where outturns were not in line with *ex ante* allowances.

Impact of Covid-19, socio-political uncertainty and weather events on the company's prospects

During the Covid-19 pandemic the government advised the public to work from home. This resulted in an unprecedented demand for water within our region due to the high population of London commuters. Whilst work-from-home guidance is no longer in place, many people continue to work from home on a full or part time basis as companies have embraced agile working on a more permanent basis. This change in working culture continues to drive higher demand for water within our region compared with pre-pandemic levels. This additional demand has been further exacerbated by a number of exceptional weather events experienced over recent years.

The cost-of-living pressures now being experienced by our customers are expected to have some impact on cash collection, notwithstanding our additional support to help make bills affordable for our customers most in need. We have made allowance for the general pressures on household finances via additional bad debt provisions in our medium-term plan and have considered the impact of high inflation on our cost base.

In an effort to manage high inflation economic uncertainty, we have assessed sensitivities reflecting both high and low market interest costs and inflation to inform our assessment of financial resilience.

Liquidity and financing

In May 2025, our shareholders injected £200 million of new equity into South East Water Limited. This equity injection reduces our gearing to c.65 per cent, further reinforcing the financial stability of the company. This investment follows a previous £75 million equity injection made in December 2024, underscoring our shareholders' continued commitment to supporting the financial resilience of South East Water, despite the ongoing uncertainty regarding PR24 allowances and ODI targets. The investment by shareholders in the company does not alter our conclusion, as set out in our SoC presented to the CMA, that we do not consider that Ofwat's PR24 Final

Determination provides the right foundations for the long-term investability of the water sector and the delivery of our plan for our customers.

Additional funding will need to be secured over the course of the forecast period in order to provide additional liquidity and finance our plans. The first issuance of term debt is anticipated in 2026, following publication of the CMA's redetermination. The directors are of the opinion that the new borrowings will be secured, and we have reflected this assumption in our modelling.

Under downside scenarios we assume that, where required, additional debt investment would be forthcoming. We also assume that equity investment would be forthcoming from the start of AMP 9, as required, on the basis that the allowances and ODI targets for PR29 are set at a level commensurate with an appropriate risk/return trade-off, and investors are therefore appropriately incentivised to invest. We have material concerns that the risk/return trade-off implied by Ofwat's PR24 FD, notwithstanding recent changes to our capital structure, could be insufficient to attract equity investment and could also jeopardise our ability to raise debt finance at reasonable commercial terms typical for an investment grade company.

Assuming the CMA's redetermination addresses the most material concerns we have with the risk and return balance implied by Ofwat's PR24 FD, we expect to maintain strong investment grade credit ratings in the forecast period, which would support investability and financial resilience. Our credit ratings depend on a balanced outcome from the CMA's redetermination process.

Stress testing

The company reviews and considers the risks to which the business is exposed and potential impacts on viability on an ongoing basis; this includes structured, systems-based risk identification processes and management controls, robust budgeting and forecasting and continuous sensitivity analysis.

Principal risks represent all factors that could prevent the company from delivering its strategic objectives and business plan. As a result, not all principal risks translate directly into a downside sensitivity. The company has considered the principal risks and uncertainties for the company and their potential impact on viability.

Long-term viability statement continued

Where it is assessed that (1) it is plausible a principal risk could occur and (2) the financial impact could be material, the implications for financial resilience are assessed in the LTVs through defined downside sensitivities.

Based on the principal risks, we have identified below the relevant risk factors that can cause negative impact on the financial position of the company. We then construct downside sensitivities focusing on different combinations of the risk factors.

Our sensitivities combine qualitative and quantitative criteria and cover the following risk factors to assess their impact on liquidity and compliance with financial ratios until March 2035:

- ▶ **Outturn inflation under forecast:** Inflation risk primarily relates to the fact that the price control is in real terms and the allowed revenue moves up by a designated inflation figure (CPIH for PR24) while some of the costs are fixed in nominal terms. This means that when inflation is lower than costs in nominal terms, the company will face the risk of underfunding on these elements.
- ▶ **Interest rate above forecast:** Interest rate risk can result in an increase in borrowing rate for new debt raised, and it can increase the borrowing cost for any floating rate debt.
- ▶ **ODI penalties:** The effect of ODI penalties as a result of miscalibrated performance commitments and unexpected adverse events can materialise through a reduction in revenue, which has been considered in our assessment.
- ▶ **Totex overspend:** Totex over-spend is a risk that we have assessed carefully, when considering scenarios of company underperformance as well as unexpected costs due to severe weather-related incidents.
- ▶ **PR24 regulatory allowances and ODI targets:** The CMA's PR24 redetermination is not yet confirmed and could have a material impact on the level of revenues the company is able to generate in AMP 8. As set out in our SoC, Ofwat's PR24 FD is inappropriate and places undue pressure on the company's finances. For the purposes of our viability testing, we have assessed scenarios in which the CMA redetermination is set a) in line with Ofwat's PR24 FD, and b) in line with our SoC.

Our downside sensitivities include individual and combination scenarios that we considered to be severe but plausible. These are summarised in the table below:

Sensitivity tested	Specification of sensitivity	Related principal risks
Sensitivity 1 & 2 – Macroeconomic shocks	<p>We assess a low/high scenario of inflation and interest rates, noting the generally accepted assumption that market interest rates and inflation tend to move in the same directions.</p> <p>The company's revenues are linked to inflation. Low or negative inflation tends to adversely impact operating profits and cash flows as decreases in revenues exceed decreases in costs and visa versa. Low interest rates reduce the company's net interest costs.</p>	Economic environment and Financing
Sensitivity 3 – Severe and persistent totex underperformance	<p>Severe and persistent total expenditure (totex) overspend throughout AMP 8 represents one of the most significant potential financial challenges for the company. As an extreme stress test, we have assessed the impact of P10 performance levels for totex overspend, which are substantially higher than our base case projections.</p> <p>Under the FD Case, this P10 totex downside sensitivity projects a total totex overspend of £627.6 million over AMP 8 in nominal prices, significantly exceeding the P50 totex overspend of £188.2 million in the FD Case. For the SoC, the P10 totex downside sensitivity equates to a total totex overspend of £428.3 million, compared to a P50 totex overspend of £28.4 million in the SoC.</p> <p>We consider the likelihood of this level of persistent underperformance to be remote.</p>	Operational performance Investment programme delivery Water resources and climate change Delivery of business plan

Sensitivity tested	Specification of sensitivity	Related principal risks
Sensitivity 4 – ODI penalty	<p>Failure to deliver performance at the Final Determination level can lead to significant Outcome Delivery Incentive (ODI) penalties. We have assessed a severe ODI penalty scenario, which considers performance at the P10 level for both the FD Case and the SoC downside scenarios through AMP 8. This level of performance is determined by statistical analysis of historical data across the water sector.</p> <p>The FD Case P10 downside scenario accounts for a total ODI penalty of £150.3 million over AMP 8. In comparison, the SoC P10 downside scenario projects a total ODI penalty of £64.3 million over AMP 8. These penalties primarily stem from water supply interruptions, leakage, and per capita consumption.</p>	Operational performance Investment programme delivery Water resources and climate change Delivery of Final Determination and performance against ODIs
Sensitivity 5 – Severe totex underperformance	<p>This downside reflects a severe underperformance on totex (at P10). ODI performance remains at base case level under the FD Case and SoC, which implies totex overspend was driven by factors unrelated to input prices like scope and design changes. Macroeconomic factors impact is reflective of base case levels for both the FD Case and SoC.</p> <p>This sensitivity assumes the following:</p> <p>Low inflation and interest rates, totex performance at P10 levels for the remainder of AMP 8; and ODI underperformance at the P50 level for the remainder of AMP 8.</p>	Operational performance Investment programme delivery Water resources and climate change Delivery of business plan and performance against ODIs Economic environment and Financing
Sensitivity 6 – Severe ODI underperformance Combination	<p>This downside scenario implies a low inflation and interest rate macroeconomic scenario and severe underperformance on ODIs (at P10). Totex performance remains at P50 level.</p> <p>This sensitivity assumes the following:</p> <p>Low inflation and interest rates, totex performance at P50 base case levels for the remainder of AMP 8.</p> <p>ODI underperformance at the P10 level for the remainder of AMP 8.</p>	Operational performance Investment programme delivery Water resources and climate change Delivery of business plan and performance against ODIs
Sensitivity 7 – Combination Severe macroeconomic volatility	<p>This downside scenario implies high inflation and interest rates and plausible underperformance on both totex and ODIs. We assume that underperformance based on the P50 levels could be compatible with the sustained adverse macro conditions.</p> <p>This sensitivity assumes the following:</p> <p>High inflation and interest rates; totex performance at the P50 level for the remainder of AMP 8; and ODI underperformance at the P50 level for the remainder of AMP 8.</p>	Operational performance Investment programme delivery Water resources and climate change Delivery of business plan and performance against ODIs
Sensitivity 8 – Severe overall performance	<p>This is the most drastic of the combination scenarios and represents a situation where several of the severe scenarios above occur simultaneously. This downside scenario implies high inflation and interest macroeconomic scenario. Simultaneously, the totex and ODI performance would encounter severe underperformance driven by factors outside of the company's control like more frequent extreme weather, base case CPIH-inflation and interest rates and a high RPI-CPIH wedge at the P90 level.</p> <p>This sensitivity assumes the following:</p> <p>Totex performance at the P10 level for AMP 8; and ODI underperformance at the P10 level for AMP 8.</p> <p>Severe macroeconomic underperformance at P10 levels.</p> <p>While this scenario is plausible it is viewed as being highly unlikely to occur.</p>	Delivery of business plan Financing

Long-term viability statement continued

Assessment results and mitigation strategy

Our securitised financing arrangements include covenants with default event and trigger thresholds which are reported bi-annually.

The results of our assessment revealed that, assuming an appropriate regulatory determination for PR24, none of the stress-testing scenarios would lead to a default event in servicing the company's debt, nor would they lead to adverse impact on customer service or the company's ability to carry out normal operational activities. In the most severe downside cases a trigger event could occur, but this is not a threat to the company's financial viability. Any such breach of the trigger threshold would activate initial creditor protections¹ under the terms of the securitised financing arrangements, which are designed to maintain the company's creditworthiness without disrupting its ability to trade and raise finance, such as restrictions on dividends. None of the scenarios resulted in an impact on the company's expected financial viability that cannot be reasonably mitigated using the existing safeguards within the company's financing structure.

It is also expected that South East Water would maintain its investment grade credit rating in all sensitivities modelled assuming the CMA agrees with the regulatory allowances and targets set out in our CMA SoC, as appropriate mitigating actions (such as potential shareholder equity injections) would be applied to avoid a downgrade below minimum investment grade.

If the CMA outcome does not provide appropriate and sufficient movement from Ofwat's PR24 FD, the company will have less headroom on its covenant ratios and is more likely to breach trigger event thresholds. While we still expect to satisfy covenants designated as events of default under our financing arrangements, even under the most severe downsides, persistent pressure on totex and ODIs could drive gearing towards levels which are unattractive to lenders in the current environment. As a result, South East Water's cost of debt could increase materially (and likely materially above the cost of debt allowance set out in Ofwat's PR24 FD). Equity investors could also be disincentivised from investing, further driving the reliance on debt investors.

Furthermore, if the CMA outcome remains unchanged from Ofwat's PR24 FD, a number of the downside sensitivities assessed imply a high likelihood of downgrade in credit rating from Baa3/BBB-to below investment grade, in the absence of mitigating actions. These findings are consistent with South East Water's PR24 submissions regarding the notional company, reaffirming that the key challenges are driven by Ofwat's risk allocation and cost allowances rather than our capital structure.

Rating agencies have also noted in their recent publications that their guidance could be tightened if it appears likely that South East Water will suffer a structural shortfall in totex allowances or accrue material Outcome Delivery Incentive (ODI) penalties in future controls stemming from the operational and resilience challenges implied by Ofwat's PR24 FD.

The assessment also considers potential mitigating actions that the company could undertake to reduce the impact of the sensitivities considered, which are further detailed in the following sections.

The directors have identified actions, including reducing discretionary outflows of funds and working with providers of finance (debt and equity), that could be available to the company to mitigate the impact of adverse outcomes.

As part of the assessment of the resilience of the company and the regulated business, we take into account the impact of the overall group structure and intra-group transactions. The resilience and viability of the group is assessed on a continuous basis, including any implications of the financial projections of the wider group for the regulated business and vice versa. We have not identified any issues from our recent analysis of viability across the group that are likely to impact on the resilience of the company.

¹ Creditor protections under a Trigger Event include:

1. No payment of distributions.
2. A remedial plan to be agreed with Security Trustee (who acts for the debt investors on a collective basis).
3. Security Trustee may commission an independent review.
4. If continuing for more than six months, the Security Trustee can appoint non-executive directors up to 20 per cent of the board.

The table below considers the potential implications for each downside scenario, prior to mitigating actions.

Sensitivity tested	Potential impacts on viability without mitigating action
Sensitivities 1 & 2 – High/Low inflation and interest rates	<p>Under these scenarios, we project that South East Water maintains compliance with all financial covenant thresholds for both the FD Case and the SoC.</p> <p>While overall credit rating metrics generally align with the base case due to higher/lower revenues (from inflation) offsetting increased/decreased operating costs and debt interest, important distinctions emerge between the two regulatory scenarios.</p> <p>Under the FD Case certain credit metrics, specifically those assessed by S&P, fail to meet current investment grade guidance during AMP 8. This reinforces our view that the FD Case does not provide a financially resilient foundation for South East Water, implying a likely downgrade to sub-investment grade by at least one rating agency, despite gearing remaining below 70 per cent.</p> <p>Under the SoC credit metrics demonstrate significantly greater resilience. Only S&P's revised FFO/Debt guidance is briefly breached in FY25/26 before recovering, with all other credit rating thresholds met with comfortable headroom throughout AMP 8. Regulatory gearing is forecast to remain in the mid 60's.</p> <p>In both the FD and SoC, South East Water maintains sufficient available liquidity.</p>
Sensitivity 3 – Severe and persistent totex underperformance	<p>All covenant ratios that would lead to an Event of Default remain in compliance under both the FD Case and the SoC.</p> <p>Under the FD Case, South East Water's Adjusted Interest Cover Ratio (AICR) and Average AICR breach covenant trigger event thresholds throughout AMP 8. This reflects significant operating expenditure (opex) overspend and increased interest expense from funding the P10 Totex overspend. While a Trigger Event does not immediately affect the long-term viability, persistent breaches of Trigger Event thresholds could negatively impact the company's ability to attract the investment required to fund the much-needed capital investment programme.</p> <p>Under the SoC, South East Water would breach trigger event financial covenants in FY25/26 only. A temporary Trigger Event is not seen as a threat to South East Water's financial viability or resilience. Trigger Events are designed to act as an early warning to reinforce creditworthiness and reduce the likelihood of an Event of Default occurring. Key consequences include:</p> <ol style="list-style-type: none"> 1. No payment of distributions (dividends). 2. Agreement of a remedial plan with the Security Trustee (representing debt investors). 3. The Security Trustee may commission an independent review. 4. If persistent (over six months), the Security Trustee can appoint non-executive directors (up to 20 per cent of the board). <p>Under the FD Case, credit metrics in this sensitivity fall below investment grade guidance throughout AMP 8, indicating a high likelihood of sub-investment grade downgrade without mitigating actions. Gearing could rise to unsustainable levels and a significant equity injection may therefore be required, which might not be forthcoming if the risk/return balance implied by the regulatory regime is not appropriately set. This reinforces our conclusion that Ofwat's PR24 FD is not a financially resilient outcome.</p> <p>Under the SoC, South East Water is more resilient. Despite the severity of this downside operational scenario, Moody's credit metrics are expected to remain above investment grade (with the possibility of limited temporary breaches in the AICR). Gearing peaks around c.72 per cent in AMP 8 and reduces to c.65 per cent in AMP 9 (assuming appropriate AMP 9 regulation). S&P's FFO/Debt ratio breaches the guidance level for South East Water's current 'Strong' business risk profile (as assessed by S&P). However, regaining an 'Excellent' business risk profile (post-CMA redetermination) could help South East Water retain an investment grade rating with S&P.</p>

Long-term viability statement continued

Sensitivity tested	Potential impacts on viability without mitigating action
Sensitivity 4 – ODI penalty	<p>Sensitivity 4, does not fall below the covenant ratio thresholds that would result in an Event of Default in either FD Case or SoC. The Average AICR, which results in a Trigger Event falls below the covenant threshold in the last two years of AMP 8 under the FD Case only, before recovering in AMP 9.</p> <p>The increased ODI penalties, which are applied with a 2-year lag to revenues, cause a reduction in FFO, resulting in a decrease in Moody's AICR and S&P's FFO/Net debt.</p> <p>Under the FD Case the higher penalties put additional pressure on credit rating agency thresholds. Under this sensitivity credit rating metrics are persistently at sub-investment grade levels with S&P and Moody's, before recovery in AMP 9. There is a risk of a sub-investment grade credit rating under this sensitivity.</p> <p>Under the SoC, this sensitivity results in Moody's ratios remaining investment grade and S&P's FFO/Debt dipping below investment grade in one year only, which would not expect to result in a sub-investment grade credit rating.</p> <p>Consistent with the financing assumptions outlined for the FD Case and SoC, there is sufficient available liquidity under both sensitivities.</p>
Sensitivity 5 – Combination 1: Severe totex underperformance	<p>Under Sensitivity 5, all covenant ratios that would result in an Event of Default if breached continue to show headroom in both the FD Case and SoC.</p> <p>Financial projections under this sensitivity fall below South East Water's covenant trigger event threshold under the FD Case during the forecast period. AICR and Average AICR are breached consistently throughout AMP 8. Under the SoC, AICR and Average AICR covenants are breached in 25/26 only before recovering for the remaining years in AMP 8 and throughout AMP 9.</p> <p>Gearing under the FD case, absent further equity injections, increases to 85 per cent, which is a trigger event under our covenants. This level of gearing is higher than Moody's guidance for an investment grade rating and we would therefore expect South East Water to be rated sub-investment grade with Moody's under the FD Case if this severe underperformance downside were to materialise.</p> <p>Given the changed funding dynamics for the industry, as evidenced by recent challenges faced by other water companies, elevated gearing levels significantly diminishes lender appetite for further financing. This creates a pronounced financeability risk, meaning that without additional equity investment, the company would face challenges in securing the necessary funds to meet its operational and capital expenditure requirements, ultimately leading to financing shortfalls. This highlights the substantial scale of the financial resilience challenge under Ofwat's PR24 FD.</p> <p>Under the SoC, gearing increases to 73 per cent by 2030, which is well within our trigger event threshold and also within Moody's guidance for an investment grade credit rating. As long as the reasons for the totex underperformance are not expected to be persistent and will be addressed as part of PR29, we expect to maintain an investment grade credit rating with Moody's and for our lenders to support our liquidity position. S&P's FFO/Debt is persistently below investment grade guidance levels in AMP 8 and there is the potential for our investment grade credit rating to be removed under this scenario with S&P. We have the option to also explore a credit rating with Fitch to support our target of maintaining at least two investment grade ratings at all times.</p>
Sensitivity 6 – Combination 2: Severe ODI penalty	<p>Sensitivity 6, characterised by (P10) ODI penalties and low macroeconomic forecasts, neither falls below the covenant ratio thresholds that would result in an Event of Default nor a trigger event in either the FD Case and SoC.</p> <p>Assuming the CMA outcome remains unchanged from the FD, under this sensitivity credit rating metrics are likely to be sub-investment grade with Moody's & S&P, due to consistent breaches in AICR and FFO/Debt across AMP 8.</p> <p>Under the SoC, S&P's FFO/Debt falls below investment grade in one year only, with Moody's AICR remaining above investment grade throughout, indicating that we would likely maintain our investment grade credit rating with both rating agencies under this scenario.</p> <p>There is sufficient liquidity headroom in line with sensitivity 4 analysis.</p>

Sensitivity tested	Potential impacts on viability without mitigating action
Sensitivity 7 – Combination 3: Severe macroeconomic volatility	<p>Financial projections under sensitivity 7, which is characterised by high inflation, interest costs and moderate underperformance on both totex and ODIs do not fall below any of the financial covenant thresholds under the FD Case or SoC. Higher revenues, due to increased inflation, are offset by increased operating costs and higher interest on debt.</p> <p>Under the FD Case credit metrics are consistently below S&P's investment grade guidance levels in all years of AMP 8. Moody's AICR for FY25/26 also falls below investment grade thresholds in one year, before recovering throughout the remainder of the AMP 8 and 9. This would likely suggest an investment grade rating maintained with Moody's but not with S&P under the PR24 FD regulatory framework.</p> <p>Under the SoC, credit metrics only fall below S&P's current guidance in 2025/26, before recovering throughout the rest of AMP 8. All other credit rating thresholds are met with comfortable headroom, include Moody's AICR. We would expect an investment grade credit rating to be maintained with both rating agencies under this scenario.</p> <p>Under the FD Case gearing is expected to slowly increase to c.70 per cent by the end of AMP 8, absent further equity injections, before staying flat in AMP 9. Under the SoC gearing could gradually reduce, assuming no dividends, to c.62 per cent by the end of AMP 8.</p>
Sensitivity 8 – Severe overall performance	<p>This is the most extreme of the combination scenarios and represents a situation where several of the severe scenarios above occur simultaneously. All covenant ratios that would result in an Event of Default if breached, continue to show headroom in both the FD Case and SoC.</p> <p>FD Case financial projections under this sensitivity fall below the AICR Trigger Event threshold consistently across AMP 8. In the absence of further equity injections, we anticipate high gearing levels up to c.87 per cent by the end of AMP 8. Despite gearing not constituting an automatic Event of Default at these levels, it severely curtails lender appetite for further financing, making it extremely challenging to secure the necessary funds to meet operational and capital expenditure requirements. The company would likely require significant cuts to the capital programme to avoid gearing spirals.</p> <p>Shareholders may not be incentivised to invest if the CMA outcome is not appropriately recalibrated and the company severely and persistently underperforms as a result. In this context it is also likely that South East Water would be rated sub-investment grade with both rating agencies and could breach our licence to operate unless a series of remedial undertakings are agreed with our regulators.</p> <p>Under the SoC we would be in breach of the AICR covenant Trigger Event threshold across all years excluding 26/27 in AMP 8. The business would see gearing reaching levels of c.74 per cent by the end of AMP 8, before levelling out over the course of AMP 9 assuming an appropriate reset to the regulatory framework at that time.</p> <p>Gearing would be projected to remain within Moody's investment grade guidance and Moody's AICR only breaches investment grade threshold in one year. As a result, we would expect our investment grade credit rating to be maintained with Moody's.</p> <p>Under the SoC, S&P's FFO/Debt is persistently under investment grade threshold under this sensitivity, and we would assume our credit rating would fall below investment grade with S&P in the absence of mitigating actions (such as reductions to the capital programme and/ or additional equity investment).</p> <p>Under the FD Case our ability to maintain our liquidity would be challenging as support from lenders in 2028 to fund the maturing £166 million loan in 2029 would not be guaranteed. Under the SoC we would expect more readily available support from both lenders and shareholders if required.</p>

Long-term viability statement continued

Mitigating actions

In the event of more extreme but low likelihood scenarios occurring, there are a number of key mitigations available to the company.

The regulatory framework includes mechanisms to adjust future revenues and RCV to partially offset cost under recovery when compared to the Final Determination. As well as the protections that exist in the regulatory framework, a number of actions are available to mitigate more severe scenarios, which include the raising of new finance; capital programme deferral or reduction of discretionary expenditure; considering additional efficiency programmes which seek to bring costs in line with regulatory allowances; discussing the impact on debt covenants with lenders and seeking a temporary waiver if necessary; the temporary restriction or re-phasing of dividend payments; and accessing additional equity. As outlined in

our SoC presented to the CMA, we do not believe that Ofwat's PR24 FD is appropriately calibrated to attract and retain investment. As such, accessing additional equity or raising new debt finance may not be available as mitigating actions under the FD Case.

For each scenario and sensitivity, we have considered and identified appropriate mitigations in the event that a severe scenario or sensitivity used for stress testing were to result in a significant deterioration in projected financial metrics. In selecting which mitigating actions to apply, we would seek to balance the interests of all stakeholders and, in particular, would prioritise mitigating actions that would not lead to a breach of our commitments to customers. The table below illustrates the relevant financial mitigating actions which would be considered in each scenario.

Description	Related scenarios/ downside sensitivities	Potential mitigating actions
Change in inflation or interest rates	Sensitivity 1 High inflation and interest rates Sensitivity 2 Low inflation and interest rates	Reduce discretionary expenditure. Reduce working capital to support cash flow. Additional draw down on credit facilities.
Underperformance on ODIs	Sensitivity 4 ODI penalties All combination downside sensitivities	Reduce discretionary expenditure to cover costs relating to penalties. Additional draw down on credit facilities. Discuss the impact of debt covenants with lenders and seek a temporary waiver if required.
Higher costs than Ofwat Final Determination	Sensitivity 3 – Severe totex underperformance All combination downside sensitivities	A reduction in discretionary expenditure. Consider additional efficiency programmes which seek to bring costs in line with regulatory allowances. Additional draw down on credit facilities. Discuss the impact of debt covenants with lenders and seek a temporary waiver if required. Discuss the temporary impact of external factors on credit metrics with rating agencies and make adjustments if required. Additional equity investment (provided the regulatory allowances and targets for PR24 are sufficient to attract investment).

Description	Related scenarios/ downside sensitivities	Potential mitigating actions
Severe event – relating to weather, operational failure, or another exceptional event	Sensitivity 3 – Severe totex underperformance All combination downside sensitivities	Consider additional efficiency programmes which seek to bring costs in line with regulatory allowances. Reduction of discretionary expenditure. Reduce working capital to support cash flows. Additional draw down on credit facilities. Discuss the temporary impact of external factors on credit metrics with rating agencies and make adjustments if required. Additional equity investment (provided the regulatory allowances and targets for PR24 are sufficient to attract investment).
PR24 allowances and targets are insufficient to attract investment	All scenarios considered under the OFWAT's Final Determination	Additional drawdown on credit facilities. Additional debt issuance (i.e. increase gearing), provided sufficient lender appetite. Capital programme deferral or reduction of discretionary expenditure. Considering additional efficiency programmes. Discussing the impact on debt covenants with lenders and seeking a temporary waiver if necessary.

Viability statement

The board has assessed the viability of the company over a ten-year period to March 2035, taking into account the company's current position, principal risks, and effectiveness of any potential mitigating actions. Based on that assessment, the directors have a reasonable expectation that the company will be able to continue to operate and meet its obligations over the period to March 2035, subject to an appropriate PR24 redetermination by the CMA.

Governance and assurance

The analysis underpinning this assessment has been through a robust internal review process. The board has reviewed and discussed the process undertaken by management and also reviewed the results of the stress tests performed, including the key credit financial ratios, the company's liquidity, and ongoing ability to meet its financial covenants.

The board also provides robust internal assurance by reviewing and challenging the stress test scenarios selected and risk mitigation strategies. As part of the assurance process, the board has taken into account the principal risks and uncertainties facing the company, and the actions taken to mitigate those risks.

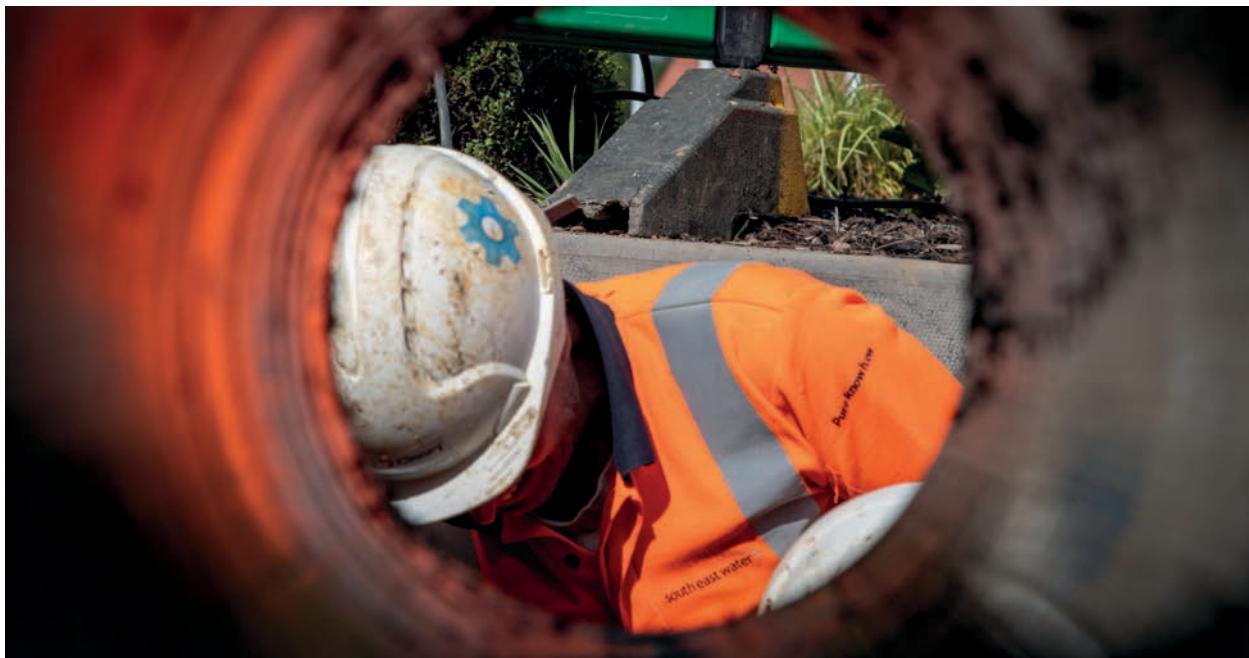
The board reviews and approves the medium-term plan on which this viability statement is based. The board also considers the period over which the assessment of prospects and viability statement should be made.

The Audit and Risk Committee support the board in performing this review. In addition, our external auditor reviews this viability statement and the outputs of our stress testing as part of its normal audit procedures. It considers whether these are consistent with the directors' conclusion with respect to business viability, and if the processes undertaken are sufficient to support the statements made.

Their report, including comments on the viability statement, is set out in the Annual Report.

Going concern statement

We continue to comply with the financial covenants set out in our securitisation structure and continue to hold ratings from Moody's and Standard & Poor's consistent with the requirements of both our securitisation and our instrument of appointment.



In preparing the financial statements the directors considered the group and company's ability to meet its debts as they fall due for a period of at least one year from the date of this report. The directors believe that it is appropriate to adopt the going concern basis of accounting in preparing the financial statements, notwithstanding the material uncertainty discussed below. The consolidated financial statements for the year ended 31 March 2025 and set out on pages 200 to 283 have been prepared on the going concern basis.

The group's operating profit for the year was £54.5 million (2024: £63.8 million) and the loss before tax was £19.8 million (2024: loss of £36.7 million). The group and company finances its working capital requirements through cash generated from operations and committed facilities that can be called upon as required. The group and company liquidity position and cashflow projections are closely monitored and are updated each month. When necessary, mitigating actions are identified and implemented. At 31 March 2025 the group had cash in hand of £36.1 million (2024: £5.0 million) and undrawn bank facilities of £56.0 million (2024: £28.0 million). Total borrowings at 31 March 2025 amounted to £1,395.4 million

(2024: £1,348.4 million). Details of the borrowings including their respective maturities are set out in note 18. Net cash interest payments in the year amounted to £48.4 million (2024 £45.9 million).

Under the terms of its banking arrangements, the group and company has to comply with a number of financial covenants based on interest cover and gearing ratios, both on a retrospective and a prospective basis. Breach of these covenants can result in either a Trigger Event or a Default Event. A Trigger Event activates initial creditor protections under the terms of the group and company's securitised financing arrangements, which are designed to maintain South East Water's creditworthiness without disrupting its ability to trade. The Trigger Event operates to prevent cash payments out of the ring-fence group (comprising South East Water Limited, South East Water (Finance) Limited and South East Water Holdings Limited) to affiliated entities, providing a degree of protection to these companies and specifically to the operation of the regulated business of South East Water. The Trigger Event preserves the value of the group and company, which is in the interests of creditors and customers.

The board has considered the draft budget for the year ending 31 March 2026. The ratios calculated on the basis of the draft budget for 2025/26 are compliant with all financial covenants. There is significant headroom on the Interest Cover Ratio and Regulatory Asset Ratio, the breach of which would result in an Event of Default, and it is considered highly unlikely that this would occur. The Adjusted Interest Cover Ratio is showing less headroom, being affected by the variability of operating cash flows.

As part of the going concern assessment, the directors have considered the budgeted and forecast cash flows over the 12 months to July 2026, the capital structure of the group and company and the financing needs for the period. Cash flows have been based on the Final Determination issued by Ofwat in December 2024 and do not include adjustments that might result from the ongoing referral of the Final Determination to the Competition and Markets Authority. The cash flows for the period to 31 March 2026 are consistent with the draft budget. Having considered the forecast cash flows over the 12 months to July 2026 the directors are of the view that the group and company has sufficient resources to meet its commitments over the going concern period.

However shortly after the end of the going concern period the company will need to renew the Revolving Credit Facility that expires in September 2026, in order to continue to meet its commitments.

The PR24 business plan is the group's most ambitious business plan ever. The proposed investment over the five years 2025 to 2030 amounts to £2.1 billion with goals to improve customer service, reduce customer supply interruptions and strengthen network resilience. A significant investment in environmental schemes is also proposed.

As a result of the higher operating and capital expenditure proposed in the business plan, the group and company has forecasted a net cash outflow position before financing inflows over the going concern period of 12 months to July 2026.

The group and company forecast cash flows do not indicate a requirement for additional financing in the going concern period, although shortly after the going concern period it will be necessary to renew the existing revolving credit facility. The revolving credit facility matures in September 2026 and discussions with lenders are underway and

progressing well, although at the date of signing these financial statements the renewal has not been legally committed.

Under the base case and assuming that the revolving credit facility is renewed as expected, the group and company remains compliant with all its financial covenants although there is limited headroom on the Adjusted Interest Cover Ratio.

Sensitivities have been considered to assess the potential impact on the group and company.

► **Cash flow** – the directors have considered whether the group and company can continue to operate within its borrowing facilities and covenants, assuming that the revolving credit facility is renewed, although there is limited liquidity headroom to accommodate any overspend or one-off costs.

► **Financing** – if it is not possible extend the revolving credit facility, the group and company will have sufficient liquidity for the going concern period but not for the extended look-out period.

► **Covenants** – none of the scenarios would lead to a default event in servicing the group and company's debt nor lead to adverse impact on customer service or the group and company's ability to carry out normal operational activities. Under certain of the severe but plausible scenarios breaches of the Adjusted Interest Cover Ratio could occur, resulting in a Trigger Event but not a default event.

If the revolving credit facility is renewed, the directors believe that the group and company will have sufficient liquidity over the foreseeable future to deliver its business plan and meet its regulatory obligations and financial commitments as they fall due.

The directors are of the opinion that the revolving credit facility will be renewed but as this has not been legally committed at the date of the signing of the financial statements and its commitment is outside the control of the directors, the directors believe that the risk that the funding will not be received constitutes a material uncertainty that may cast significant doubt on the ability of the group and company 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.

Governance





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Corporate governance statement

Our directors

Directors of the company who were in office during the year and up to the date of signing the financial statements on 14 July 2025.

Independent non-executive directors*



Chris was appointed as an independent non-executive director on 24 February 2022 and became chair of the board on 1 April 2022. He has over 38 years' experience with utilities and infrastructure. Chris has held chief executive, senior roles in project management, operations and business development at Cadent, National Grid, Transco and Lattice. He has also sat on various European and international committees covering commercial and infrastructure development. Chris is the non-executive chair of Sellafield Limited and was a non-executive director of the Nuclear Decommissioning Authority from 2022 to 2024, acting as Interim Chair from October 2023 to May 2024. Chris is a Chartered Engineer and holds a Bachelor's Degree (Hons) in Fuel and Energy Engineering and an MBA.



Lisa was appointed as an independent non-executive director in January 2023 and is chair of the audit and risk committee. During her executive career Lisa worked across a wide range of sectors for companies ranging from multi-billion pound UK and US main-market listed global conglomerates to start-up private equity backed SMEs. Her roles included being Chief Financial Officer for Sea Containers Ltd. Subsequently she was a non-executive director and chair of the audit committee for U.K. Coal PLC during its restructure and reorganisation into Harworth Group PLC, where she also chaired the audit committee, then later chaired the remuneration committee and was senior independent director. She was previously a non-executive director and chair of the remuneration committee for Light Science Technologies Holdings PLC. Lisa is a Chartered Accountant and graduate of Oxford University.



Célia was appointed as an independent non-executive director on 1 June 2018 and is chair of the remuneration committee. Célia has previously held a range of senior executive roles and has a wealth of experience and expertise in a range of industries. Célia is a non-executive director of Samworth Brothers (Holdings) Ltd and Hostmore plc (in administration). She is a non-executive director of Campden BRI, where she chairs the remuneration & nomination committee, and a non-executive director of Everest UK Bidco Limited (a Jersey registered company), where she chairs the risk & audit committee. She is the founder of Impact Ventures Group Limited. Célia holds a Bachelor of Commerce undergraduate degree and an MBA.



Caroline was appointed as a non-executive director on 12 February 2025. A Chartered Civil Engineer, Caroline brings 30 years of diverse experience in asset investment, engineering, and capital delivery. Her extensive career spans critical infrastructure at Heathrow Airport, Transport for London (leading capital investment and asset strategy across the network), and Thames Water Utilities, where she was Engineering and Asset Director. Caroline advises within the water, rail, and nuclear sectors and is a director at the Construction Industry Research and Information Association (CIRIA). Caroline holds a MSc in civil engineering from the University of Leeds and is a chartered member of ICE.

* As defined in our corporate governance code (2020).

Non-executive directors

**Mark McArdle**

Mark was appointed as a non-executive director on 9 February 2022. Mark joined Morrison as an Investment Director in Morrison's ANZ Investment Team, based in the Sydney office before relocating to London as part of the European investment team in November 2021. Prior to joining Morrison in 2020, Mark was an investment professional in QIC's Global Infrastructure business, focused on the utilities and renewable sectors, where he was responsible for origination, transaction execution and asset management. Prior to QIC, Mark worked in M&A and financing roles within the utilities and renewable sectors at RBC Capital Markets in both London and Sydney. Mark holds a Master of Chemistry from the University of Oxford.

**Michael McKinstry**

Michael was appointed as a non-executive director on 15 August 2024. With over 35 years experience, he acts as senior adviser to Vantage Infrastructure Group (part of the Capital Four group) in relation to South East Water. Michael was an executive director at a regulated infrastructure company, Phoenix Energy Group, retiring in 2023 after 27 years with the business, having served as Group CEO from 2014 and previously holding other roles including Group CFO. He is a director at Choice Housing Limited and advises Forward Emphasis International in relation to regulated insurance and financial services. Michael is a Fellow of the Association of Chartered Certified Accountants (FCCA).

Executive directors

**David Hinton** CEO

David was appointed CEO on 1 August 2020. With more than 25 years experience at South East Water, David has held roles including Asset and Regulation Director, Head of Regulation and Strategy and Head of Water Quality. Additionally, he has several industry roles including as a director of the Institute of Water and Water UK. David has held previous senior roles in scientific consultancies as well as laboratory management for the Public Health Laboratory Services. David holds a BSc (Hons) in Biotechnology and a Master of Business Administration specialising in ethical consumerism.

**Andrew Farmer** CFO

Andrew, who joined as CFO on 1 August 2015, has held a number of senior management posts in finance, most recently at MAG plc, the country's largest UK owned airport operator, and Doosan Power Systems, a leading manufacturing, energy technologies and services company. Andrew is a non-executive director of Moat Homes, a housing association in the South East of England. Andrew qualified as a Chartered Accountant with PricewaterhouseCoopers and holds a BSC (Hons) in Engineering and Business Studies from the University of Warwick.

Corporate governance statement continued

Our directors continued

Resigning directors*



John was appointed as an independent non-executive director on 28 January 2016, serving until his resignation on 12 February 2025. Prior to his more recent involvement with a start-up company developing renewable energy schemes, John had gained over 30 years' experience in the water industry, mainly in the UK (including as chief operating officer for United Utilities Water) but with spells in the Middle East and New Zealand. John is a former non-executive director of the Mid-Cheshire Hospitals Foundation Trust and was Executive Chair of All Change for Crewe, focused on making the most of inward investment to the town. John is a Chartered Engineer and holds a Bachelor of Engineering in Civil & Structural Engineering.



Anne-Noëlle was appointed as a non-executive director on 18 December 2023 until her resignation on 15 August 2024; she was also a director from June 2021 to March 2023. She is an Investment Director at Vantage Infrastructure focusing on the asset management and transaction execution of European equity infrastructure investments. She holds a Master 1 in Finance from Paris Dauphine University and a Masters in Accounting and Finance from the London School of Economics, and she was a non-executive director at gas distribution company, Phoenix Natural Gas.

* Director(s) in office during the period from 1 April 2024 to 31 March 2025 who resigned before 14 July 2025.

Please see page 155 for details of the changes on our board.

Company details

Nicolas Truillet

Company secretary

Registered office

Rocfort Road, Snodland, Kent ME6 5AH

Registered No. 02679874

Country of domicile and incorporation:
United Kingdom, England and Wales

Company's bankers

HSBC Bank plc, 60 Queen Victoria Street,
London EC4N 4TR

Company's independent auditors

PricewaterhouseCoopers LLP Statutory Auditor
London, United Kingdom

Introduction from the Chair

Corporate governance and compliance are an integral part of how our business as a whole operates. Underpinning this, in 2016, we adopted a Corporate Governance Code, which was updated in 2020 for the UK Corporate Governance Code 2018; the Ofwat principles of board leadership, transparency and governance; and the conditions of our Instrument of Appointment (in particular the obligation to meet the overarching objectives of Ofwat's board leadership, transparency and governance principles).

Our purpose

Our company's purpose is "to provide today's public water service and create tomorrow's water supply solutions, fairly and responsibly, working with others to help society and the environment to thrive". It is centred on our core functions as provider of the public water service and also expresses our ambitions to contribute to society and environment protection in fulfilling our primary public service purpose.

As a statement of the significance of our purpose, it is enshrined in our articles of association, our key constitutional document, underscoring our board's commitment that we should be a purpose-led organisation, promoting a culture of public service and inclusiveness, designed to achieve a fair balance between the interests of the company and those of our customers, other stakeholders, and the environment.

Putting our purpose into practice

Governance is central to us being able to put our purpose into practice, because to us, governance is the framework through which the organisation is led.

We have formulated what corporate governance means to us, in our corporate governance framework, and we assess in this statement how the board has operated within that framework over the last year. It is important that we know that our people make decisions that promote a culture of public service as well as the long-term success of the business. This statement has been prepared to provide clear and transparent information on our governance

to our customers, investors, regulators, and other stakeholders. We have taken concrete steps to meet the objectives, principles, and provisions of our corporate governance code and the objectives of the board leadership, transparency and governance principles published by Ofwat.

The board confirms that it has complied with the principles of the company's corporate governance code throughout 2024/25, except for one divergence to the relevant provisions of the code:

► **The board as a whole considers succession planning** membership of the board. Compared with the code requirement for our nominations committee to assess succession planning. We consider this divergence brings the benefit of a more inclusive approach, offering a wider, balanced perspective, when considering skills and attributes of prospective members. The nomination committee has delegated authority to deal with the process of appointment and to consider and recommend appointments of new directors that may be selected in accordance with the succession planning approach agreed by the board. Both the board and the nomination committee observe appropriate protocols for conflict management during succession planning. (Code provision 3.1.4).

This statement follows the main themes in our corporate governance code to present our assessment of our practical approach to governance. We hope it demonstrates our commitment to excellence in governance.

Chris Train OBE
CHAIR
14 JULY 2025

Board leadership and company purpose

Principles of our corporate governance code relevant to this section

- A.** The company has an effective board with full responsibility for all aspects of the company's business as a regulated company for the long-term.
- B.** A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and having a positive impact on wider society and the environment.
- C.** The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.
- D.** The 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.
- E.** All directors must act with integrity, lead by example and promote the desired culture.
- F.** In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.
- G.** The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

Our principles of governance and corporate governance code

As a board we promote transparency, accountability, ethical conduct, inclusive engagement with customers and stakeholders, a fair balance between the various interests that we and our staff must consider every day, and a commitment to high standards of performance in delivering services to customers and protecting the environment.

Strong environmental, social and governance (ESG) performance protects the long-term value and sustainable success of the company. This is the optimum way to ensure we are able to deliver our public water service and secure its future. Our investors support us when we observe and enhance our governance, which strengthens our licence to operate.

Our corporate governance framework sets out our general philosophy and approach to governance. We have moved strongly towards a stakeholder model of corporate governance as we know it supports our strategy.

Under our licence, we are required to conduct our regulated business as if it were substantially our sole business and the regulated business were a public limited company separate from any other business we carry out. We must act to ensure we

have appropriate systems of planning and internal control. We also have an obligation to meet the objectives of Ofwat's board leadership, transparency, and governance principles (BLTG principles) and to explain in a manner that is effective, accessible and clear how we are meeting these objectives.

Our corporate governance code combines the objectives, principles, and provisions of Ofwat's BLTG principles with those of the UK Corporate Governance Code 2018 that are applicable to a private limited company and consistent with Ofwat's principles. We chose to continue to follow the more detailed provisions of the UK Code rather than those of the Wates principles. As such principles and provisions are not exhaustive, as a matter of course, we consider how to improve our governance.

Our corporate governance code is available on our website at: southeastwater.co.uk/ourgovernance



Find out more

about our corporate governance framework and how governance contributes to our strategy
southeastwater.co.uk/about/who-we-are/governance



Our purpose, values, and culture

We have defined our company purpose, which is incorporated into our articles of association, our vision, values, and the principles that guide our culture and strategy. Our purpose and values guide our day to day activities and decision-making. The board and the senior leadership team each aim to exemplify the purpose, strategy, and values in all aspects of the company's work and their behaviour to promote and enhance a culture that firmly supports our purpose, reflecting the needs of those we serve.

Achieving a durable change in culture to be a purpose-led organisation driven by public service values is a continuous effort. The following contributes to promoting our purpose and culture within the business:

- ▶ Our corporate governance framework – available at southeastwater.co.uk/about/who-we-are/governance
- ▶ Our directors' duty (as set out in the company's articles of association) to act in a way that fulfils our purpose, balancing benefit for shareholders with a positive impact on society and the environment, and in doing so, to have regard to the matters set out in the Companies Act 2006 s172(1).
- ▶ Executive directors' pay related to all aspects of performance, including responsible business objectives.

- ▶ Staff engagement with an independent non-executive director nominated as a designated point of contact with our workforce, engagement with the Staff Council (workforce advisory panel) and wider board engagement programme to increase the interaction of the board with different levels of the business.
- ▶ Customer and stakeholder engagement on our day-to-day performance and long-term planning.
- ▶ Our ESG practices and achievements are assessed annually against the GRESB benchmark, a leading ESG benchmark that provides standardised and validated data enabling assessments of sustainability aligned with international reporting frameworks and industry best practice.

Read more on our purpose and culture on pages 14 and 15 and on how we engage with customers and have regard to the matters set out in s172(1) on page 80.

Board leadership and company purpose continued

How we meet the objectives of the Board Leadership, Transparency and Governance principles (BLTG)

Under the terms of its licence, the company is required to explain in a manner that is effective, accessible, and clear how it is meeting the objectives contained in the BLTG principles which are incorporated into the company's corporate governance code.

We explain in the tables below the concrete steps we are taking to meet each of the four objectives of the BLTG principles. The tables below are intended to help readers easily find the explanations in this annual report about each objective and other relevant information on how they are met.

Objective 1	How we meet the objectives	Read more
The board of the Appointee establishes the company's purpose, strategy, and values, and is satisfied that these and its culture reflect the needs of all those it serves.	<ul style="list-style-type: none"> ▶ We continue to follow and embed the company's purpose, which has been a central part of the development of our strategy, values, and culture. ▶ Our purpose remains integrated into our articles of association as is our strengthened directors' duty. ▶ Our articles of association are available at southeastwater.co.uk/about/who-we-are/governance ▶ Our vision, guiding principles and values promote a culture of public service. ▶ Our strategic direction statement sets out our strategy to 2050 and six priorities, which run through our long-term delivery strategy and our business plan for 2025 to 2030. ▶ We review our culture in the monthly performance report to the board, as well as metrics on customer satisfaction, vulnerability, engagement, and responsible business. 	On purpose on page 14.

Objective 2	How we meet the objectives	Read more
The Appointee has an effective board with full responsibility for all aspects of the Appointee's business for the long-term.	<ul style="list-style-type: none"> ▶ The board has full responsibility for all aspects of the company's business and sets the company's strategic aims, purpose, values and the overall culture and standards of behaviours. It balances the long-term and short-term interests of the company. ▶ Decisions for the overall strategic management of the company are made by the board. The board committees are used actively for detailed discussions prior to making reports and recommendations to the board to inform its final decisions. Further delegations to senior leaders facilitate efficient day to day decision-making. ▶ Our relatively compact board facilitates discussion. ▶ Investor interests are taken into account through regular and ongoing dialogue with shareholders' representatives. ▶ To ensure high quality decisions, in line with our purpose, which address the short and long-term interest of customers, stakeholders and the environment, as well as a diversity and balance of views independent non-executive directors are the largest group on our board. ▶ The board has procedures in place to identify and avoid conflicts of interest. 	On our board and committees composition and role on pages 141 to 142 and 150.

Objective 2 continued	How we meet the objectives	Read more
	<ul style="list-style-type: none"> Our core responsibilities include planning for future water resources and events such as droughts while investing efficiently and protecting the environment. The board as a whole is responsible for developing the strategy and for oversight and approval of long-term plans including the long-term delivery strategy, business plan, corporate plan, Water Resources Management Plan and drought plan. 	On long-term trends, challenges, and priorities on pages 22 to 23. On our long-term planning on page 42.
Objective 3	How we meet the objectives	Read more
The board of the Appointee's leadership and approach to transparency and governance engenders trust in the Appointee and ensures accountability for their actions.	<p><i>Our general approach to trust, transparency and governance</i></p> <ul style="list-style-type: none"> Our purpose is embedded in our company's articles of association. This annual report expands on how our strategy will deliver our purpose, as well as how we set ourselves targets to deliver the public water service to our customers, and how we have performed against these. <p><i>Transparency on our performance</i></p> <ul style="list-style-type: none"> Every year, we publish a "performance, people and planet" report with information on our performance and our corporate social responsibility in a clear and accessible format. Our performance, people and planet report is available at performance.southeastwater.co.uk We are ambitious about our purpose. Our strategic priorities incorporate ESG objectives to deliver benefits to customers, society and the environment that go beyond our core public water services. Our annual reporting on delivery against performance commitments is prepared following rigorous internal control processes. External assurance with oversight from the audit and risk committee and the board ensure our reporting is accurate, transparent, and reliable. We also publish how we ensure that the data and information we publish is reliable, transparent, timely and appropriate to the audience in our annual performance report. <p><i>Transparency on ownership, executive pay and dividends</i></p> <ul style="list-style-type: none"> Ownership structure: We explain our group and ownership structure and provide information about our investors. 	On how we ensure the accuracy and reliability of our data and reporting in our data assurance summary in our annual performance report.
	<ul style="list-style-type: none"> Executive pay: The pay of our executive directors includes a variable element which is predominantly based on actual outcomes against our performance commitments for customers and the environment. Our directors' remuneration report provides transparency on executive remuneration and is aligned with the reporting of quoted companies that can be applied to a private limited company. 	Our directors' remuneration report on page 164.

Board leadership and company purpose continued

Objective 3 continued	How we meet the objectives	Read more
The board of the Appointee's leadership and approach to transparency and governance engenders trust in the Appointee and ensures accountability for their actions.	<ul style="list-style-type: none"> Dividend: We take care to ensure that the company retains sufficient financial resources to deliver its functions and meet its obligations as a water undertaker. We only pay dividends to our shareholders in accordance with our dividend policy and the principles that dividends should balance providing a suitable return to shareholders for their investment without impairing the company's ability to deliver its obligations (including current and future investment needs) while maintaining its long-term financial resilience. When considering dividends, the board takes account of a wide range of considerations consistent with Condition P30 of the company's licence, especially an assessment of delivery for customers and the environment. In addition to its licence conditions, the board is obliged to meet relevant legal requirements prior to declaring or paying a dividend. Our dividend policy is available on our website at southeastwater.co.uk/ourgovernance 	On our dividend and how we have applied our dividend policy on page 78 and in our annual performance report.
Objective 4	How we meet the objectives	Read more
The board of the Appointee 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.	<p><i>Board and committees effectiveness</i></p> <ul style="list-style-type: none"> We ensure our board and committees are effective by maintaining a robust ratio of independent non-executive directors. This also ensures that independent challenge at the board of the company is effective and that considerations relevant specifically to investors or the group as a whole may inform decision making allowing the board to remain fully focused on the regulated activities and the delivery of the public water service. Maintaining a fairly compact board facilitates discussions at board meetings. Our board has four independent non-executive directors, two shareholder nominated directors and two executive directors. The company considers that the chair of the board was independent on appointment, which adds strength to this group of directors, and he continues to demonstrate objective judgement in this role. We convene in-person board and committee meetings to a regular schedule, supplementing these with additional meetings as required. <p><i>Board succession planning</i></p> <ul style="list-style-type: none"> There is a formal, rigorous and transparent procedure for new appointments, which supports our purpose. The whole board considers succession planning, which capitalises on this body having a broad and complementary skillset. To ensure that this aspect of succession planning remains a proportionate and effective use of board resources, the nomination committee deals with detailed processes, including recommending appointments. Each director receives an induction programme to ensure that knowledge and familiarity with South East Water and our industry are maintained at the required level throughout their tenure. Any feedback provided by Ofwat following their pre-appointment interview is factored into the induction. 	On our board and committees composition and role on pages 141 to 142 and 150. On our board succession plan on page 155 .
	<ul style="list-style-type: none"> We ensure that our board and committees have the appropriate mix of independence, service, skills and experience, including specific customer and service sector experience. 	On the experience of our directors on page 132.
	<p><i>Board evaluation</i></p> <ul style="list-style-type: none"> We carry out an annual board evaluation to review how effectively the board operates and discuss suggestions for improvement. The board evaluation is usually conducted via a non-attributable questionnaire with the results collated by the company secretary and discussed by the board. Appropriate actions are taken where improvement possibilities are identified. 	On our board evaluation on page 156.

The role of the board and of its committees

Long-term sustainable success

The board's priority continues to be the company's obligation to meet its responsibilities as a water undertaker, which involves being a provider of an essential public service, maintaining a reputation for high standards of business conduct. The board recognises its role to provide strategic leadership within a framework of prudent and effective controls that ensures that the necessary financial, operational, and human resources are in place.

We provide more information on how the board addresses long-term considerations and its directors' duties (set out in our enhanced duty in our company's articles of association) on pages 80 to 95 and in our non-financial and sustainability information statement on page 96.

Short-term decisions are also taken in the context of the overall strategy, the supporting delivery plans and the actual performance against targets or other strategic outcomes at any given time. They are evaluated by reference to their impact on the delivery of the commitments and long-term objectives of the company and any side-effects from the prioritisation of certain outcomes.

The board receives regular updates on performance against targets in respect of all the company's commitments and short-term decisions are assessed in the context of that performance. The board will require and support the business to take corrective actions where necessary.

Significant decisions such as those relating to investment and the delivery of the capital programme are taken within internal governance processes, which consider a wide range of factors such as commitments, obligations, and efficiencies.

Leadership of the standalone regulated company

All matters pertaining to the business of the company are considered and decided by the board of South East Water and there are no matters reserved for shareholders or parent companies other than those requiring a resolution of members under the Companies Act 2006. In this report, references to shareholders refers to investors and shareholders of HDF (UK) Holdings Limited, the ultimate UK holding company of South East Water.

Circulating the board agenda and background information in a timely manner empowers directors to play a constructive role in board decision-making and oversight.

Our board and committees are effective as we maintain a strong ratio of independent non-executive directors to shareholder-nominated directors. Considerations relevant to investors are prevented from dominating the board's decision-making.

Shareholders typically discuss their respective positions in respect of matters that are a specific concern to them including those regarding the company at board meetings of HDF (UK) Holdings. This gives them the opportunity to discuss with their stakeholders matters relevant to decisions to be made at the board of the company. There are regular discussions between investors, the chair of the board and management. Shareholders' decision making processes regarding the company recognise that they must comply with the specific requirements applicable to South East Water as a regulated water company.

In board meetings, the two shareholder nominated directors are also given the opportunity to communicate the views of shareholders when the board is reaching a decision of particular concern for shareholders. The board recognises shareholder support is important in the context of ongoing financial resilience and the shareholder nominated directors are given the opportunity to present their reasoning for consideration across the board. Notwithstanding this protocol, each director has one vote and the board endeavours to reach unanimous decisions taking account of the views of all directors.

Our shareholders recognise that strong environmental, social and governance performance protects the long-term value and sustainable success of the company and strengthens its licence to operate. There is a strong alignment between the company and its shareholders with their approach to governance; we all are focused on long-term value creation as a means of delivering the company's purpose and achieving our respective objectives.

Board leadership and company purpose continued

How our board, committees and executive team operate

This diagram shows the roles of our board and its committees and of the executive team and the main management steering group.

Board

Chair: Chris Train OBE

Is responsible for the long-term success of the company. It sets strategy within a framework of effective controls and ensures the company has the necessary financial and human resources. It sets our purpose, values and standards of governance and it monitors compliance with regulatory and statutory obligations. It balances the interests of customers, the environment, shareholders and stakeholders.

Chief Executive Officer

David Hinton

Executive Team

Chair: David Hinton

The Executive Team under the direction of the CEO comprises the CFO, Regulation and Strategy Director, Customer Services Director and Operations Director. It defines and implements the strategy, manages the operational and financial performance of the company, and matters not reserved to the board.

Customer Insight Committee

Monitors the progress and effectiveness of our customer engagement and insight programme across all areas of the business to improve the satisfaction of our customers including vulnerable customers and stakeholders. It monitors how effectively this influences our day-to-day business. One of its members is an independent non-executive director.

Competition and Regulatory Strategy

Our Regulatory Strategic Group provides oversight of the implementation of competition and regulatory strategies including compliance with market requirements and our main regulatory plans. It also reviews and defines management's strategy proposals to the board.

Corporate Security

The Corporate Security Steering Group monitors the implementation and effectiveness of security measures and policies covering all aspects of security: information and data protection, cyber risks, physical security and prevention of fraud. It monitors emerging threats and opportunities to improve resilience.

Audit and Risk Committee

Chair: Lisa Clement

Exercises oversight over financial statements and reports to the board on significant aspects of financial reporting. It reviews the scope and results of financial audits, accounting policies and judgements. It assesses the systems of internal control and risk management and the prevention and detection of fraud and reviews whistleblowing arrangements.

Remuneration Committee

Chair: Célia Pronto

Reviews the remuneration policy for the executive directors and ensures executive pay rewards performance in areas that are important to customers. It determines the remuneration package of executive directors, and other designated senior executives, including the design and application of any performance based remuneration.

Nomination Committee

Chair: Chris Train OBE

Reviews the structure and composition of the board taking account of the board evaluation and succession planning of the board and senior management. It makes recommendations on proposed board appointments and committee membership.

Responsible Business Committee

Chair: Mark McArdle

Assists the board in defining its strategy relating to ESG matters and in reviewing the practices and initiatives of the company relating to ESG matters, ensuring they remain effective and up to date. It monitors performance against the company's responsible business commitments.

Health & Safety

The Health & Safety committee monitors the effectiveness of health and safety practices, policies, procedures, training and communication. It analyses safety audit reports and through sub-committees ensures practices are adapted to the different areas of the business.

Investment and Operating Expenditure

The Executive Investment Committee approves and ensures the governance of capital investment and the Programme Management Office controls the delivery of capital expenditure. The Information Systems Steering Group approves and monitors key procurement activities. The Operating Expenditure Committee provides additional scrutiny and control over operating expenditure.

Outcomes Delivery

The Every One Counts Steering Group and the Responsible Business Steering Group monitor the implementation of our people initiatives and of our responsible business commitments and related corporate plan objectives and business improvement initiatives.

Water Quality

The Water Quality Strategy Group monitors water quality performance and the delivery of the water quality strategy and improvement initiatives. It also oversees the development of future investments in water quality.

Aligning our strategy with our purpose and values

Fulfilling our purpose and ensuring the long-term sustainable success of the company continues to be the principal objective of our strategy, which our approach to governance supports fully.

This approach is set out in detail in our strategic direction statement in which we explain and present:

- ▶ How we have defined our strategy to fulfil our purpose, guided by key values and principles.
- ▶ Our strategic priorities to 2050 in the context of our long-term challenges and how we intend to achieve our objectives in the next regulatory periods.
- ▶ How our purpose and values are central to our 25 Year Environment Plan, which sets out ambitions and principles of environmental management and reiterates our commitment to engagement and collaboration with stakeholders.
- ▶ How our business plan is focused on delivering our purpose as well as considering what customers have told us is the most important to them (including a resilient service, affordable bills and support for vulnerable customers).

Read more about our strategy on page 22.



about our strategic direction statement and how it aligns with our purpose and culture at:
southeastwater.co.uk/sds

Information and support

Quality management information is a keystone of effective board oversight and robust governance. Our commitment to high standards of business conduct drives us to transparently provide our board with necessary information. We ensure strong information flows through various initiatives, including:

- ▶ Provision of monthly performance reports to ensure that directors are regularly informed of key performance metrics. These cover a range of aspects including performance against key regulatory obligations and outcome delivery incentives.

- ▶ Directors receive specific updates and reports as appropriate at and outside of scheduled board meetings, including detailed reports on specific metrics or updates on significant operational events.
- ▶ Senior leaders present regular updates on their areas of responsibility to ensure that directors receive timely information, can extend and deepen their knowledge of the business, and provide challenge or seek additional clarification to assist decision-making.
- ▶ The cadence of board meetings, together with interactions outside of scheduled board and committee meetings, allows non-executive directors to raise questions directly with the executive directors. Depending on the nature of the query or complexity of the subject-matter, the company addresses these through written explanations or meetings with members of the executive or senior management team.
- ▶ The board has an engagement programme with a wider range of people in the business. This provides for a better understanding of how the company operates at all levels, direct feedback, and insight into the true culture of the business.
- ▶ Engagement with our Water Horizon Forum, which includes customers of different ages and backgrounds, for all our key plans and strategies reinforces focus on the company's public service and purposeful work with others as part of society.
- ▶ We design our quality assurance for precision and accuracy. This involves:
 - ▶ rigorously following company processes to ensure the accuracy of performance measurement and reporting.
 - ▶ leveraging external assurance to independently verify the reliability of our company reporting and its foundational data.
 - ▶ the board approved company monitoring framework that details the controls safeguarding the accuracy and reliability of information we publish.

Board leadership and company purpose continued

Conflicts of interest

We understand that conflicts of interest may arise in decision-making. Preventing conflicts of interest is an ongoing consideration for all board decisions and so we take active steps to avoid or reduce undesirable outcomes.

Specific initiatives include:

- ▶ Combining regular, standard checks with direct and proactive communication from directors who are better-placed to identify any changing circumstances that could lead to a potential conflict.
- ▶ Beyond standard director requirements, the company's articles of association include specific requirements for the board to observe to manage and mitigate possible conflicts. Directors may authorise certain potential conflicts.
- ▶ The directors' induction pack includes information on directors' duties, such as avoiding conflicts of interests.
- ▶ Tabling a standard agenda item at each board meeting to consider any potential conflicts in relation to the matters to be discussed at the meeting.
- ▶ Each director is required to declare and provide updates on any potential conflict of interest and to inform the company secretary and other directors of any new appointment or directorship. Relevant provisions are included in the letters of appointment of directors.

- ▶ Directors complete a questionnaire annually on close entities and relationships to identify potential conflicts in relation to certain transactions.
- ▶ Annual review of directors' commitments and directorships to ensure records are up to date to allow for potential conflicts to be identified.

Board activities in 2024/25

During the period from 1 April 2024 to 31 March 2025 there were 16 board meetings in total, including:

- ▶ Six regular, scheduled, meetings to consider general business matters
- ▶ Three ad hoc meetings
- ▶ Five meetings exclusively dedicated to PR24, and
- ▶ Two meetings allocated to our long-term strategy.

Several of the regular and ad hoc meetings discussed additional financing measures including capital injection, loan notes, and borrowing lines as well as areas such as supply resilience and demand.

General and specific meetings have addressed progress of the company's PR24 submissions and decision to request a redetermination by the Competition and Markets Authority (CMA) following Ofwat's final determination for their PR24 (Price Review 2024) plan. The board has met with the company's solicitors as appropriate throughout.

The board appropriately reviews information provided to it, which includes full business and financial performance reports every month.

Key attendance at board and committee meetings in 2024/25

Director	Board	Audit and risk	Nomination	Remuneration
C Train	16/16	□	3/3	3/3
L Clement	16/16	3/3	□	□
C Pronto	14/16	3/3	3/3	3/3
M McArdle	16/16	3/3	3/3	3/3
D Hinton	16/16	□	□	□
A Farmer	16/16	□	□	□
M McKinstry *app. 15.08.24	11/11	2/2	2/2	2/2
C Sheridan *app. 12.02.25	2/2	0/0	0/0	0/0
J Barnes **res. 12.02.25	12/14	3/3	3/3	3/3
A-N Le Gal **res. 15.08.24	5/5	1/1	1/1	1/1

Note: The responsible business committee did not meet in 2024/25.

□ Director is not a member of the committee

* Newly appointed director ** Resigned director

Summary of our activities in 2024/25

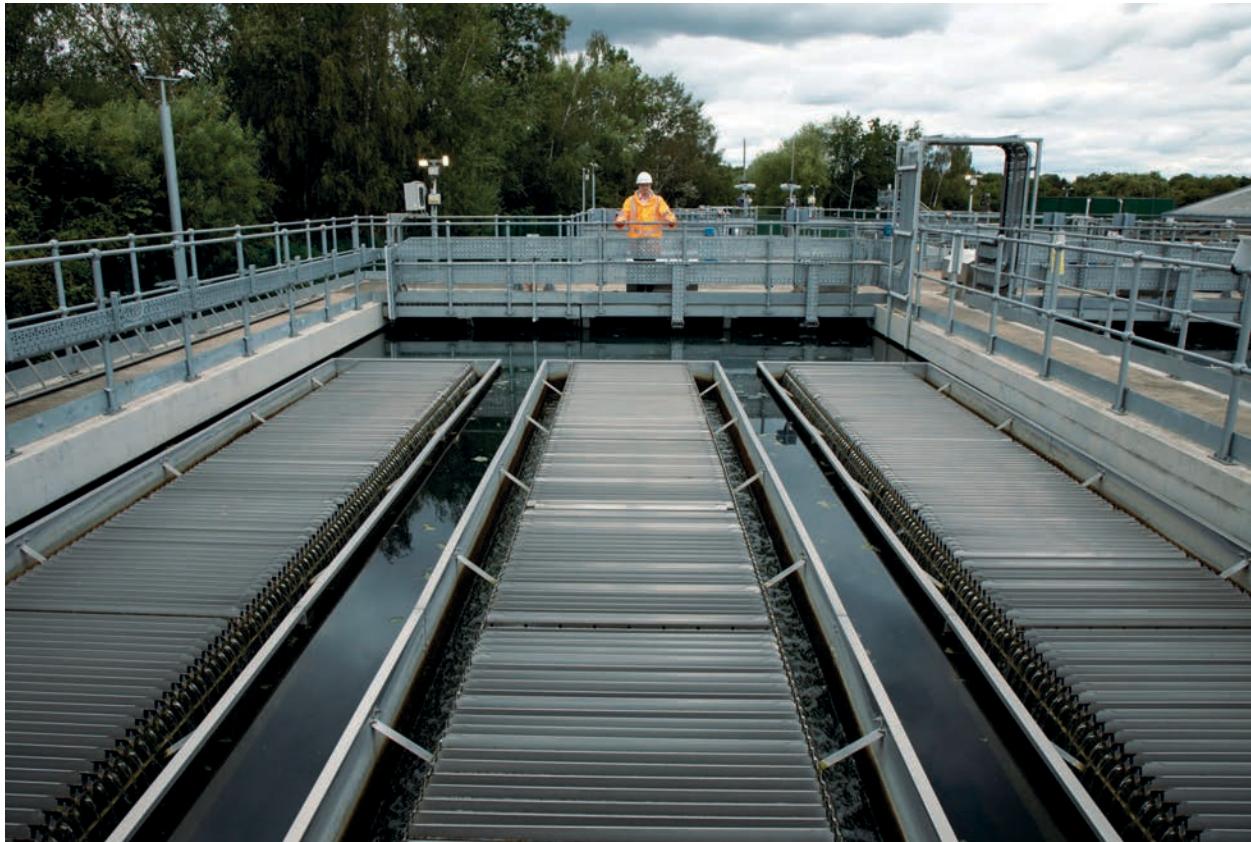
Service delivery and operational performance

- ▶ Regularly reviewed performance against our operational commitments and outcome delivery incentives and the initiatives taken to improve service and operational performance.
- ▶ Monitored operational preparation for weather-resilience (such as named storms, summer peak demand and winter freeze), through actions including:
 - ▶ Oversight of significant investment into drinking water mains capacity in the Aldershot area while ensuring disruption to existing supply was minimised as well as oversight of work initiated to improve water pressure in the Faversham area.
 - ▶ Continued oversight of improvement work at Bewl, with delivery expected during the 2026/27 reporting period.
 - ▶ Receipt of reports on weather conditions, particularly noting the exceptionally dry period in the first half of 2025 (up to the date of this statement), and its relevance to preparedness including any required implementation of temporary use restrictions and application for a drought permit in accordance with our drought plan to mitigate the impact of demand in areas of the network that have potential to be the most affected. Receipt of updates in relation to engagement with the Environment Agency.
 - ▶ Consideration and review of updates and reports on improvements following specific events including, for example, extended customer communications about water efficiencies, continued use of colour coded status advisories and customer messaging across all media, relevant recruitment (e.g. an Alternative Water Manager to aid summer preparation and stakeholder engagement (e.g. with local authorities farmers, and industry peers)), approval of the successful AquAlerter, designed to provide real-time supply updates, agricultural efficiency discussions (e.g. rainwater harvesting and storage) and agricultural usage data, migration to smart metering, additional tanker capacity (from March 2025), remedial works to water treatment works and monitoring issues from sustained exceptional levels of rainfall and impact from turbidity, and power resilience.
 - ▶ Emphasised good positioning for the start of AMP 8, for example, in relation to leakage.
- ▶ Considered the successful repair of the Barcombe contact tank with minimal impact on relevant water treatment works. Oversight of engagement with the Drinking Water Inspectorate.
- ▶ Considered progress against our service commitment plan and the process and controls in place for the preparation of the update to our service commitment plan to Ofwat in November 2024.
- ▶ Considered the updates on our capital programme and capital expenditure in 2023/24 and the main schemes in our capital programme for 2024/25 to the end of the 2020 to 2025 period, including updates on the delivery of our main capital schemes and the reprioritisation of our capital programme to enable the delivery of additional short-term resilience schemes. Reviewed preparation for the incoming period 2025 to 2030.
- ▶ Considered a review of support services, health and safety, HR (including the performance management roadmap and its EDI strategy), and environmental performance and initiatives as part of directorate reviews.
- ▶ Considered an update on customer service performance (including C-MeX rankings) and continuous improvement initiatives relating to customer experience and systems, water efficiency, support for vulnerable customers, insight and engagement, compliance with the new customer focused condition, customer communications and support during incidents as part of a deep dive review of the retail directorate.

Board leadership and company purpose continued

Financial, reporting and transactional

- ▶ Considered financial forecasts throughout the year to monitor the financial performance and resilience of the company.
- ▶ Reviewed and approved the annual report and financial statements for 2023/24, including the going concern statement, analysis relating to financial covenants, the viability statement prepared in line with specific requirements set out by Ofwat.
- ▶ Reviewed and approved our annual performance report and other regulatory reporting for 2023/24.
- ▶ Reviewed the report on performance, people and planet 2023/24 and approved it for publication on the microsite.
- ▶ Considered the report from the audit and risk committee on the 2024/25 audit plan, the independence of the auditors, the audit fees and on reporting requirements for the 2024/25 annual report and approved the audit fees.
- ▶ Considered the budget assumptions and approved the financial budget for 2024/25.
- ▶ Oversight of pensions activity, including response to Pensions Regulator queries on the closed defined benefit schemes, noting that the schemes were funded as deficit repair contributions were ending as planned in line with Ofwat's PR24 determination ending any such funding through price reviews. Received information from Trustee and progress updates on the buy-in of the SEWGPS and buy-out of the MKGPS scheme. Updates on transactions progressed with Just group plc. for the SEWGPS buy-in transaction, approved confirmation to the Trustee that the company supported the transaction and would provide funding to FY25 year end. For the MKGPS, approved the company initiating the winding up of the MKGPS and the company taking such other steps (with the trustee, as appropriate) necessary to complete the winding up and buy-out.
- ▶ Approved the issue and sale of one or more series of fixed rate and index-linked, guaranteed secured senior notes by private placement for a total aggregate amount in the range of £50-100 million. Due to market sentiment, noted £50 million was raised.
- ▶ PR24 brought a level of uncertainty that added to pressures on financial resilience, with sources of funding becoming increasingly constrained both on a micro level and macro basis across the water sector. Closely monitored considerations relating to credit ratings, and in December 2024, observed that the directors noted material uncertainties including concerns about a potential sector wide credit rating downgrade based on the PR24 determination and regulatory risks, with which the company's auditors concurred. Noted that, in December 2024, S&P rated the Company at BBB (CreditWatch Negative) and Moody's at Baa3 (Rating Under Review for downgrade) and engaged with Ofwat. Lenders and credit agencies indicated a 65 to 70 per cent gearing ratio was expected to be considered investment grade. Took steps to oversee de-gearing of the company to c.65 per cent.
- ▶ Received updates on the term loan that was due to expire during the going concern period and subsequently approved the basis of a facility on substantially the same terms as its existing credit facility, save for an amended margin and an extension to the maturity date from 20 December 2025 to 20 June 2026.
- ▶ Reviewed and approved interim financial reporting for 2024/25, having regard to liquidity and requirements in relation to going concern. Noted that material uncertainty disclosures were made in interim financial statements in December 2024 notwithstanding the term loan extension.



- ▶ Approved capital injection transactions resulting in the allotment and issuance of new shares in the capital of the company to its sole member:
 - ▶ £75 million – 75 million shares – noted as a condition of the restructured term loan (referenced above) in December 2024.
 - ▶ £200 million – 200 million shares in May 2025.

- ▶ Considered the recommendations of the audit and risk committee to approve this group annual report and financial statements for 2024/25 having regard to liquidity and requirements in relation to going concern. Noted that refinancing discussions were progressing positively albeit the facilities could not be legally secured before signature of the financial statements, noted material uncertainty relating to going concern existed in the financial statements for 2024/25 as the refinancing discussions had not concluded. Noted that we continue to comply with the financial covenants in our securitisation and retained credit ratings consistent with our securitisation and our instrument of appointment.

Board leadership and company purpose continued

ESG, risk management and stakeholder engagement

- ▶ Reviewed the composition of the board and its committees. Observed required engagement with Ofwat.
- ▶ Accepted the resignation of Anne-Noëlle Le Gal and approved the appointment of Michael McKinstry as shareholder representative non-executive directors;
- ▶ Accepted the resignation of John Barnes (who had served the maximum term) and approved the appointment of Caroline Sheridan as independent non-executive director. External assistance was provided by Russell Reynolds Associates as appropriate.
- ▶ Approved the re-appointment of Christopher Train and Célia Pronto for a period of three-years as independent non-executive directors.
- ▶ Carried out the annual evaluation of the board's effectiveness through an anonymous online questionnaire, discussed the points arising and agreed follow up actions.
- ▶ Considered reports and recommendations from the committees of the board throughout the year, including the remuneration committee, which undertook an active review of remuneration structures including short-term and long-term incentives to ensure their design promotes reward for improvements and aligns with regulatory requirements.
- ▶ Carried out the annual review of risks, principal risks and of the effectiveness of our risk management process and oversight of remedial actions and deep dive assessment of specific risks, including cyber security.
- ▶ Considered regular updates on health, safety, wellbeing and mental health (including taking steps to address road traffic statistics), and the annual review of performance as well as actions taken under our Thrive365! strategy. Monitoring work to define H&S performance indicators.
- ▶ Whistleblowing activity regularly reviewed (including monthly receipt of disclosures and trend data, oversight of a comprehensive review of the speak up policy against Ofwat's best practice guidelines (resulting in small adaptations to policy, process and approach) and ensuring that colleagues are aware of the policy and how to raise a concern (bi-annual companywide communications and awareness raising for new starters plus availability in different channels and formats)). Noting there were 12 disclosures in 2024/25; four of the six that were investigated resulted in action through to resolution; the balance were not deemed to be whistleblowing complaints as defined in our policy.
- ▶ Adopted our modern slavery statement and reviewed compliance with legislation on modern slavery. Received an update on membership of the Slave Free Alliance.
- ▶ Reviewed and approved our pay gap reporting and the actions taken to address gender pay gap and gender balance in different parts of the business.
- ▶ Considered and approved the increase in INED fees in line with the company pay award pursuant to the provisions of our corporate governance code.
- ▶ Considered proposals and progress updates on power purchase agreements relating to a wind farm, which is expected to meet c. 40 per cent of the company's electricity requirements and contribute to renewable energy capacity. Received updates on other renewable energy proposals (e.g. floating solar).
- ▶ Approved a significant contract with Southern Water to provide drinking water testing services for the majority of its customers, increasing tests by over 800,000 (from July 2025), creating 46 jobs.
- ▶ Oversight and approval of continuous improvements commitments and appropriate balance in our vulnerability strategy.

Strategy and regulation

- ▶ Approved and continued oversight of our PR24 submissions including the company's response to Ofwat's draft determination. Areas reviewed include, wholesale totex, PCDs, retail price control, PCs and ODIs, financials and financial resilience, bill impacts, QAA, external assurance, overall narrative and DD response structure, and board assurance. Advice obtained from external sources including: AtkinsRéalis, KPMG, NRF, Oxera, Frontier Economics, and ChandlerKBS.
- ▶ Approved the assessment of Ofwat's PR24 final determination, published on 19 December 2024, and the decision to request a reference to the CMA. In our view, in its current form, the Final Determination does not provide the right foundations for the long-term investability of the water sector. As such, we reflected on whether it leaves a funding gap. Further information is in the key decisions section of the Responsible Business report.
- ▶ Reviewed the development of the Corporate Plan.
- ▶ Approved the approach for setting and assuring our wholesale and household end-user charges for 2025/26, taking account of customer considerations. Approved our indicative and final wholesale charges, our household end-user charges and our new connection charges and infrastructure charges for 2025/26 and the related board assurance statements. Set detailed conditions for the delegation of authority of the final calculation of the charges following publication of the PR24 final determination and the November RPI and finalisation of the charges documents.
- ▶ Reviewed and approved the voluntary intermediate update (fourth round) to the adaptation report (previously submitted 2021) – which informs the Climate Change Risk Assessment and the National Adaptation Programme and submission to Defra.
- ▶ Considered Defra's approval for the publication of the company's WRMP24.
- ▶ Oversight of contribution to engagement with industry bodies (e.g. Water UK) as well as the company's own response to consultations on milestone legislation and reviews, such as the Water (Special Measures) Act 2025 (which received royal assent 24 February 2025), performance-related pay, and the Cunliffe Review.
- ▶ Considered the Ofwat investigation into supply resilience and received reports on progress and oversaw the company's co-operation with this process and approved company's approach. Reviewed and approved the company's supply resilience action plan and its update before submission to Ofwat.
- ▶ Oversight of significant internal IT transition.
- ▶ Given its close correlation with liquidity risk and assessments of going concern, received detailed updates on the capital programme to the end of the AMP, including criteria for reprioritisation and resultant risks as well as trends with forecast and actual expenditure and budget.

Division of responsibilities and board composition

Principles of our corporate governance code relevant to this section

- H.** The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.
- I.** The board of the company 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.
- J.** The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.
- K.** Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.
- L.** The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

Chair

The chair ensures the effectiveness of the decision-making process of the board and promotes discussion on key issues based on quality information. The chair encourages discussion and feedback to management to ensure information received is accurate, timely and transparent.

The chair has responsibility for maintaining a direct channel of communication with shareholders and ensures that their concerns and objectives are taken into account and conveyed to the directors. Shareholder nominated directors are able to contribute to board discussions and this is appropriately balanced by effective contribution from all the non-executive directors as well as executive directors. Conflicts are discussed to ensure directors demonstrate objective judgement.

The Chair and the CEO meet regularly throughout the year to maintain a good communication between the board and the executive directors and to review the board forward programme and the agendas of board meetings.

There is also a formal schedule setting out the division of responsibilities between the chair and the CEO.

Board balance and effectiveness

Independent non-executive directors are the majority group on the board and on our audit and risk committee, nomination committee and remuneration committee. These committees are each chaired by an independent non-executive director. The chair of the board is independent of management and has no link to shareholders that could affect his impartiality as required by our corporate governance code and Ofwat's principles of governance.

Non-executive directors play a significant role in challenging executive directors and management as well as in developing strategy. Their diverse experience also ensures that different perspectives are considered in the board's deliberations.

The independence of non-executive directors is assessed by the nomination committee and the board following the criteria of the UK corporate governance code. Length of service is managed to assist with independence.

There are two shareholder nominated directors, which assists with prompt and open communication between all members of the board and shareholders.

In addition to regular updates at board meetings by the CEO and CFO, senior managers regularly attend board meetings to present agenda items, ensuring that the whole board receives and discusses information about operational issues from different sources, giving it greater insight into the culture of the company.

We believe that our board has a strong mix of skills and experience and has reached a good balance between new directors and longer-serving directors. This allows for fresh perspectives and ensures the board can optimise the benefit of deep knowledge of our company, the sector, and all our stakeholders, including previous price determinations, development of our business plan, and our strategy and long-term plans. The whole board is well placed to closely monitor the delivery of performance commitments, financial resilience, and wider objectives in this regulatory period.

Non-executive directors and independent non-executive directors are given direct access to management as requested and review specific areas of the business directly with management, drawing on their particular expertise to provide oversight and challenge on key regulatory or operational matters or to review the company's response to significant operational events.

The board meets regularly in scheduled as well as proactive sessions. Attendance and contribution is noted to ensure directors have the resources needed to function effectively and efficiently.



The Chair and the CEO meet regularly throughout the year to maintain a good communication between the board and the executive directors

Division of responsibilities and board composition continued

Board balance and composition on 31 March 2025

Independent non-executive directors	Appointment	Resignation	Term*	Audit and Risk	Remuneration	Nomination	Responsible Business
Chris Train (Chair)	24/02/22	N/A	3 yr 1 m	<input checked="" type="checkbox"/>	Member	Chair	<input checked="" type="checkbox"/>
Lisa Clement	11/01/23	N/A	2 yr 2 m	Chair	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Member
Célia Pronto Hussey	01/06/18	N/A	6 yrs 10 m	Member	Chair	Member	<input checked="" type="checkbox"/>
Caroline Sheridan	12/02/25	N/A	0 yrs 1 m	Member	Member	Member	Member
Shareholder representative directors	Appointment	Resignation	Term*	Audit and Risk	Remuneration	Nomination	Responsible Business
Mark McArdle (Morrison & Co)	09/02/22	N/A	3 yrs 1 m	Member	Member	Member	Chair
Michael McKinstry (Vantage Infrastructure)	15/08/24	N/A	0 yrs 8 m	Member	Member	Member	Member
Executive directors	Appointment	Resignation	Term*	Audit and Risk	Remuneration	Nomination	Responsible Business
David Hinton (CEO)	01/06/13	N/A	11 yrs 10 m	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Member
Andrew Farmer (CFO)	01/08/15	N/A	9 yrs 8 m	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Resigning directors	Appointment	Resignation	Term*	Audit and Risk	Remuneration	Nomination	Responsible Business
John Barnes	28/01/16	12/02/25	9 yrs 1 m	Member	Member	Member	Member
Anne-Noëlle Le Gal** (Vantage Infrastructure)	08/06/21	15/08/24	3 yrs 2 m	Member	Member	Member	Member

* As at 31 March 2025.

**Oliver Schubert was appointed a director from 09/03/23 to 18/12/2023 during the maternity leave of Anne-Noëlle Le Gal. This table shows the duration of her appointment since her initial appointment on 08/06/21 until her resignation on 15/08/24.

Appointment, succession and evaluation

Principles of our corporate governance code relevant to this section

- M.** Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.
- N.** The board and its committees have the appropriate balance of skills, experience, independence and knowledge of the company. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.
- O.** Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

Division of responsibilities

The board has adopted a formal list of reserved matters that it must consider and approve. These matters expressly refer to the relevant corporate governance requirements, our licence and regulatory obligations as well as our statutory obligations. They also reflect the allocation of responsibilities between the board and its committees as set out in the terms of reference of the committees.

The executive team manages matters that are not reserved to the board and its committees under supervision, which is achieved through regular reporting and specific updates. Management takes decisions delegated to it after consideration by the executive team, which includes the CEO, CFO, regulation and strategy director, customer services director and operations director. There are several steering groups that deal with key aspects of the business.

Board committees

Nomination, remuneration and audit and risk committees

The audit and risk committee, nomination committee and remuneration committee are chaired by and have a majority of independent non-executive directors as required by our corporate governance code. We have embedded the requirement to have appropriate skills for committee roles, segregation of duties and oversight within the committees, with the allocation of the chair and membership roles. For example, the chair of the board is not a member of the audit and risk committee; and the chair of the audit and risk committee has a relevant professional qualification and recent financial experience. Board committees have formal terms of reference. We have approved a formal schedule describing the allocation of responsibilities and interactions between the board and the committees.

Responsible business committee

The main purpose of the responsible business committee is to assist the board in defining, and monitoring of execution against, its strategy relating to environmental, social and governance (ESG) matters and in reviewing the practices and initiatives of the company relating to ESG matters ensuring they remain effective and up to date. The responsible business committee is chaired by Mark McArdle. The committee has three other director members – an independent non-executive director, a shareholder nominated director and an executive director. Non-director members of the committee ensure that a wide range of skills and knowledge is represented on the committee and provide a clear line of sight into the business. The RB committee has a designated role in several areas of the company's code, including oversight of how we work with others (such as customers) – a key aspect of our purpose – and oversight of our culture and values. The committee's make-up fosters a balanced culture, ensuring the three director groups gain clear insight into the concerns of a wide range of constituents. Mark McArdle (Morrison) and Michael McKinstry (Vantage Infrastructure) are both representatives of shareholders, which reflects the emphasis placed on strong ESG performance by our shareholders.

Appointment, succession and evaluation continued

In 2023/24, it was decided that the whole board would consider ESG matters as part of the development of the strategic direction statement and throughout the business plan process to ensure these considerations were integrated into our strategy and business plan. While the responsible business committee did not meet during the 2024/25 period, the directors consider all elements falling under the committee's purview have been overseen and, where appropriate, challenged directly by the board during this period. Further, each month, the board received and reviewed the business performance report, which includes focus on metrics relevant to assessing whether and how we are operating as a responsible business. Because of its perceived value of ESG, the board has maintained a strong primary focus on customer engagement, our communities and the environment and has assessed relevant data during this period.



Find out more

on the terms of reference of
board committees and our governance
southeastwater.co.uk/governance

Relationship with shareholders and investors

South East Water is a private limited company. Communication with shareholders is facilitated via shareholder nominated non-executive directors on the board.

South East Water's board governs all company matters, except those legally requiring shareholder resolution. The board appreciates shareholders' requirements. Equally shareholders understand how the company's operational delivery (including meeting its regulatory obligations) and financial resilience enable South East Water to achieve its long-term purpose. Recent significant capital contributions reflect a healthy relationship and shareholder commitment.

The reporting calendar is dominated by the publication of interim and final results each year, in which the board reports to shareholders on its stewardship of South East Water. At other times during the year, presentations to rating agencies and updates to the stock exchange are made available to all. The chair ensures that the CEO and CFO provide feedback to the board following presentations to investors and meetings with shareholders. The open and transparent culture is valued and nurtured.

See the section Leadership of the standalone regulated company for more detail.

Gender statistics*

The board has not set a specific quota of women members. The board and nominations committee do consider balance and diversity when identifying candidates and appointing new directors.

	Men	Women
Board	63%: (5)	37%: (3)
Executive Team	80%: (4)	20%: (1)
Senior Management Team	74%: (17)	26%: (6)

* as at 31 March 2025

Report from the Nomination Committee

Current committee members*

Chris Train OBE (Chair)	Independent non-executive Director
Célia Pronto	Independent non-executive Director
Caroline Sheridan	Independent non-executive Director
Mark McArdle	Non-executive director
Michael McKinstry	Non-executive director

*as at 31 March 2025

In 2024/25, John Barnes resigned on 12 February 2025 on which date Caroline Sheridan was appointed and Anne-Noëlle Le Gal resigned on 15 August 2024 on which date Michael McKinstry was appointed.

I am pleased to report on the work of the nomination committee since 1 April 2024 and in relation to this annual report for 2024/25.

The aim of the committee and of the board is to ensure continuity of knowledge and experience on the board and the optimum phasing of new appointments, having regard to the regulatory cycle of the company. As mentioned at the beginning of this corporate governance statement, the whole board considers succession planning across the business.

Several items have been considered by the committee during this period. The resignation of John Barnes was accepted, as he had reached the maximum service term, and Caroline Sheridan was appointed as an independent non-executive director, after due consideration, in February 2025.

Michael McKinstry was appointed as a non-executive director designated by shareholders (Vantage Infrastructure) and the resignation of Anne-Noëlle Le Gal was accepted in August 2024, due to her change of role. On the date of appointment, Michael and Caroline each became a member of the nomination committee, audit and risk committee, remuneration committee and responsible business committee. There was no other change to the composition of the board or committees in 2024/25.

In May 2024, the appointment of Célia Pronto as an independent non-executive director and chair of the remuneration committee was renewed for a term of three years from 1 June 2024 to 31 May 2027, following recommendation by the committee. Célia was also confirmed as a member of the nomination committee and of the audit and risk committee.

In March 2025, the appointment of Christopher Train OBE as an independent non-executive director and chair of the remuneration committee was renewed for a term of three years from 1 April 2025 to 31 March 2028, following recommendation by the committee. Chris was also confirmed as a member of the remuneration committee and of the nomination committee.

The whole board reviewed the company's initiatives on diversity and gender pay gap. Further information on gender pay gap is provided on page 39.

The committee reviewed its effectiveness as part of the overall board evaluation process and the members of the committee and directors were satisfied that it is operating effectively in accordance with its terms of reference.

Chris Train OBE

CHAIR

14 JULY 2025

Appointment, succession and evaluation continued

Board evaluation

Our board evaluation was carried out by means of a confidential online questionnaire. The results were collated and summarised by the company secretary on a non-attributable basis and the Chair led a discussion on the conclusions to draw from the survey results and recommendations for change or improvement. The discussions related more particularly to questions that had received a relatively lower score and comments made by directors highlighting specific issues or suggestions.

The questionnaire covered the performance of the board and its committees, reflecting key aspects of our corporate governance code, including compliance with the board leadership, transparency and governance principles. The questionnaire also incorporated questions from the Sustainability First "Check-list for energy and water board effectiveness" in line with our responsible business commitments and questions from the City Values Forum "Governing culture: an agenda for boards" on the alignment of decision making with the company's purpose and values, and on culture and the promotion of behaviours the board wishes to encourage.

To ensure comments were not limited to responses to specific questions in the questionnaire, open questions on the working and effectiveness of the board and committees in fulfilling their roles were also included. Each committee also considered its own practices against its terms of reference and the committee chairs report on their findings in their respective sections.

At the 2024 board evaluation, it was decided to schedule an annual board session dedicated to the analysis of key strategic risks in addition to the current annual review of risks from the risk register, which took place in December 2024 and will continue to be held at least once a year.

It was also decided that from 2024/25 succession planning would be considered by the nomination committee (instead of the whole board) and that one meeting of the nomination committee would be dedicated to succession planning each year.

At the 2025 board evaluation, it was agreed that a review of succession planning by the nomination committee would take place as part of the Corporate Plan process. This would take account of the change of the organisational structure for the new regulatory period (2025 to 2030). This would be followed by regular reviews thereafter. This was also intended to enable the nomination committee and the board to get a better visibility of the succession planning pipeline under the executive team and senior management levels.

Following the PR24 period during which ESG matters had been considered by the whole board through the preparation of the company's submissions, the work of the Responsible Business Committee going forward was discussed. The board was keen for the Responsible Business Committee to resume its activities to address topics such as social capital, DEI, the environment, vulnerability and People Plan. It was also suggested that there should be a significant emphasis on environmental aspects.

Commitment

The expected commitment, including time outside scheduled board meetings when required, is reviewed as part of the appointment process of the non-executive directors. The terms of appointment of non-executive directors do not include a set expected time commitment, but instead include an undertaking that the director will dedicate sufficient time to discharge their responsibilities. None of our non-executive directors has raised concerns over the time required to fulfil their duties and this aspect is also considered in the board evaluation process.

The chair's and directors' other commitments were disclosed and considered prior to appointment and have not materially changed since their appointment. Details on the chair's and directors' other commitments can be found on page 132.

Induction

On joining the board, each director receives a detailed, tailored induction programme which is supplemented as needed to ensure that the director's knowledge, familiarity with South East Water and our industry are maintained at the required level throughout their tenure. The induction programme includes meetings with all senior managers and visits to production sites and other facilities away from the head office. Such visits give directors the opportunity to speak to a wider group of employees and contractors. Any feedback provided by Ofwat following their pre-appointment interview is also incorporated into the induction programme.



Transparency, audit, risk and internal control

Principles of our corporate governance code relevant to this section

- P.** The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.
- Q.** The board of the company's leadership and approach to transparency and governance engenders trust in the company and ensures accountability for their actions.
- R** The board should present a fair, balanced and understandable assessment of the company's position and prospects.
- S.** The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

Current committee members*

Lisa Clement (Chair)	Independent non-executive Director
Célia Pronto	Independent non-executive Director
Caroline Sheridan	Independent non-executive Director
Mark McArdle	Non-executive director
Michael McKinstry	Non-executive director

*as at 31 March 2025

In 2024/25, John Barnes resigned on 12 February 2025 on which date Caroline Sheridan was appointed and Anne-Noëlle Le Gal resigned on 15 August 2024 on which date Michael McKinstry was appointed.

Report from the Audit and Risk Committee

I am pleased to report on the work of the audit and risk committee since 1 April 2024 and in relation to this annual report for 2024/25.

► For 2023/24, we considered the latest information available on the advanced discussions with lenders and the progress made to date to raise additional liquidity. As the additional liquidity could not be legally secured before signature of the financial statements, even though discussions with external lenders were at an advanced stage, we concluded that a material uncertainty relating to going concern existed. In this context, we noted the confirmation received from the ultimate shareholders that they were minded in principle to support the group if the need arises. We noted that the company continued to comply with its financial covenants and to hold investment grade credit ratings. We considered the sensitivity analysis carried out for the purpose of going concern and long-term viability, the underlying factors that might affect financial ratios and credit ratings, and the mitigation of related risks identified under relevant scenarios. Following due consideration of the information available, we concluded that there was a reasonable expectation that the group would be able to meet its debts as they fall due over the relevant period and that it was appropriate to adopt the going concern basis of accounting in preparing the financial statements, notwithstanding the material uncertainty.

► We reviewed the half-year group financial reporting for 2024/25 in December 2024 and the board concluded that despite securing a new loan of £50 million in August 2024, the agreed equity injection of £75 million, and the legally agreed six month extension of the £120 million credit facility (to June 2026) beyond the going concern period, the prospect of further potential downgrades across the sector following the PR24 final determination could affect our ability to raise financing and still represented a material uncertainty.

- ▶ Subsequent to those reviews we received a total of £275 million from shareholders.
- ▶ We reviewed this annual report and financial statements for the full year ended 31 March 2025 and recommended their approval by the board.
- ▶ We considered the significant level of planned expenditure over 2024/25 and into AMP 8, the forecast cash flows over the next 12 months, the capital structure of the group (noting the additional equity provided by shareholders in December 2024 (£75 million) and May 2025 (£200 million)), and ongoing activities to renew working capital facilities.
- ▶ We considered the prospects of South East Water for the purpose of both the going concern statement by the directors and the longer-term viability described in the viability statement.
- ▶ For the going concern assessment, we have considered the budgeted and forecast cash flows over the 12 months to July 2026 (based on the final determination), the capital structure of the group and the financing needs for the period and are of the view that the company has sufficient resources to meet its commitments over the going concern period. However, shortly after the end of the going concern period the company will need to renew the revolving credit facility, in order to continue to meet its commitments. This facility matures in September 2026 and we noted that discussions with lenders were underway and progressing well and that it was likely that the revolving credit facility would be renewed. However, as this would not be legally committed at the date of the signing of the financial statements and its commitment was outside the control of the directors, we concluded that the risk that the funding will not be received constituted a material uncertainty.
- ▶ We considered the potential impact of Ofwat's ongoing investigation into supply resilience, having regard to the engagement carried out to date with Ofwat. We concluded that at this stage of the investigation it is unclear what the outcome will be, and that no liability should be provided in the financial statements. We also concluded that it was not possible to reliably estimate any potential liability.
- ▶ We considered the impact of the PR24 final determination having regard to the company's decision to request a reference to the CMA noting however that the CMA is due to publish provisional findings in September 2025 and that any CMA redetermination is not expected to be known until December 2025 at the earliest. While we assessed two possible outcomes for the purposes of the long-term viability statement, we noted that the status of the redetermination process was such that it was not yet possible to identify any clear, and reasonably predictable implications for the financial position of the company, whether favourable or otherwise.
- ▶ We noted that, despite challenging financial conditions during 2024/25, we continued to comply with the financial covenants and retain credit ratings consistent with our securitisation and our instrument of appointment. Further, having regard to the factors considered, we concluded that the company would continue to be able to maintain its investment grade credit ratings and comply with financial covenants for the foreseeable future.
- ▶ Following due consideration of the information available, we concluded that there was a reasonable expectation that the group would be able to meet its debts as they fall due over the relevant period and that it was appropriate to adopt the going concern basis of accounting in preparing the financial statements, notwithstanding the material uncertainty noted in the Going Concern Statement.

Transparency, audit, risk and internal control continued

Report from the Audit and Risk Committee continued

- ▶ Further, we recommended the board maintain a lookout period of 10 years for its viability statement. We have also considered and made recommendations to the board on the appropriate nature and extent of stress testing to be used to assess the future prospects of South East Water. Our principal risks and our viability statement are set out in the strategic report.
- ▶ We considered the report to those charged with governance on the findings of the audit.
- ▶ We considered the impact of the continued high inflation and the impact of the increases in bills reflecting the PR24 final determination on customers and of macro-economic risks on our key judgements and estimates in the financial statements, in particular the impact on our debtor book and expected credit loss adjustment.

Financial statements and annual performance report

▶ Audit plan

We reviewed the audit plan with the auditors and were satisfied that it covered the key issues. We reviewed the proposed significant audit risks typical of a water company and the areas of audit focus.

▶ Fair, balanced and understandable

We reviewed, with the external auditors, the findings of their audit including any major topics identified during the audit, any risks to the quality of the audit and how they were addressed, areas of significant judgement, key accounting and audit judgements, and any points to raise from the audit.

We reviewed this annual report and financial statements and the regulatory reporting in order to assess whether they present a fair, balanced and understandable assessment of South East Water's and the group's position and prospects. We reviewed the relevant specific notes and explanations to the financial statements to ensure they provided a clear explanation of accounting policies and technical matters. Following this review, we recommended to the board that, taken as a whole, the group annual report 2024/25 is fair, balanced and understandable.

We also reviewed the report from AtkinsRéalis, our external assurance partners, on our regulatory reporting and recommended to the board the approval for publication of our regulatory reporting, cost assessment tables and our performance, people, and planet report.

▶ Significant judgements and sources of estimation uncertainty considered

Revenue recognition

A significant proportion of water supplied to our domestic and our smaller commercial customers remains unbilled at the end of the financial year. As such, judgements and estimates are made in respect of the value of unbilled water revenue. These estimates are based on previous consumption levels and are validated to ensure that the assessments are reasonable taking account of changes in patterns of consumption.

Bad debt provisioning

Our trade receivables balance includes a provision for bad debt, which is our assessment of debts that will be unpaid by our customers. The provision is based on the application of expected recovery rates to our aged debt balances using specific data for household and for non-household debt. We are satisfied that the level of provision reflects the potential impact of persisting high inflation and the impact of the increase in bills reflecting the PR24 final determination.

Classification of costs between operating and capital expenditure

We have a significant capital programme and therefore it is important that the policies underpinning the capitalisation of expenditure are closely validated and compliant with current accounting standards. The committee sought clarification and comfort that the costs capitalised as fixed assets are directly attributable to capital projects.

Management override of controls

The audit committee keeps the judgements and sources of estimation uncertainty under review and challenges as appropriate, typically as part of the annual reporting, and the board also exercises scrutiny throughout the year as part of the board review of the monthly management accounts in the finance report.

► **Other areas of audit and risk committee focus**

Areas of focus reviewed by the committee included the appropriateness of actuarial assumptions for the valuation of the assets and liabilities of the two defined benefit pension schemes to ensure they were within an acceptable range considering the economic environment. The other areas of audit focus were the going concern, long-term viability statement, the potential impact of the Ofwat investigation into resilience (see note 28). Consideration was also given to cyber risks and the mitigation measures put in place by the company.

► **Disclosures on climate-related risks**

We have reviewed our non-financial and sustainability information statement which includes our climate-related disclosures following the requirements of section 414CB of the Companies Act 2006 and the recommendations of the task force on climate-related financial disclosures. Our climate-related disclosures set out a qualitative assessment of climate-related risks on the business under several scenarios using the detailed analysis of climate projections and climate-related risks carried out for the purpose of our long-term delivery strategy. We noted the approval by the board of the publication of our updated adaptation report in November 2024.

External auditors

► **Audit fee**

We reviewed and approved the audit fee proposal from the auditors for the 2024/25 audit and the settlement of the fees for 2023/24.

► **Effectiveness of the external audit process**

We reviewed the effectiveness of the external audit process, receiving feedback from the auditors and the CFO and Group Financial Controller on the conduct of the audit and any issues and potential improvements. The chair of the committee met with the auditors to discuss the audit. We were satisfied with the performance of the auditors and the effectiveness of the overall process.

► **Objectivity and independence of auditors**

We reviewed the objectivity and independence of the auditors, considering the total fees received by the auditors which are paid by South East Water, the duration of the appointment of the auditors, and the confirmation of independence from the auditors.

PricewaterhouseCoopers LLP were appointed as statutory auditor in August 2021. The appointment has been made for an intended initial five years starting with the year ended 31 March 2022, and is currently in its fourth year. It may be extended for a further three years. This term is within current FRC guidance that the audit should be tendered every 10 years.

We also considered the level of non-audit services relating essentially to regulatory reporting which are best provided by PwC to ensure consistency. The committee concluded that PwC are objective and independent in their role as external auditor.

We applied our policy on non-audit services that requires approval of non-audit work by the chair of the committee or, for any work in excess of £50,000, the full committee.

Transparency, audit, risk and internal control continued

Report from the Audit and Risk Committee continued

Review of policies

- ▶ We carried out the annual review of and approved the policy on audit and non-audit services which reflected the latest FRC Ethical Standard.
- ▶ We considered work on the development of an audit and assurance policy, drawing on established processes to ensure the accuracy and completeness of the data and information we publish as currently set out in our Company Monitoring Framework.

Risk management and internal controls

- ▶ We considered whether an internal audit function was required. We considered the established processes in place for regulatory and performance reporting, which include both internal and external assurance, the size and structure of the company and the nature of the core activities. We concluded that an internal audit function was not required at this stage and that the current combination of internal reviews of controls and systems carried out by the finance team and of specific out-sourced internal audit assignments was appropriate and allowed access to specialist skills and knowledge that it would not be cost effective to maintain internally.
- ▶ We considered the outcome of the FRC review of the company's annual report and financial statements for the year ended 31 March 2024 in accordance with Part 2 of the FRC Corporate Reporting Review Operating Procedures. The letter concluded that the FRC had no questions or queries to raise. It noted several improvements which the FRC believed users of the annual report and financial statements would benefit from. The committee considered these matters to ensure they would be addressed in the annual report and financial statements for 2024/25. The FRC review was based solely on

the annual report and financial statements 2023/24 without the benefit from detailed knowledge of our business or an understanding of the underlying transactions entered into, and therefore the review of the FRC does not provide any assurance in respect of our 2023/24 financial statements and the FRC does not accept any liability for reliance by anyone on its letter to the company referred to above.

- ▶ We discussed a proposed programme of internal audit work in 2024/25 including the consideration of the implementation of the recommendations from a review of capital expenditure / asset processes by BDO commenced in 2023/24 and of non-regulated finance and governance processes. We discussed the preparation of an AI governance framework including in the context of the management of cyber risks. We also reviewed and agreed a forward plan of the items to be discussed at future audit committee meetings.
- ▶ We reviewed the effectiveness of the committee as part of the board evaluation and the members of the committee and directors were satisfied that it is operating effectively in accordance with its terms of reference.
- ▶ In 2024/25 the focus of the board as a whole has continued to be on the management of the risks related to PR24.

Lisa Clement

CHAIR

14 JULY 2025

Transparency and reporting

The board and the audit and risk committee ensure that the business, financial and regulatory reporting of South East Water is fair and balanced, transparent and informative and accurately reflects material issues and describes our business model, strategy and performance.

Our annual reporting on performance against the performance commitments in our final determination is prepared following rigorous internal control processes and external assurance with oversight from the audit and risk committee and the board. Our processes to ensure the accuracy and reliability of our data and reporting are described in our data assurance summary in our annual performance report.

We also maintain and publish our company monitoring framework, which sets out what we do to ensure that the data and information we publish is reliable, transparent, timely and appropriate to the audience. We publish a risk assessment and the mitigation and controls to address the risks we have identified.

Risk management and internal controls

The board is responsible for defining the risk management strategy and processes, including the risk register and the identification of the principal risks. It also carries out an annual review of the effectiveness of the risk management and internal control systems (financial, operational and compliance) of the principal risks and of the prospects of our company. Our risk management process is described in the strategic report.

The audit and risk committee plays a key role in the ongoing monitoring of the adequacy and effectiveness of the internal controls and risk management systems established by the board. This involves reviewing the ability to identify and manage new risk types, ensuring effective controls are embedded into management and governance processes, and continuously monitoring risks with relevant items at each meeting. The audit and risk committee also ensures that appropriate audit work is carried out on risk management.

Read more on risk management and principal risks on page 50 and on our long-term challenges on pages 22 to 23.

This corporate governance statement was approved by the board and is signed on its behalf by David Hinton, Chief Executive Officer.

Remuneration report

Report from the remuneration committee

Current committee members*

Célia Pronto (Chair)	Independent non-executive director
Caroline Sheridan	Independent non-executive director
Chris Train OBE	Independent non-executive director
Mark McArdle	Non-executive director
Michael McKinstry	Non-executive director

*as at 31 March 2025

In 2024/25, John Barnes resigned on 12 February 2025 on which date Caroline Sheridan was appointed; Anne-Noëlle Le Gal resigned on 15 August 2024 on which date Michael McKinstry was appointed.

I am pleased to present the directors' remuneration report for the year ended 31 March 2025.

The aim of the Remuneration Committee ("committee") is to ensure that executive pay is aligned with strategy and culture and that remuneration reflects the company's performance against clear measures relating to operations, delivering outcomes for customers, the environment, responsible business and finance as well as individual objectives. We prioritise linking executive pay to business performance (including improvements), which in turn links to demonstrable customer benefits. To that end, we may exercise discretion of up 100 per cent to reflect the operating environment. We set out in this remuneration report how this has been achieved this year.

To improve transparency and clarity, we choose to present our remuneration reporting having regard to the reporting requirements that apply to quoted companies under schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008.

I highlight the following in respect of the main activities of the committee in 2024/25:

Annual Incentive Plan ('AIP') 2020 to 2025

We recognised the efforts throughout our team during the period by approving the final awards under the 2023/24 AIP on 4 July 2024 and the performance measures and targets (including threshold, target and stretch levels) for the

2024/25 AIP after considering a range of assurance including the findings from the external audit alongside other independent external assurance the findings of the financial audit and external assurance of our regulatory performance, ensuring the committee had due regard to all necessary information before confirming its final decision.

Operation of the AIP in 2024/25

We reviewed the full year performance of the company and that of individual executive directors in 2024/25.

We carried out a detailed assessment of performance in the round, considering performance for customers and the environment before reaching our decision on awards under the AIP for 2024/25 as set out in this remuneration report. In doing so, we had regard to the investigation launched by Ofwat in November 2023 into supply resilience, expectations set by Ofwat in respect of performance related pay at PR24 and the performance related executive pay prohibition rule published in June 2025 pursuant to the Water (Special Measures) Act 2025.

We provide explanations on this detailed assessment on page 189 of this remuneration report.

We reviewed the outcome of the AIP as a whole and concluded that it continued to operate effectively, reflecting actual performance while recognising progress in meeting important environmental, social and governance objectives.

We determined the final award under the AIP and that no award would be granted under the ODI component (including in respect of the PCC and non-household void ODIs) and the financial metric of the AIP relating to appointed operating costs.

We determined that the AIP for 2024/25 would result in appropriate awards in respect of the responsible business, appointed business cash receipt and personal objective components. There would also be an award in respect of the non-appointed operating profit component of the AIP.

We determined that deferral payments for the 2022/23 period would be paid in July 2025 as part

of the normal scheduled payment as agreed in previous meetings of the committee.

We considered the overall remuneration outcome to be appropriate under our policy and in comparison with other companies in the sector, including their reporting on CEO pay ratios.

Governance

We reviewed the outturn of the senior managers' bonus scheme for 2023/24. We reviewed the targets for 2024/25 under that bonus scheme having regard to its alignment with ODIs, the strategic objectives of the company and its consistency with the executive team bonus scheme. We reviewed the pay award negotiated with the Staff Council for the workforce.

The committee and the board discussed requirements and expectations set out by Ofwat at PR24 and in the performance related executive pay prohibition rule published in June 2025 pursuant to the Water (Special Measures) Act 2025. In the course of the year the committee and the board also considered relevant consultations and the engagement between Ofwat, Water UK and water undertakers (including the company) in relation to remuneration practices more generally.

We reviewed the effectiveness of the committee as part of the overall board evaluation process and the members of the committee and directors were satisfied that it is operating effectively in accordance with its terms of reference.

The committee reviewed water companies' PR24 remuneration incentives and policies to identify any relevant trends and best practice that could inform the development of incentives for AMP 8.

In a price review year, the main focus of the committee had been to review its remuneration policy for 2025 to 2030 to ensure incentives reflected both the PR24 final determination (and CMA redetermination when available) and the priorities of the business in AMP 8, which will see a significant increase in crucial expenditure and new regulatory targets and mechanisms. The committee engaged Ellason LLP as independent advisers to provide benchmarking analysis and to support the development of the AMP 8 incentives.

We describe below the key characteristics of our remuneration policy for AMP 8 and the rationale for the changes implemented. A further review will take place in 2025/26 to reflect relevant changes from the CMA redetermination.

Remuneration policy for AMP 8 (spanning financial years 2024/25 to 2029/30)

During the year, a key activity of the committee has been to review the remuneration policy to ensure it remains appropriate for South East Water in the context of both a critical period of strategic planning and investment during AMP 8, and heightened public and regulatory scrutiny of remuneration across the sector.

Our overarching aim is to ensure that the executive directors are appropriately incentivised to deliver long-term, sustainable performance for the benefit of our customers, the environment and our shareholders, while remaining compliant with the water industry's evolving regulatory framework, including the Water (Special Measures) Act 2025 and Ofwat's rules relating to the prohibition of awarding Performance-Related Pay (PRP) in certain prescribed circumstances. South East Water remains committed to a remuneration framework that supports a performance culture, and recognises success but does not reward poor performance. Following the committee's thorough review of the remuneration policy for the executive directors (which cascades to their direct reports and other senior management levels), several changes have been made to the policy to ensure it is fit for purpose over AMP 8. The main changes are set out below (and explained in more detail later in this report).

Base salary

Following a comprehensive benchmarking exercise against the sector and other key talent markets in which the company competes, the committee approved base salary increases for executive directors, effective 1 April 2025, as follows:

- ▶ **Chief Executive: increased by 30.2% to £400,000.**
- ▶ **Chief Financial Officer: increased by 19.2% to £300,000.**

Remuneration report continued

Report from the remuneration committee continued

The committee recognises that the salary increases are significant. However, it believes they are necessary to bridge a gap to competitive norms that has resulted from a sustained period of pay restraint at the company. The committee first noted this position following an analysis of market competitiveness in early 2023, but resolved to consider market-based adjustments to salary as part of its next review of the wider remuneration policy in advance of the next AMP. The committee undertook this review in the round last year, ahead of AMP 8. It concluded that the overall pay opportunities, and salaries specifically, continued not to reflect market norms, the scale and complexity of the roles at South East Water, nor the calibre of our well-regarded incumbent team. It agreed that it would be appropriate, fair, and in stakeholders' interests now to address this competitive gap; ensuring market-competitive pay is essential to attract, retain, motivate and ensure the stability of a high-calibre executive team capable of delivering our critical capital programme over the next five years. The new salary levels were set to underpin a broadly median package overall, taking into account the broader context of increasing regulatory scrutiny, heightened expectations around performance delivery, and broadened scopes of leadership responsibility.

The base salaries of three other permanent members of the executive team were increased from 1 April 2025 by the same percentage as for the CFO to reflect market norms.

Cash allowance

The company is currently engaged in a PR24 redetermination process with the Competition and Markets Authority (CMA), which the Board believes is in customers' best interests. However, the committee acknowledges that the decision to enter into this process places significantly increased demands on executives' time and leadership focus. In recognition of the exceptional workload and sustained increase in working hours associated with this process, including strategic preparation and extensive regulatory engagement, the committee has approved the payment of an additional cash allowance to recognise this broader role scope. While

the committee considered consolidating this allowance into base salary, it determined that a separate arrangement was more appropriate, to retain flexibility over its duration. The committee has approved a cash allowance of £50,000 per annum for 2025/26 for each executive director in relation to the CMA process. The allowance is non-pensionable, will not be included in the calculation of performance-related pay opportunities, and will be paid monthly. No clawback or malus provisions will apply.

Long-term Incentive Plan (LTIP) 2025 to 2030

As part of its comprehensive review of the remuneration policy, the committee concluded that the reintroduction of a LTIP would be appropriate to align with the company's long-term priorities and the significant number of capital programmes to be delivered over the new AMP. The LTIP is designed to align executives' focus with core customer and environmental outcomes, as well as value creation for our shareholders, over the next five years.

Awards under the new LTIP will be granted in 2025/26, with no further grants (except for new joiners, or in the event of promotion) until 2030/31. The extent to which awards will pay out to participants will depend on performance over the five-year period ending in 2029/30, against pre-determined targets. These targets (and the measures for which they are set) have been carefully selected to reflect the company's key strategic and regulatory commitments over the next five years, and include measures linked to:

- ▶ **Delivery of the capital programme.**
- ▶ **Demand management performance.**
- ▶ **Customer satisfaction (C-MeX).**
- ▶ **Delivery of the Water Industry National Environment Programme (WINEP).**
- ▶ **Return on Regulated Equity (RoRE).**

A summary of the LTIP scorecard, including, including measure weightings, is provided later in this report.

To ensure appropriate alignment with stakeholder interests and to maintain a balanced remuneration structure, the maximum LTIP opportunity for each executive director under this arrangement will be 150 per cent of base salary. The plan is performance-related pay and will be subject to malus and clawback provisions.

Annual Incentive Plan (AIP)

The committee also undertook a thorough review of the operation and effectiveness of the AIP over the course of AMP 7. This review evaluated the AIP's continued alignment with company performance, stakeholder expectations, and the evolving regulatory environment. The committee concluded that the overall structure of the AIP, including the use of a balanced scorecard and clear performance metrics, continues to be appropriate and effective in supporting short-term accountability.

However, in the context of the reintroduction of a LTIP for AMP 8, the committee determined that a recalibration of the AIP opportunity was warranted. As a result, the maximum AIP opportunity for both executive directors has been reduced to ensure the overall remuneration package remains proportionate, appropriately balanced between short- and long-term focus, and aligned with competitive norms and governance good practice.

The 2025/26 target and maximum opportunities for the executive directors will be:

	Target opportunity (% of salary)	Maximum opportunity (% of salary)
CEO	45%	65%
CFO	35%	50%

The committee also reviewed the performance metrics underpinning the AIP, with a summary of its decisions provided later in this report. Consistent with the operation of the plan in prior years, 66 per cent of any earned award will be payable in July following the end of the relevant financial year, while the remaining 34 per cent will be deferred for a period of two years, with payment subject only to continued employment. The AIP is performance-related pay and will be subject to clawback and malus provisions.

Service Award

Following careful consideration, the committee approved an additional Service Award alongside performance-related elements of the package, to support leadership continuity throughout AMP 8, a critical delivery period for the company.

The award is intended to recognise the importance of retaining experienced executive leadership through what will be a complex and demanding regulatory and operational cycle. The Service Award is structured solely around continued service and will vest progressively over the five-year AMP, subject to continued employment at each vesting date.

The vesting schedule will be as follows:

- ▶ **20% on the third anniversary of grant.**
- ▶ **20% on the fourth anniversary of grant.**
- ▶ **60% on the fifth anniversary of grant.**

The maximum overall award for each executive director under this arrangement will be 100 per cent of their 2025/26 base salary.

This structure is designed to promote long-term stability and leadership continuity through the full AMP cycle while ensuring that the overall reward opportunity remains proportionate in the context of competitive practice.

Conclusion

The committee recognises the heightened public, regulatory, and stakeholder expectations facing the sector and remains fully committed to ensuring that remuneration outcomes are fair, transparent, and aligned with the long-term delivery of value for customers, the environment, and shareholders.

In shaping the 2025 to 2030 remuneration policy, we have sought to strike the right balance between attracting and retaining the leadership needed to deliver critical outcomes, while maintaining restraint and accountability in line with Ofwat's guidance and wider regulatory standards. The committee believes that the structure we have adopted reflects both the scale of the challenge ahead and the need for stable, experienced leadership over the five-year AMP 8 period.

Corporate governance principles

We explain below how corporate governance principles have been taken into account to define our remuneration policy.

Principles of our corporate governance code relevant to remuneration

- T.** Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.
- U.** Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.
- V.** A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

Remuneration principles

- ▶ Remuneration is aligned with the company's purpose, values and vision and promotes the long-term sustainable success of the company.
- ▶ Remuneration is demonstrably linked to the delivery of the core purpose of the company to provide the public water service, high customer satisfaction and achieving strategic objectives.
- ▶ Remuneration is competitive with companies of similar size and complexity and fair in the context of the wider workforce remuneration.
- ▶ The total remuneration includes a variable element that effectively incentivises improvements in performance and balances the short-term and long-term interests of the company.
- ▶ The remuneration committee shall ensure that the company upholds and applies the fundamental principles of equal pay.

How our remuneration policy addresses the factors of clarity, simplicity, risk, predictability, proportionality and alignment to culture that are set out in our corporate governance code.

Clarity

Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.

- ▶ Our reporting on remuneration is transparent with our policy across all components of remuneration explained in detail.
- ▶ We engage with the Staff Council on executive remuneration.

Simplicity

Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.

- ▶ Our remuneration is based on the clear remuneration principles set out above.
- ▶ Each element of the package has a defined role.
- ▶ Our performance measures and targets are based on our performance commitments.

Risk

Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.

- ▶ The level of remuneration is monitored to ensure it is maintained at a median level with comparable companies.
- ▶ The AIP and LTIP include performance measures that relate to all aspects of our strategy, including both performance commitments and responsible business commitments, to ensure there is no incentive to achieve certain targets to the detriment of others.

Predictability

The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.

- ▶ A model including all measures and targets is used by the committee to assess the potential awards under the AIP and LTIP at different levels of performance. It provides visibility to both the committee and the participants, with the committee retaining absolute discretion to decide on individual awards.
- ▶ The range of potential awards under the AIP and LTIP are disclosed in this directors' remuneration report with an illustration of the application of the policy for the next financial year.
- ▶ The remuneration policy includes details on the discretion of up to 100 per cent that may be exercised by the committee in respect of the different remuneration components.

Proportionality

The link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance.

- ▶ Performance related remuneration is predominantly based on our corporate plan commitments, clearly linking remuneration to performance and strategy.
- ▶ The remuneration policy sets out the principles followed in determining the stretching targets under the AIP and LTIP.
- ▶ The committee retains discretion to avoid inappropriate or mechanistic outcomes and there are also malus and clawback provisions in the AIP and LTIP rules.

Alignment to culture

Incentive schemes should drive behaviours consistent with company purpose, values and strategy.

- ▶ The majority of the performance measures in the AIP and LTIP relate to our core purpose of providing the public water service and relate to the key aspects of our activities: operational delivery, high standards of customer service, a safe working environment and the delivery of our capital & environmental programme.
- ▶ The LTIP performance measures are consistent for all participants.
- ▶ The alignment of the performance measures between the AIP and the senior managers' bonus scheme creates consistent incentives in support of culture and strategy.

Remuneration policy

Executive directors' remuneration policy

This section of the report describes the elements of the remuneration policy adopted by the committee for the duration of AMP 8 (2025/26 to 2029/30).

The rules of the AIP and LTIP were approved by the committee on 3 July 2025 and are intended to apply until 31 March 2030.

Base salary		
<p>Purpose and link to strategy To provide a fixed remuneration sufficient to attract, motivate and retain individuals with the appropriate experience, skills and competencies to lead the business and to define and implement the company's strategy in line with the board's strategic direction.</p>	<p>Operation and performance measures Base salaries reflect the individual's experience and role and are reviewed annually by the committee. Any changes are typically effective on 1 April. Outside of salary reviews, annual salary increases follow the company wide pay award negotiated with the Staff Council. This is fixed remuneration which is not determined by reference to performance measures (but personal performance is assessed under the annual incentive plan and as part of any salary review). No clawback or malus provisions apply.</p>	
<p>Maximum opportunity A maximum limit for salary has not been set by the committee and salary increases are typically in line with the workforce. Periodic reviews may take place to ensure pay remains competitive, targeting remuneration at market median using comparisons with market practices for comparable companies in terms of size, activities and complexity. Remuneration consultants are used where deemed appropriate by the committee. A similar assessment is made to assess the appropriate base salary on changes of roles and promotions.</p>	<p>Implementation 2024/25 CEO: £307,274 (increased by 4.5 per cent on 1 April 2024). CFO: £251,710 (increased by 4.5 per cent on 1 April 2024).</p>	<p>Implementation 2025/26 CEO: £400,000 (increased by 30.2 per cent on 1 April 2025). CFO: £300,000 (increased by 19.2 per cent on 1 April 2025).</p>

Cash allowance	
<p>Purpose and link to strategy Cash allowances reflect sustained and exceptional demands placed on executive time and leadership capacity that extend beyond the scope of their core role responsibilities.</p>	<p>Operation and performance measures Cash allowances are reviewed annually by the committee, with any changes normally effective on 1 April. The committee may withdraw the cash allowance at any time if it is deemed there is no longer an increased demand on executive time beyond that reasonably to be expected for discharging core role responsibilities. This is fixed remuneration which is not determined by reference to performance measures. The cash allowance is not contractual and non-pensionable, is not included in the calculation of performance-related pay opportunities and is paid monthly. No clawback or malus provisions apply.</p>

Cash allowance continued		
Maximum opportunity A maximum limit for the cash allowance has not been set by the committee. Periodic reviews take place to ensure the payment of an allowance, and the level at which this is set, appropriately reflects the time demands on executives.	Implementation 2025/26 CEO: £50,000 CFO: £50,000	
Benefits		
Purpose and link to strategy A range of benefits sufficient to maintain the competitiveness of the company at recruitment stage and to help retain individuals of the appropriate experience, skills and competencies. Benefits are usually aligned with the benefits offered to senior managers or the wider workforce.	Operation and performance measures Executive directors are eligible for benefits which are available to the wider workforce on broadly similar terms. Their benefits may be reviewed in connection with any review of their base salary. The committee has discretion to agree specific benefits where appropriate for recruitment or retention purposes. No clawback or malus provisions apply. This is fixed remuneration which is not determined by reference to performance measures.	
Maximum opportunity There is no set maximum value for benefits, but executive directors' benefits are similar to those of senior managers or the wider workforce.	Implementation 2024/25 The CEO and CFO benefits for 2025/26 are the same as in 2023/24.	Implementation 2025/26 CEO: Company car, life assurance, private medical insurance and health cash plan. CFO: Car allowance, life assurance, private medical insurance and health cash plan.
Pension		
Purpose and link to strategy To attract and retain individuals with the appropriate experience, skills and competencies by providing competitive pension arrangements.	Operation and performance measures Executive directors are offered the choice of a company contribution into a defined contribution pension scheme or a cash allowance in lieu of pension, or a combination of both at their election with no employee contribution required. This is fixed remuneration which is not determined by reference to performance measures.	
Maximum opportunity There is no set maximum but the percentage of contributions or cash allowance for new appointments or changes of roles are aligned with the percentage that applies to the wider workforce (10 per cent).	Implementation 2024/25 CEO: 10 per cent of salary as pension cash allowance and/or employer pension contribution. CFO: 10 per cent of salary as pension cash allowance and/or employer pension contribution.	Implementation 2025/26 CEO: 10 per cent of salary as pension cash allowance and/or employer pension. CFO: 10 per cent of salary as pension cash allowance and/or employer pension contribution.

Remuneration policy continued

Annual incentive plan		
<p>Purpose and link to strategy</p> <p>To incentivise the delivery of annual performance commitments and financial as well as responsible business and longer-term strategic objectives, creating a direct link between actual company performance and variable remuneration. Award opportunities are determined by the committee taking account of market conditions, to deliver a competitive package overall, and within that an appropriate balance between fixed and variable remuneration.</p>	<p>Operation and performance measures</p> <p><i>Link to performance:</i> The performance of executive directors is assessed using a range of performance measures which are predominantly based on performance commitments made in the business plan, with a particular focus on delivering for customers. In addition to the CEO and CFO, the performance related pay of all other members of the Executive Team is also determined by the committee under the AIP. The metrics, their weightings, targets (at threshold, target and maximum levels) and potential outcomes at each performance level (as a percentage of salary) are set by the committee at the beginning of the year to align potential reward to the business strategy. These details will be disclosed in the relevant directors' remuneration report. No award is made for performance outcomes at or below the threshold level set. The committee seeks to ensure that targets do not encourage undue risk taking by the executives so that the long- term performance of the business is not put at risk by considerations of short-term value.</p> <p>Personal objectives are set by the committee and include individual objectives specific to the role of the individual and collective objectives for the entire Executive Team.</p> <p><i>Stretch:</i> Threshold levels are normally set no lower than prior year actual performance. Target levels are set at stretching performance outcomes and maximum pay-out levels should reflect truly exceptional performance improvements. Year-to-year, the elements comprising the AIP may change, as can the threshold, target and maximum pay-out performance levels to ensure that the AIP remains stretching.</p> <p><i>Discretion/underpin/malus:</i> The committee retains full discretion to determine whether and when any award is paid under the AIP, and the amount of the awards. In addition to setting threshold levels of performance, the committee will seek to ensure that the final outcome reflects performance that is genuine and demonstrable and takes account of any material issues of performance, having regard to delivery for customers and the environment – which can result in no award being paid irrespective of whether the application of the AIP metrics and targets could otherwise result in an award. The committee may also determine that the performance metrics or targets are no longer appropriate following the date of grant and adjust them during a performance year.</p> <p><i>Payment and deferral:</i> 66 per cent of any award determined by the committee is paid in cash in the month of July following the end of the financial year, with the remaining 34 per cent being paid in cash after two years, provided that the director remains in employment or is determined to be a "good leaver" under the rules of the scheme.</p> <p><i>Deferral, clawback and malus:</i> Any award can be deferred in whole or in part at the discretion of the committee, including by reference to the committee's "in the round" assessment of performance. The amount of any award can be reduced, or any award can be cancelled and sums paid may be recovered, with provisions aligned to Ofwat's performance-related pay prohibition rules – see page 175 for trigger events.</p> <p>If it is determined that an award should be reduced or cancelled, the committee may determine that the amount of any reduction can be set off against any deferred award and/or require the repayment of any sums already paid. Details relating to the treatment of AIP at the end of an executive's appointment are set out on page 178.</p>	
<p>Maximum opportunity</p> <p>CEO: Target performance: 45 per cent of salary Maximum (outperformance): 65 per cent of salary</p> <p>CFO: Target performance: 35 per cent of salary Maximum (outperformance): 50 per cent of salary</p>	<p>Implementation 2024/25</p> <p>The metrics and targets for 2024/25 are set out on page 183.</p>	<p>Implementation 2025/26</p> <p>A summary of the performance measures selected for the AIP in 2025/26 is set out on page 196.</p>

Long-term incentive plan	
<p>Purpose and link to strategy To align the long-term interests of executive directors with those of stakeholders, by directly linking reward to the successful delivery of the company's strategic objectives over the regulatory period. Award opportunities are set by the committee taking account of market conditions, to deliver a competitive package overall, and within that an appropriate balance between fixed and variable remuneration.</p>	<p>Operation and performance measures</p> <p><i>Link to performance:</i> Performance is measured by five categories: capital programme delivery (50 per cent), demand management (12.5 per cent), C-MeX (12.5 per cent), WINEP delivery (12.5 per cent) and RoRE (12.5 per cent).</p> <p>The metrics, targets (at threshold, target and maximum levels) and potential outcomes at each performance level (as a percentage of salary) are set by the committee at grant. No award is made for performance at or below the threshold level of performance. The committee seeks to ensure that targets do not encourage undue risk taking by the executives.</p> <p><i>Grant:</i> One-off grant in 2025/26.</p> <p><i>Performance period:</i> Five years.</p> <p><i>Vesting and payment:</i> The LTIP will vest and be paid out to the extent warranted by performance in July 2030, subject to continued employment, and following the testing of the performance conditions and an overall assessment 'in the round', at the end of the five-year performance period.</p> <p><i>Discretion/underpin:</i> The committee retains full discretion to determine the outcome of the LTIP. The committee may adjust the measures and targets attaching to the LTIP if events occur that cause it to determine they are no longer appropriate in the circumstances. Any amendment would seek to ensure that the metrics and targets achieve their original purpose and are not, in the opinion of the committee, materially more or less challenging to satisfy in the circumstances. The committee will also seek to ensure that outcomes reflect performance that is genuine and sustainable, take account of any material performance issue, having regard to delivery for customers and the environment and performance 'in the round'.</p> <p><i>Clawback and malus:</i> Any award can be deferred in whole or in part at the discretion of the committee, including by reference to the committee's "in the round" assessment of performance. The amount of any award can be reduced, or any award can be cancelled and sums paid may be recovered in line with the provisions of Ofwat's performance-related pay prohibition rules – see page 175 for trigger events.</p> <p>If it is determined that the LTIP should be reduced or cancelled, the committee may determine that the amount of any reduction can be set off against AIP awards and/or require the repayment of any sums already paid. Details relating to the treatment of LTIP at the end of an executive's appointment are set out on page 178.</p>
<p>Maximum opportunity CEO: 150 per cent of salary as of 1 April 2025 CFO: 150 per cent of salary as of 1 April 2025</p>	<p>Implementation 2025/26 A summary of the performance measures selected for the AIP in 2025/26 is set out on page 196.</p>

Remuneration policy continued

Service award	
<p>Purpose and link to strategy To support the continuity and stability of executive leadership over the full AMP 8 regulatory period. Designed to recognise the critical importance of retaining experienced senior executives to lead the company through a period of heightened regulatory, operational, and environmental demands.</p>	<p>Operation and performance measures This is fixed remuneration, by way of a one-time grant, which is not determined by reference to performance measures. Vesting: Vesting will be in three tranches:</p> <ul style="list-style-type: none"> ▶ 20% in July 2028 ▶ 20% in July 2029 ▶ 60% in July 2030 <p>Service Awards are not subject to malus or clawback provisions. Details relating to the treatment of a Service Award at the end of an executive's appointment are set out on page 178.</p>
<p>Maximum opportunity 100 per cent of salary as of 1 April 2025.</p>	<p>Implementation As described above</p>

Notes to the remuneration policy table

Note on taxable benefits: Private medical insurance is available to all senior managers and some longer serving employees. A car allowance or company car is available to managers and senior managers in accordance with the company policy, the amount of the allowance being dependent on the seniority of the role of the employee. The life assurance benefit and health cash plan are available to all employees and are not taxable benefits.

Note on pension benefits: Employees of the company are entitled to a maximum company contribution of 10 per cent at a personal contribution rate of 8 per cent. Contributions or cash equivalent to the CEO and CFO are not conditional on a personal contribution of 8 per cent.

Note on cash allowance, AIP, LTIP and Service Award: The cash allowance, AIP, LTIP and Service Award are available to the CEO and CFO and other permanent members of the Executive Team. There is a senior manager bonus scheme which adopts targets similar to the AIP, to achieve a convergence of incentives at senior management level. The senior managers' incentive scheme sets targets against a range of individual ODIs rather than the net ODI position. There is no company-wide bonus scheme. There is a specific bonus scheme to incentivise employees of the customer contact centre, which focuses on achieving high levels of customer satisfaction.

Note on clawback and malus: Clawback and malus provisions apply to all performance-related pay (PRP), namely the AIP and LTIP, and align to Ofwat's performance-related pay prohibition standards relating to consumer matters, environment, financial resilience and criminal liability. The committee may adjust awards before vesting or payment (malus) or require repayment or cancel awards already delivered for up to a period of three years from payment or vesting (clawback).

Clawback and malus can be triggered if any of the conditions set out in paragraph 6 of Ofwat's PRP prohibition rules are met, including:

1. Consumer Matters Standard:

- a.** A financial penalty is imposed by Ofwat under section 22A of the Water Industry Act 1991 for breach of sections 37 and/or 94.
- b.** Ofwat would have imposed a penalty but accepted undertakings under section 19.
- c.** Non-compliance with an enforcement order or undertakings linked to such breaches.

2. Environment Standard:

- a.** A 1-star rating in the Environment Agency (EA) or Natural Resources Wales (NRW) EPA.
- b.** One or more Category 1 pollution incidents in the calendar year ending in the PRP Year.

3. Financial Resilience Standard:

- a.** Breach of Licence Condition P due to insufficient investment-grade credit ratings (unless an exemption was granted).
- b.** Breach of enforcement orders or undertakings related to such failures.

4. Criminal Liability Standard:

- a.** A criminal conviction leading to a sentence in the PRP Year.

Other company triggers include:

- ▶ Use of inaccurate or misleading data to determine the final payment amount;
- ▶ If a participant commits an act that amounts to fraud, dishonesty or gross misconduct, or is in material breach of obligations to the company, or engages in any conduct that brings the participant or the company into disrepute or is materially adverse to the company's interests;
- ▶ A material failure of risk management or regulatory compliance by a participant (including where this has led to a serious pollution events or other serious breaches of principal duties);
- ▶ Any circumstances that would allow the participant to be summarily dismissed; and
- ▶ Any other exceptional circumstances that justify such decision by the committee.

Remuneration policy continued

Independent non-executive directors' remuneration policy 2025 to 2030

Fee		
Purpose and link to strategy To provide a fixed fee sufficient to attract, motivate and retain individuals with the appropriate range and balance of experience, skills and competencies to provide strategic direction to the business and to lead, support and challenge the executive directors and management of the business.	Operation and performance measures The policy of the company is that non-executive directors' fees should be comparable to those of companies of similar size, activities and complexity. The fees for the chair and other independent non-executive directors reflect the individual experience and role and the required time commitment, which may include additional responsibilities as chair of committee or other specific responsibilities. Fees are paid in cash monthly. Fees are reviewed at the discretion of the company and increases ordinarily take effect on 1 April. This is fixed remuneration which is not determined by reference to performance measures. No clawback and malus provisions apply.	
Maximum opportunity There is no set maximum fee but increases are typically the same as the company wide pay award negotiated with the Staff Council.	Implementation 2024/25 The fees to independent non-executive directors were increased in line with the company pay award for senior executives (4.5 per cent increase).	Implementation 2025/26 The fees to independent non-executive directors were increased in line with the company pay award for senior executives (3.5 per cent increase).
Other items		
Purpose and link to strategy To facilitate the performance of non-executive directors' duties to the company.	Operation and performance measures Reasonable travel and other expenses incurred by directors when performing their duties are reimbursed. Non-executive directors do not receive any other remuneration or benefits. This component is not determined by reference to performance measures and clawback and malus provisions do not apply.	
Maximum opportunity There is no set maximum reasonable expenses provision.	Implementation 2024/25 Expenses will be reimbursed in line with the policy.	Implementation 2025/26 Expenses will be reimbursed in line with the policy.

Mark McArdle, Anne-Noëlle Le Gal (who was re-appointed on 18 December 2023 and resigned on 15 August 2024) and Michael McKinstry (who was appointed on 15 August 2024) represent the ultimate shareholders of the company and do not have a letter of appointment or service contract and do not receive any remuneration from the company.

Policy on recruitment remuneration

Executive directors

The remuneration package on recruitment of a new executive director, or promotion of an employee to a position of executive director, should be sufficient to attract, motivate and retain individuals with the appropriate experience, skills and competencies to lead the implementation of the company's strategy. However, the company should not pay more than is necessary.

The components of the remuneration of a new executive director are set in accordance with the remuneration policy applicable at the time of the recruitment. The committee will also consider the wider approach to workforce remuneration, as well as any legislative and corporate governance requirements.

The committee may take account of a candidate's employment or personal circumstances in awarding relocation or payments for forfeited variable pay. Where an employee is promoted to the position of executive director, pre-existing awards and contractual commitments will be honoured in accordance with their terms.

When approving a recommendation of an appointment of a new executive director or member of the wider executive team, the board will ensure that the nominations committee has sought approval of the proposed remuneration package by the remuneration committee.

Base salary	The base salary should reflect any market data or market assessment that may be carried out by the committee to inform its decision. It should take account of the specific experience, skills and competencies of the selected candidate and of the salaries of other executive directors. It may be set at a different level than the previous incumbent.
Benefits	The benefits package should be in line with that provided to other executive directors under the remuneration policy.
Pension	The pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce (currently 10 per cent of base salary).
Cash allowance	The suitability of providing a cash allowance will be considered at the time of appointment. Any decision to include a cash allowance will be made in the context of ensuring a fair, competitive, and appropriately balanced remuneration structure.
AIP	<p>The AIP would normally be implemented in accordance with the applicable structure, metrics and targets, and maximum potential awards at the time of the recruitment.</p> <p>The committee may exercise discretion to agree specific modifications in the first year of the AIP, depending on when the recruitment takes place in the year. Any award will be pro-rated to the actual period of employment in that year.</p>
LTIP	<p>The LTIP would normally be implemented in accordance with the applicable structure, metrics and targets, and maximum potential awards at the time of the recruitment.</p> <p>Any award will be pro-rated to the actual period of employment during the vesting period.</p>
Service award	<p>The Service Award would normally be implemented in accordance with the applicable structure, and maximum potential awards at the time of the recruitment.</p> <p>Any award will be pro-rated to the actual period of employment during the vesting periods.</p>
Relocation	The committee may agree a cash payment for reasonable relocation and temporary accommodation costs, as well as travel and incidental expenses incurred.
Forfeited variable pay	The committee may agree a cash payment as compensation for the forfeit of any award under variable remuneration arrangements entered into with a previous employer, provided that the nature and value of the forfeited award can be objectively demonstrated by the candidate. Such cash payment should not be more generous in terms of quantum or vesting period than the forfeited awards and should be subject to clawback in the event of an early termination of appointment for any reason.
Sign-on bonus	Our policy is not to provide other sign-on compensation except in exceptional circumstances at the discretion of the committee.

Remuneration policy continued

Independent non-executive directors

Fees for new independent non-executive directors are aligned with the remuneration policy and current fees for similar non-executive director roles on the board, taking account of time commitment and any specific duties.

Payment for loss of office (audited) – policy 2025 to 2030

Executive directors

There are no provisions in executive directors' service agreements creating an obligation of the company to pay compensation on termination by the company. Receipt of a cash allowance and Service Award, and participation in the AIP and LTIP is at the discretion of the committee and are not contractual entitlements.

Base salary, pension & benefits	Salary, pension and benefits are paid over the notice period. The committee may at its discretion determine that a payment in lieu of notice should be made.
Cash allowance	Cash allowances may continue to be paid over the notice period to an executive director who is a "good leaver". In all other cases cash allowance payments will ordinarily cease from the date of resignation.
AIP	<p>Under the AIP, an executive director who is a "good leaver" (under the rules of the scheme) remains entitled to receive a pro-rated amount of the award that is not subject to deferral. The committee has discretion to determine that this award will not be pro-rated and/or that the director remains entitled to full payment. The payment date will be in July following year-end unless the committee determines that an early payment should be made. A "good leaver" remains entitled to receive any deferred award under the AIP on the same date unless the committee accelerates the payment. Any payments to a good leaver are subject to the exercise of discretion by the committee when employment ceases and to deferral or malus as set out above on page 175.</p> <p>A leaver due to any other reason loses the right to receive any payment (or any further payment or any deferred payments) or compensation for loss of any payment (or further payment) in respect of awards under the AIP.</p> <p>Where the committee determines that clawback applies in respect of a payment already made, a participant is required under the rules of the AIP to repay all or some of such payment.</p>
LTIP	<p>Under the LTIP, an executive director who is a "good leaver" (under the rules of the scheme) ordinarily will retain a time pro-rated interest in the award until the normal vesting date. Vesting of the retained interest will be based on performance over the full performance period, unless the committee determines otherwise.</p> <p>An award lapses in full if an executive leaves for any other reason.</p> <p>Where the committee determines that clawback applies in respect of a payment already made, a participant is required under the rules of the LTIP to repay all or some of such payment.</p>
Service award	Unvested awards lapse in full, unless the committee determines otherwise.

Independent non-executive directors

Letters of appointment with independent non-executive directors do not include provisions for compensation for loss of office. They provide for the payment of fees accrued until the end of the appointment.

Consideration of pay and employment conditions of employees

The committee does not consult with employees when defining its remuneration policy, but directors receive updates on pay and employment matters from workforce channels and have considered the executive directors' remuneration policy in context.

The committee receives updates on the pay award negotiations with the Staff Council and their outcome. This is directly taken into account when reviewing executive directors' salary increases, which are usually (outside of specific salary reviews) in line with the pay award agreed with the Staff Council.

The committee also reviews the structure, metrics, and targets of the senior managers' bonus scheme in conjunction with the approval of the AIP metrics and targets, to ensure that executive director and senior manager incentives are closely aligned and focused on the delivery of the company's strategic objectives.

The committee reviews the requirements of the company's Corporate Governance Code as they relate specifically to the review of workforce remuneration and engagement with the workforce on executive remuneration.

Engagement with the Staff Council is facilitated by Célia Pronto who is Chair of the committee and the independent non-executive director specifically designated for engagement with the workforce.

Consideration of shareholder views

Two non-executive directors representing the ultimate shareholders of the company are members of the committee (together with three independent non-executive directors). They make recommendations and participate directly in the work of the committee when defining the remuneration policy, the components of executive remuneration and the structure and operation of performance-related pay elements (i.e. the AIP and LTIP). This helps ensure that the link between performance and pay is strong and managed in a way that recognises shareholders' expectations and priorities.

Remuneration policy continued

Directors service agreements and letters of appointment

CEO and CFO service contracts

The CEO and CFO had service contracts that were not fixed term contracts with the following notice periods:

	CEO	CFO
Effective date of contract	1 August 2020**	29 June 2015
Notice period by director	12 months	6 months
Notice period by company*	12 months	6 months

*Other than for breach of contract

**Before becoming CEO, David Hinton had been an executive director since 1 June 2013

Independent non-executive directors' agreements

Independent non-executive directors' letters of appointment have a fixed term of three years that may be extended for successive periods of three years subject to meeting the criteria of independence set out in the company's corporate governance code. A shorter term and shorter notice period by the company may be agreed in anticipation of the replacement of an independent non-executive director to facilitate succession arrangements.

The letters of appointment of the current independent non-executive directors have the following remaining terms and notice periods:

	Chris Train	Lisa Clement	Caroline Sheridan	Célia Pronto
Effective date of contract*	24 February 2022	11 January 2023	21 October 2024	1 June 2021
Expiry date**	31 March 2028	10 January 2026	11 February 2028	31 May 2027
Notice period by director	3 months	3 months	3 months	3 months
Notice period by company***	1 month	1 month	1 month	3 months

*Full terms since appointment are shown in the corporate governance report.

**The appointment of Célia Pronto was extended until 31 May 2027 following approval of the board on 2 May 2024.

The appointment of Chris Train was extended until 31 March 2028 following approval of the board on 6 March 2025.

***Other than for breach of the terms of appointment.

Mark McArdle, Anne-Noëlle Le Gal (who was re-appointed on 18 December 2023 and resigned on 15 August 2024) and Michael McKinstry (who was appointed on 15 August 2024) represent the ultimate shareholders of the company and do not have a letter of appointment or service contract and do not receive any remuneration from the company.

Executive remuneration for 2024/25

Single remuneration figure for executive directors (audited)

		David Hinton – CEO		Andrew Farmer – CFO	
		2023/24	2024/25	2023/24	2024/25
Base salary	£294,042	£307,274	£240,871	£251,710	
Taxable benefits	£2,877	£2,713	£1,435	£2,078	
Annual bonus	£112,560	£115,231	£74,580	£75,728	
Long-term incentives	–	–	–	–	
Pension	£29,404	£30,727	£24,087	£25,171	
Company car trade	£1,589	£1,589	£9,385	£1,908	
Total	£440,472	£457,534	£350,358	£356,595	
Total fixed remuneration	£327,912	£342,303	£275,778	£280,867	
Total variable remuneration	£112,560	£115,231	£74,580	£75,728	

Note on deferral of AIP award:

A sum of £35,618, in respect of the award of David Hinton, and £23,454 in respect of the award of Andrew Farmer, corresponding to 34 per cent of the total AIP award for 2022/23 have been deferred. Both deferred sums will be paid in cash in July 2025 (provided relevant conditions under the rules of the AIP are met at the time). The amount corresponding to 66 per cent of the award paid in July 2023 to David Hinton was £69,141 and to Andrew Farmer was £45,528.

A sum of £38,270, in respect of the award of David Hinton, and £25,357 in respect of the award of Andrew Farmer, corresponding to 34 per cent of the total AIP award for 2023/24 have been deferred. Both deferred sums will be paid in cash in July 2026 (provided relevant conditions under the rules of the AIP are met at the time). The amount corresponding to 66 per cent of the award paid in July 2024 to David Hinton is £74,290 and to Andrew Farmer is £49,223.

A sum of £39,179, in respect of the award of David Hinton, and £25,748 in respect of the award of Andrew Farmer, corresponding to 34 per cent of the total AIP award for 2024/25 have been deferred. Both deferred sums will be paid in cash in July 2027 (provided relevant conditions under the rules of the AIP are met at the time). The amount corresponding to 66 per cent of the award paid in July 2025 to David Hinton is £76,052 and to Andrew Farmer is £49,980.

Executive remuneration for 2024/25 continued**Single remuneration figure for non-executive directors (audited)**

Director	Year	Fee	Taxable benefits	Annual bonus	Long-term incentives	Pension	Total	Total fixed remuneration	Total variable remuneration
Chris Train	2023/24	£115,500	–	–	–	–	£115,500	£115,500	–
	2024/25	£120,698	–	–	–	–	£120,698	£120,698	–
John Barnes	2023/24	£38,588	–	–	–	–	£38,588	£38,588	–
	2024/25	£34,948	–	–	–	–	£34,948	£34,948	–
Célia Pronto	2023/24	£42,914	–	–	–	–	£42,914	£42,914	–
	2024/25	£44,845	–	–	–	–	£44,845	£44,845	–
Lisa Clement	2023/24	£45,366	–	–	–	–	£45,366	£45,366	–
	2024/25	£47,408	–	–	–	–	£47,408	£47,408	–
Caroline Sheridan*	2023/24	–	–	–	–	–	–	–	–
	2024/25	£16,802	–	–	–	–	£16,802	£16,802	–
Anne-Noëlle Le Gal	2023/24	–	–	–	–	–	–	–	–
	2024/25	–	–	–	–	–	–	–	–
Mark McArdle	2023/24	–	–	–	–	–	–	–	–
	2024/25	–	–	–	–	–	–	–	–
Michael McKinstry*	2023/24	–	–	–	–	–	–	–	–
	2024/25	–	–	–	–	–	–	–	–

Anne-Noëlle Le Gal was a shareholder representative non-executive director from 18 December 2023 until her resignation on 15 August 2024. Michael McKinstry was appointed as a shareholder representative non-executive director from 15 August 2024.

John Barnes resigned as an independent non-executive director (as he had served the maximum term) on 12 February 2025. Caroline Sheridan was appointed as an independent non-executive director from 12 February 2025.

Annual incentive plan for 2024/25

We explain below how the AIP was applied in 2024/25 and the factors the remuneration committee considered in reaching its decision on performance related pay. The remuneration policy for 2021 to 2025 is set out in full in our annual report for 2023/24.

AIP measures, targets, scoring and actual performance in 2024/25 (audited)

The AIP awards are based on the score achieved against performance measures in four categories: Outcome Delivery Incentives (ODIs), responsible business, financial and personal objectives.

For each measure, the remuneration committee compares the actual performance (following internal and external assurance of the performance data) with a threshold (minimum), target and outperformance (maximum) level of performance set at the beginning of the financial year to determine the actual score.

The following table summarises the operation of the AIP in 2024/25, including the different categories and types of performance measures, the actual performance achieved relative to the three levels of performance set by the remuneration committee (threshold/minimum, target, outperformance/maximum), and the corresponding scores and potential awards as a percentage of salary.

This summary is based on the audited financial statements for 2024/25 and on the externally assured performance reporting for 2024/25 and after presentation of the findings of our auditors and external assurance partner to members of the remuneration committee.

Category	Measure	Threshold	Target	Maximum	Actual Performance	Actual Score CEO	Award CEO (% of salary)	Actual Score CFO	Award CFO (% of salary)
ODIs (40%)	Net reward / penalty (£m)	-6.8	-5.8	-4.5	-£12.5m	0	0%	0	0%
	ODI Score	0	40	54.8					
Responsible business (20%)	Points achieved	0	2	4	2.67	22.5	15.8%	22.5	12.7%
	RB Score	0	20	27.4					
Appointed cash receipts (10%)	Net variance from target values (£m)	-2	0	+2	£2.1m	13.7	9.7%	13.7	7.7%
	Finance Score 1	0	10	13.7					
Appointed Opex (10%)	Net variance from target values (£m)	-2	0	+2	-£8.5m	0	0%	0	0%
	Finance Score 2	0	10	13.7					
Non-appointed Operating Profit (10%)	Profit target (£m)	4.1	4.6	5.1	£4.5m	7.8	5.5%	7.8	4.4%
	Finance Score 3	0	10	13.7					
Personal objectives (10%)	Points achieved	0	10	10	-	9.2	6.5%	9.4	5.3%
	Personal objectives Score	0	10	10.0					
Total score		0	100	133.3	-	53.2	37.5%	53.4	30.1%

Executive remuneration for 2024/25 continued

Performance measures by categories

The majority of the AIP performance measures relate directly to delivery for customers and the environment. The ODI and responsible business components of the AIP represent 60 per cent of potential incentives.

The table below shows the balance of performance measures between those relating directly to delivery for customers and the environment and the other performance measures, including financial measures. Further details on these measures are set out below.

Appointed business performance measures	
Delivery for customers and environment	Other performance measures
<p>Customer experience</p> <ul style="list-style-type: none"> ▶ The customer measure of experience (C-MeX) ▶ The developer services measure of experience (D-MeX) ▶ Average satisfaction across all customer segments (Reputational ODI) ▶ Satisfaction of household customers who are experiencing payment difficulties (Reputational ODI) ▶ Satisfaction of household customers who are receiving non-financial support (which is a reputational ODI) <p>Core service delivery</p> <ul style="list-style-type: none"> ▶ The compliance risk index (CRI) ▶ The appearance of tap water ▶ The taste and odour of tap water ▶ Leakage reduction on a 3 year average ▶ Reduction of per capita consumption on 3 year average ▶ Unplanned outage ▶ Supply interruptions ▶ The number of mains bursts repairs ▶ The number of household void properties ▶ The number of void business properties ▶ The number of sites protected from the risk of flooding ▶ The number of properties at risk of low pressure ▶ The delivery of the Wellwood to Potters Corner strategic main <p>Environment</p> <ul style="list-style-type: none"> ▶ The delivery of the Water Industry National Environment Programme schemes ▶ The bespoke Abstraction Incentive Mechanism (AIM) ▶ Protecting wildlife and increasing biodiversity (Financial ODI) ▶ Engaging and working with landowners and land managers to improve catchment resilience related to raw water quality deterioration (Financial ODI) <p>Personal objectives</p> <ul style="list-style-type: none"> ▶ Personal objectives relate primarily to delivery for customers and the environment but may also relate to other aspects of performance 	<p>Employees and Health and safety</p> <ul style="list-style-type: none"> ▶ Health & Safety compliance level above 75 per cent as recorded during audits of H&S systems and policies ▶ Lost time injury frequency rate (LTIFR) of less than 5 (Target set annually) ▶ Satisfactory progress in implementing wellbeing and mental health awareness for employees <p>ESG and sustainability</p> <ul style="list-style-type: none"> ▶ Implementation of the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD) ▶ GRESB benchmark score <p>Financial</p> <ul style="list-style-type: none"> ▶ Appointed cash receipts – Net variance from target values ▶ Appointed Opex – Net variance from target values
Non-appointed business performance measures	
▶ n/a	▶ Non-appointed Operating Profit target

Performance measures included in the ODI component

Performance against ODIs is assessed against an overall net reward/penalty target based on the final determination for all financial ODIs (except biodiversity and catchment management which are included in the responsible business category).

The threshold, target and maximum levels were set by the remuneration committee to incentivise the delivery of significant improvements compared with baseline performance for comparable measures in 2019/AMP 6.

It is the main category of the AIP measuring the delivery of core services to customers which includes the following ODIs:

The customer measure of experience (C-MeX)	The developer services measure of experience (D-MeX)
The compliance risk index (CRI)	The number of household void properties
The appearance of tap water	The number of void business properties
Leakage reduction on a 3 year average	The delivery of the Water Industry National Environment Programme schemes
Reduction of per capita consumption on 3 year average	The number of sites protected from the risk of flooding
Unplanned outage	The bespoke Abstraction Incentive Mechanism (AIM)
Supply interruptions	The number of properties at risk of low pressure
The number of mains bursts repairs	The delivery of the Wellwood to Potters Corner strategic main
The taste and odour of tap water	

Note: The biodiversity and catchment management ODIs are included in the Responsible Business performance measures, except that any variance from the net reward/penalty target for these ODIs in AMP 7 is included in the calculation of the net reward/penalty in year 5 of AMP 7.

Note: From 2021/22, an element of the potential award relating to the ODIs on per capita consumption and non-household voids has been excluded and the actual award has been determined at the end of the current regulatory period after Ofwat has published its assessment of performance.

Per capita consumption and non-household voids ODIs

Ofwat determined that it would assess performance relating to the PCC and non-household voids ODIs at the end of the current regulatory period. The committee considered how to reflect this change given that the PCC and non-household voids ODIs were part of the ODI component of the AIP. The committee concluded that the most practical approach would be to carve out an element of the potential AIP award to be allocated to the PCC and non-household voids ODIs. The committee decided to determine the actual award for these metrics based on Ofwat's assessment. It was our expectation that Ofwat would recognise the impact of Covid-19 in its assessment of performance against these ODIs. With regard to the AMP 7 AIP carve out for PCC and NHH voids, the end of the AMP position for these ODIs led the remuneration committee to determine that no bonus shall be paid for these items.

Executive remuneration for 2024/25 continued

C-MeX and D-MeX

Considering that the final C-MeX and D-MeX performance are determined by Ofwat after publication of the companies' annual report, to take account of this timing difference, the committee decided that from 2021/22 the award in respect of 2021/22 (year 0) would be calculated based on a best estimate of the C-MeX and D-MeX penalty/reward position. An adjustment would then be made which would be applied to the awards for 2022/23 (year 1) to achieve an equivalent position, and similarly in subsequent years. This ensures the awards reflect the actual performance and avoid a retrospective adjustment to the previous year's award.

Responsible business measures and points allocation

The Responsible Business performance category relates to (i) ESG, (ii) Health & Safety, (iii) achieving Corporate Plan targets on environmental initiatives and (iv) achieving Corporate Plan targets on customer satisfaction.

To assess management's performance, the remuneration committee determines whether several measures under each of the headings above have been achieved. The measures for 2024/25 and associated points are set out in the table below. The maximum score achievable under this measure is 4 and a score of 2 corresponds to the target level of performance.

Health & Safety	Points	Customer satisfaction	Points
Health & Safety compliance level above 75 per cent as recorded during audits of H&S systems and policies	0.33	Average satisfaction across all customer segments (Reputational ODI): 4.5 out of 5 for 2024/25	0.33
Lost time injury frequency rate (LTIFR) of less than 5 (Target set annually)	0.33	Satisfaction of household customers who are experiencing payment difficulties (Reputational ODI): 4.5 out of 5 for 2024/25	0.33
Satisfactory progress in implementing wellbeing and mental health awareness for employees by reference to a list of activities	0.33	Satisfaction of household customers who are receiving non-financial support (which is a reputational ODI): 4.5 out of 5 for 2024/25	0.33
ESG		Environmental	
GRESB benchmark score >=90	0.25	Target met on protecting wildlife and increasing biodiversity (Financial ODI) – 1,660 hectares (cumulative for AMP to date)	0.5
Inclusion of climate-related disclosures under the recommendations of the task force on climate-related financial disclosures (TCFD) in annual reporting	0.25	Target met on engaging and working with landowners and land managers to improve catchment resilience related to raw water quality deterioration (Financial ODI) – 15,017 hectares (cumulative for AMP to date)	0.5
Presentation to the Board of a strategy on the delivery of operational net zero by 2030	0.5		

Financial measures

The appointed cash receipts & opex measures seek to incentivise effective cash collection performance and management of bad debt and efficient operations whilst delivering the core services and strategic priorities of the business.

The non-appointed operating profit target incentivises non-regulated commercial activities, which include in particular billing and customer services to other undertakers, laboratory services, plumbing and technical services.

Personal objectives

Personal objectives are set by the remuneration committee and include individual and collective objectives for the Executive Team. Collective objectives have a weighting of 25 per cent and individual objectives a weighting of 75 per cent. The maximum score of 10 can only be achieved if all the objectives are met.

Setting targets and assessing stretch

ODI Component of the AIP

The ODI component of the AIP includes a basket of the main financial ODIs (as set out above). Performance under this component is assessed by reference to the net overall ODI reward or penalty for the relevant year in accordance with the methodology set out in Ofwat's final PR19 determination.

In determining the threshold, target and maximum levels for the ODI component of the AIP, the remuneration committee gave due consideration to the primary purpose of the AIP, which is to incentivise stretching but deliverable improvements in performance compared with the baseline performance achieved in AMP 6.

The metrics and targets presented by the company in its business plan submissions reflected a significant level of improvement in performance over AMP 7. However, the 2019 price determination set regulatory targets that went beyond what the company considered to be reasonably achievable given the level of investment and revenue allowance set in the final determination.

The corporate plan approved by the Board following the final determination anticipates net ODI penalties being incurred even if the company achieves significant performance improvements over AMP 7. The negative weighting of the ODI targets is particularly relevant for performance commitments that are directly affected by severe weather events. These events have led to cumulative penalties under several ODIs including interruptions, C-MeX, other customer satisfaction measures, and for some events such as freeze-thaw events, on leakage and burst mains.

In addition, some conflicts between the targets set in the final determination mean that activities necessary to achieve a target will likely lead to another target being missed. This is the case for example of the relationship between leakage and the number of main bursts repairs, as leakage activities result in a higher number of bursts being detected which could then result in the target for the number of bursts being exceeded.

Having considered this negatively weighted outcome of the PR19 final determination on ODIs, the remuneration committee still determined to use the net ODI position that would result from the final determination as the main operational measure in the AIP to ensure it was based on the final determination.

The threshold, target and maximum levels of performance for the ODI metrics in the AIP have then been set at levels that require significant improvements in performance in line with our business plan. However, even this level of improvement would still result in penalties under the regulatory framework set by Ofwat at PR19. This explains why an award may still be paid under the ODI metric when the company is in a net penalty position.

In respect of 2023/24 the remuneration committee adjusted the threshold, target and maximum levels of performance to recognise a higher likely ODI penalty with a view to incentivising management to deliver the leakage recovery plan.

Extreme weather events in 2022/23, especially the freeze-thaw event in December 2022, had a significant impact on leakage performance in 2022/23. In response to this, the company has implemented a leakage recovery plan to achieve the final determination annual target in year 5 of the current AMP.

Executive remuneration for 2024/25 continued

Without adjustment to the target for the ODI component of the AIP for 2023/24 and 2024/25, the leakage figure in 2022/23 would have had a significant negative impact on the 3-year average used for 2023/24 and 2024/25 to measure leakage. In turn, this would have resulted in the overall ODI performance being below the threshold level, even if performance for all other ODIs was at target level and leakage performance was in line with the recovery plan.

Therefore, in these specific circumstances, the remuneration committee determined to adjust the threshold, target, and outperformance level for the ODI component of the AIP to recognise for the effect of the 2022/23 leakage figure and to ensure that the directors were still incentivised to achieve the target of the leakage recovery plan.

This revised target still required significant efforts to maintain and/or recover from the impact on leakage that resulted from the events referred to above and for these reasons the remuneration committee was satisfied that it remained stretching whilst preserving the incentive to recover and improve leakage performance before the next regulatory period.

In making this determination, the remuneration committee also took account of constraints arising from cost pressures linked to high inflation as well as the impact on ODI penalties and the related reductions in our revenue allowance.

Responsible business measures

The assessment of stretch for the metrics included in the responsible business component of the AIP is assessed annually and for quantitative metrics targets are adjusted to reflect improvement or maintenance of performance at an appropriate baseline level. The table below summarises the targets and how the remuneration committee has concluded that these targets remain stretching.

GRESB score => 90	The target score of 90 represents an upper quartile position in the relevant peer group. Although a score of 96 was achieved in the previous year a target score of 90 was maintained to take account of a change of methodology and to take account of continuous improvement by other companies in the peer group, recognising that a score of 90 still represents upper quartile performance.
Health & Safety compliance level above 75 per cent as recorded during audits of H&S systems and policies	The target has been set at 75 per cent to incentivise good compliance without negatively affecting our established culture of openness, which actively encourages issues and near misses to be proactively identified and addressed in order to promote continuous improvement.
Lost time injury frequency rate (LTIFR) of less than 5 (Target set annually)	This metric replaced the previous metric based on the number of RIDDORs in 2022/23. The target has been maintained at 5 in 2024/25 and is reassessed annually based on performance and consideration of underlying information on incidents causing days off work.
Customer satisfaction measures by segment	These targets have been set using a year-on-year profile of improvement in 2020 to 2025. These targets have proved challenging but have been maintained by the committee even though operational events had a significant impact on customer satisfaction.
Protecting wildlife and increasing biodiversity; catchment resilience	The targets (in number of hectares) increase each year to reflect the expected cumulative surface covered following a year-on-year profile for 2020 to 2025. These targets are assessed annually by the remuneration committee, which concluded they remain stretching having regard to the fact that achieving performance is dependent on successful engagement with, and participation of, third-parties.

Other ESG metrics are subject to a qualitative assessment by the remuneration committee. This includes the metrics relating to climate-related disclosures and wellbeing initiatives based on an assessment of compliance and/or successful implementation of relevant initiatives in the year.

Appointed business financial measures

The remuneration committee measures performance for appointed cash receipt by reference to a percentage of revenue billed (revenue less accruals) which corresponds to the target level of performance. The threshold and outperformance levels of performance correspond to a variance from target of -£2 million or +£2 million respectively. Revenue billed is confirmed at year end based on audited financial figures. The percentage of recovery is set by reference to the previous years' performance. The percentage of recovery for 2024/25 was set at 98.3 per cent (comparable to 98.4 per cent in 2023/24) which ensured the target remained stretching, taking account of debt recovery trends and of the context of macroeconomic conditions that continued to impact debt recovery.

The remuneration committee sets the target level of performance for appointed opex by reference to the budget approved for the relevant year, ensuring the target remains appropriate. The threshold and outperformance levels of performance for 2024/25 correspond to a variance from target of -£2 million or +£2 million respectively. The remuneration committee is satisfied that this target was stretching in the context of high inflation that affected key costs (energy and chemical), the continued impact on costs of supply events experienced in the previous year, and expected increases in operating expenditures to maintain or improve performance against key service metrics.

Overall assessment of performance and decision on award under the 2024/25 AIP

A key principle of our remuneration policy is that remuneration must reflect performance and is demonstrably linked to the delivery of the core purpose of the company to provide the public water service, high customer satisfaction and achieving strategic objectives.

The committee uses a clear methodology which includes all measures and targets to calculate transparently the potential awards under the AIP at different levels of performance. This approach provides full visibility of these to the committee, participants, and the public.

The committee uses a model to calculate awards which provides predictability and transparency to both the committee and participants but is complemented by an assessment of performance in the round to avoid formulaic outcomes and the committee retains absolute discretion to decide on individual awards of up to 100 per cent where appropriate.

Assessment of operational performance

The committee considered the overall ODI performance in 2024/25, which resulted in a net ODI penalty of -£12.5 million, which is below the threshold level of -£6.8 million that we had set for 2024/25. This net penalty figure excludes the penalties relating to PCC and non-household voids as these ODIs were carved out of the ODI component of the AIP considering that Ofwat had decided to assess these ODIs at the end of AMP 7 (2020 to 2025). This figure includes (i) the reward relating to the delivery of the strategic main from Wellwood to Potters Corner (£0.5 million) which is an end of AMP target only applying in 2024/25 and (ii) the positive variance (£0.1 million) between the reward target for the biodiversity and catchment management ODIs in AMP 7 (£1.5 million) and the actual reward achieved (£1.6 million) which is included in the calculation of the net reward/penalty in year 5 of AMP 7.

Executive remuneration for 2024/25 continued

The greatest component of this total net penalty (-£8.2 million) is the result of performance on leakage. Severe weather primarily in 2022 but also in 2023 significantly deteriorated our leakage position. Despite the increase in leakage expenditure in 2023/24 and 2024/25 the leakage recovery plan did not deliver the expected level of improvement in the earlier part of the year and the increase in leakage that occurred in 2022 and 2023 has continued to affect the three-year average used to measure leakage, resulting in a penalty for 2024/25. The leakage recovery plan has however been delivering a steady reduction in leakage since the beginning of 2025 across the company, and locally with our Western region achieving its lowest leakage level in 3 years.

No significant high demand event has affected our customers since June 2023 but our interruption performance was severely impacted by two large events in January and March 2025. The most impactful was a power related failure at our water treatment works in Sevenoaks in January 2025 along with the loss of another water treatment works in March 2025 due to flooding. These two events contributed to 20.85 minutes of the total 44.04 minutes. The committee recognised that there were technical explanations for this outage and that the power fault would not have been detected by the testing that had been carried out, and that the impact of flooding could not have been mitigated, but concluded that nevertheless no discretion would be exercised and the rule of the AIP would be applied.

Our C-MeX performance, which was affected by the supply interruptions events in 2022 and 2023 has seen improvements consistent with the initiatives taken and engagement carried out to progressively rebuild trust with our customers and communities resulting in an estimated ranking of 12th (compared to 15th in 2023/24).

Despite good performance on drinking water quality and on environmental measures, the overall performance of the company across all operational and service measures was disappointing.

The committee considered separately the performance under the PCC and non-household voids based on Ofwat's assessment carried out as part of the PR24 process. This resulted in an ODI penalty of £1.7 million for these two ODIs combined which did not meet our internal target of no penalty for these ODIs.

Considering operational performance in 2024/25 and the fact that the net penalty position before adjustment was below threshold, no adjustment was made this year to reflect any difference between the C-MeX and D-MeX performance estimated in July 2024 and the actual performance subsequently determined by Ofwat. Explanations on the reasons for such potential adjustment are set out on page 186.

Details on actual performance against our performance commitments' targets are set out in the business performance section on page 66.

Assessment of financial performance

Performance on debt collection has remained strong in challenging conditions as inflation continues to affect customers.

The variance from budgeted operating expenditure in 2024/25 exceeded the threshold level the committee had set, even if the committee recognises that this expenditure was essential to maintain and improve our service to customers – including higher energy costs, incident readiness and response costs and contractor costs relating to increased, reactive maintenance, reservoir cleaning, water efficiency and meter reading activity, and other necessary expenditure to gear up for AMP 8. Further details are provided on operating expenditure on page 75.

Assessment of ESG performance

Most measures have been achieved except for the 3 customer satisfaction measures and the review of our strategy on the delivery of operational net zero by 2030. This resulted in an overall score of 2.67 and some of the outperformance points being awarded for this component of the AIP.

The committee noted the good GRESB score achieved by the company (98 and third in its peer group). A LTIFR score of 4.4 was achieved meeting the target we had set.

Performance against environmental measures on protecting wildlife and increasing biodiversity and engagement with landowner to improve catchment resilience was also above target.

Other key factors considered by the remuneration committee

In addition to the areas of business performance specifically assessed under the AIP, the committee considered the overall performance of the company against its regulatory and other obligations.

In carrying out this assessment in the round, the committee assessed the performance of the business in the context of the company's strategy and priorities in the year and for the transition to AMP 8, as well as the expectations set by Ofwat at PR24 and in its guidance on the PRP recovery mechanism, and its 2023/24 assessment under that mechanism.

The committee considered the position of the company in Ofwat's water company performance report 2023 to 2024, noting that it had improved, moving from the lagging behind category in 2022/23 to the average category in 2023/24. The committee also had regard to the delivery of the service commitment plan and the update to this plan provided to Ofwat in 2024.

The committee also considered operational performance in the context of Ofwat's investigation into supply resilience which was launched in November 2023 following the high demand incidents the company experienced between 2020 and 2023 which resulted in interruption of customer supplies.

It recognised that where service delivery affects public perception, customers affected perceive executive awards as unrelated to the level of service they have experienced.

The committee was also conscious of taking proportionate account without complacency, but with fairness, of conditions that influence performance or the ability of management to respond to operational challenges. These include external factors such as extreme weather and macroeconomic conditions, business environment, the level of resilience and performance that could objectively be expected having regard for example to planning requirements and assumptions and the impact of regulatory mechanisms.

The company made clear at the outset that it agrees entirely that resilience was an important issue, requiring a stable and predictable regulatory regime. The investigation is ongoing at the time this report is published and no formal decisions have been made by Ofwat at this point.

Notwithstanding the ongoing nature of the investigation, the committee separately noted that appropriate investment in infrastructure together with improvements to incident responses was necessary, taking account of the scale, cost and time required for delivery of this investment.

The committee therefore considered the prioritisation of short-term resilience schemes and other parts of the company's investment programme and maintenance activities that also contribute to improving short-term resilience in AMP 7. These steps had been taken based on post-incident reporting and lessons learnt reviews to improve service to customers and in particular supply resilience, most of them initiated before the investigation was open, and which had been set out in a draft supply resilience action plan submitted to Ofwat in May 2024 and December 2024.

The committee recognised the progress made in delivering this investment and these activities and the benefits for customers. The committee noted that these steps had contributed significantly to the overspend in 2024/25.

The committee considered the efforts made to develop a significant programme of resilience investment at PR24 to address the root causes of our supply resilience issues, which will incrementally improve resilience as these schemes are delivered throughout AMP 8. These schemes by their nature, scale, the time required for design, planning and delivery, needed to be included in our multi-year investment programme for AMP 8.

Ofwat's final determination had rejected some of the crucial resilience investment put forward by the company in its business plan, and the board had decided to request a redetermination to put the company in a position to ensure water security and improve service to its customers in AMP 8 and beyond.

The committee noted that there had been no material non-compliance with environmental obligations and that the company had not received any conviction for environmental offences.

Executive remuneration for 2024/25 continued

The committee considered the steps taken by the business and shareholders to improve the liquidity position and financial resilience of the company in the year, including raising £50 million of debt in August 2024, extending the maturity of a £120 million loan to June 2026, and additional £75 million equity and £200 million equity provided by shareholders in December 2024 and May 2025 respectively. The company had maintained investment grade credit ratings in the year and the additional equity helped maintain credit ratings. The committee noted that uncertainty remained in respect of the financeability of the final determination but that the final decision of the CMA may not be known until March 2026.

Decision on awards for 2024/25

As performance under the ODI component of the AIP was below the threshold level, the remuneration committee determined that there would be no award under this component of the AIP.

The committee determined that no award would be granted in respect of the PCC and non-household void ODIs which had been carved out until the end of AMP assessment by Ofwat which resulted in a penalty for these metrics.

The committee also concluded that no award would be granted under the financial metric of the AIP relating to appointed operating costs as the variance in expenditure was also below the threshold level.

The committee noted that the AIP for 2024/25 would result in awards in respect of the responsible business, appointed business cash receipt and personal objective components. There would also be an award in respect of the non-appointed operating profit component of the AIP.

The committee further considered the reduced award it was contemplating in the context of Ofwat's guidance on the PRP recovery mechanism and the performance related executive pay prohibition rule published in June 2025 pursuant to the Water (Special Measures) Act 2025.

After due consideration of the factors set out above, the committee determined that the awards arising from the application of the rules of the AIP for 2024/25 were appropriate in respect of the regulated business, having regard to the fact that (i) no bonus would be paid in relation to water service performance (ODI component) and performance on operating expenditure, (ii) the bonus awarded would only relate to areas that management should continue to be incentivised to deliver – especially, health and safety, biodiversity and catchment management and ESG practices – which contribute to delivering the long-term strategic priorities of the company, and debt recovery which was also in the interest of customers.

The committee concluded that a prohibition under Ofwat's performance related executive pay prohibition rule would not apply in respect of awards for 2024/25, after consideration of all the potential grounds for prohibition, and especially as the company had maintained an investment grade credit rating throughout 2024/25 and no financial penalty had been imposed by Ofwat in 2024/25. The committee noted that the investigation was ongoing and no formal decisions had been made by Ofwat at this point. The outcome of the investigation would be considered by the committee when assessing performance related pay in respect of 2025/26 as appropriate.

Overall, the AIP operated to ensure that no award was paid in respect of areas of underperformance for customers but that other important areas of performance were appropriately incentivised.

This final decision on awards was made at a meeting of the remuneration committee held after receiving the outcome of the financial audit and external assurance of our regulatory performance, ensuring the committee had due regard to all necessary information before confirming its final decision.

Actual cash awards for 2024/25 under the AIP (audited)

Total Award (£)		Total Award (% of salary)	Amount paid in July 2025	Amount payable in July 2027
CEO	£115,231	37.5%	£76,052	£39,179
CFO	£75,728	30.1%	£49,980	£25,748

Note: A proportional award is made for performance between threshold and target and between target and outperformance.

In addition to the amounts set out above, the deferred awards from 2022/23 will become payable in July 2025 and the total amount paid will be as set out below.

The committee determined that the deferred payment from 2022/23 should be made in accordance with the AIP, noting that they already reflected the assessment of performance carried out by the committee in respect of the 2022/23 AIP awards and that there were no circumstances that would lead the committee to exercise discretion.

	CEO	CFO
Award for 2024/25 payable in July 2025	£76,052	£49,980
Deferred payment from 2022/23 payable in July 2025	£35,618	£23,454
Total	£111,670	£73,434

Comparison with potential awards under the AIP in 2024/25

The potential awards below are set as a percentage of salary for a given performance. For 2024/25 the potential awards for an overall performance at target level and the maximum potential award (at or above outperformance level) were as set out in the table below (and reflecting the adjustment relating to the PCC and non-household voids ODIs described above):

Potential Score	Potential Award (% of salary)		Potential Award (£)	
	CEO	CFO	CEO	CFO
@ Target: 100	70.5%	56.4%	£216,628	£141,964
@ Maximum: 133.3	95.5%	81.4%	£293,447	£204,892

Note: A proportional award is made for performance between threshold and target and between target and outperformance.

Executive remuneration for 2024/25 continued**Further disclosures on remuneration****Pension benefits earned (audited)**

Approved contributory final salary pension scheme were as follows:

Accrued benefits		David Hinton
At March 2025		
Annual pension		£36,709
Lump sum		£109,888

At March 2024	
Annual pension	£36,083
Lump sum	£108,051

Increase in accrued benefits excluding inflation	
Annual pension	£626
Lump sum	£1,837

The defined benefit pension scheme was closed to future accrual on 31 March 2015. The deferred pension increases annually in line with inflation.

Approved defined contribution scheme (audited)

In the year to 31 March 2025 two executive directors were members of the defined contribution scheme. The table below summarises the contributions that were made in the scheme as at 31 March 2025:

	Contributions in 2023/24	Value of contributions as at 31 March 2024	Contributions in 2024/25	Value of contributions as at 31 March 2025
David Hinton	£10,000	£147,335	£10,000	£157,335
Andrew Farmer	£10,000	£128,897	£13,000	£141,897

CEO pay ratios

The table below sets out a comparison between the CEO's single total figure of remuneration for 2024/25 and an equivalent figure for UK employees at the 25th, 50th and 75th percentile.

Total pay and benefits have been calculated as at 31 March 2025 to allow for the comparison with the single total figure table.

Year	Method	25th percentile pay	Median pay ratio	75th percentile pay ratio
2021	B	16:1	13:1	11:1
2022	B	22:1	13:1	10:1
2023	B	16:1	9:1	7:1
2024	B	18:1	15:1	13:1
2025	B	17:1	13:1	12:1

Note: For 2020/21, the CEO single total figure of remuneration is a combined figure, including the relevant single total remuneration received by both Paul Butler and David Hinton as CEOs during that year. The amount received as CEO by Paul Butler from 1 April 2020 to 31 July 2020 was £111,284. The relevant amount received by David Hinton as CEO from 1 August 2020 to 31 March 2021 was £307,921 and includes the salary actually received in the period, the amount of pension benefit actually received, and the pro-rated amounts of taxable benefits, company car trade and AIP award.

The table below sets out the base salary and total pay and benefits details for the CEO and the employees at the 25th, 50th and 75th percentile received in or in respect of 2024/25. For the purpose of the calculation the reference salary without deduction of any pension salary sacrifice of employees was used for a better comparability of the figures.

CEO Method	£
Base salary	307,274
Total pay and benefit	£457,534

Employees	£
Base salary 25th percentile	26,521
Base salary 50th percentile	34,589
Base salary 75th percentile	34,638
Total pay and benefits 25th percentile	26,634
Total pay and benefits 50th percentile	36,530
Total pay and benefits 75th percentile	39,121

Updated remuneration policy and implementation in 2025/26

The remuneration policy for 2025 to 2030 will be implemented in 2025/26 as set out in the earlier remuneration policy section. An illustration of the potential total remuneration of the executive directors in respect of 2025/26 is set out below.

AIP for 2025/26

The structure of the AIP for 2025/26 is as is described earlier in the report. The targets for 2025/26 have been updated by the committee to ensure they are stretching and in line with the corporate plan for 2025 to 2030. A further review will take place in 2025/26 to reflect relevant changes from the CMA redetermination.

Details on the new metrics and their weightings are summarised below, along with the allocations at target and outperformance (noting that payment starts accruing if performance exceeds defined thresholds):

Category	Measure	Target	Outperformance
		(% target allocation)	(% target allocation)
Customer ODIs (20%)	C-MeX D-MeX BR-MeX PCC Supply interruptions		
	ODI score	20	26.6
Customer vulnerability (5%)	Vulnerability strategy measures		
	Customer score	5	6.7
Assets / investment ODIs (10%)	CRI Customer contacts water quality Leakage Unplanned outage Mains repairs		
	Assets/ investment ODI score	10	13.3
Assets / investment PCDs (5%)	Overall measure across all PCDs		
	Assets/ investment PCD score	5	6.7
Environment ODIs (12%)	Discharge permit compliance Serious pollution incidents Biodiversity Operational greenhouse gas		
	Environment ODI score	12	16.0
Environment – compliance (3%)	Abstraction compliance		
	Environment - compliance score	3	4.0
People (10%)	H&S audits Incidents – LTIFR	5 5	6.7 6.7
	People score	10	13.3
Financial (30%)	Cash receipts Opex Non-appointed profit/margin	10 15 5	13.3 20.0 6.7
	Financial score	30	40.0
Personal objectives (5%)	Personal objectives score	5	6.7
Total score		100	133.3

2025 to 2030 LTIP

As described earlier in this report, the executive directors will be granted an award under the LTIP in 2025/26, which shall vest in 2030, subject to performance over a five-year period spanning FY2026 to 2030. A high-level overview of the selected performance metrics, along with their respective weightings, is provided below; at the time of finalising this report, the performance targets had not been formally approved by the committee but these will be disclosed in the first remuneration report to be published following their approval.

A further review will take place in 2025/26 to reflect relevant changes from the CMA redetermination.

Metric	Summary	Weighting
Capital programme delivery	Delivery of PCDs (scope and cost)	50.0%
Demand management	Achievement of WRMP targets for leakage PCC and business demand at end of AMP 8	12.5%
C-MeX	Industry average position at end of AMP 8	12.5%
WINEP	Delivery of WINEP schemes in line with the EA's latest deadlines at end of AMP 8	12.5%
RoRE	RoRE delivered at the end of AMP 8	12.5%

Service Award

The executive directors will be granted a Service Award, as described earlier in this report, during 2025/26. This award is considered by the committee to be fixed remuneration. The Service Award is not conditional on meeting performance targets or standards; its payment is subject only to continuous employment at the prescribed payment date.

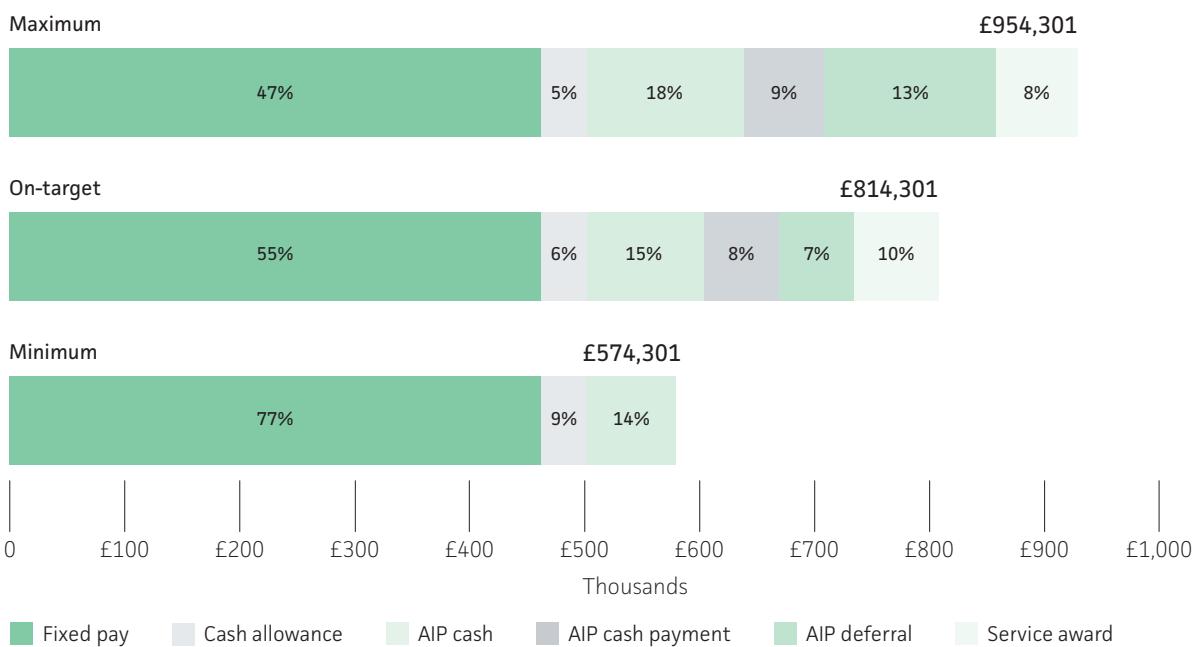
Scenario charts

The following assumptions have been made in respect of the following illustrations:

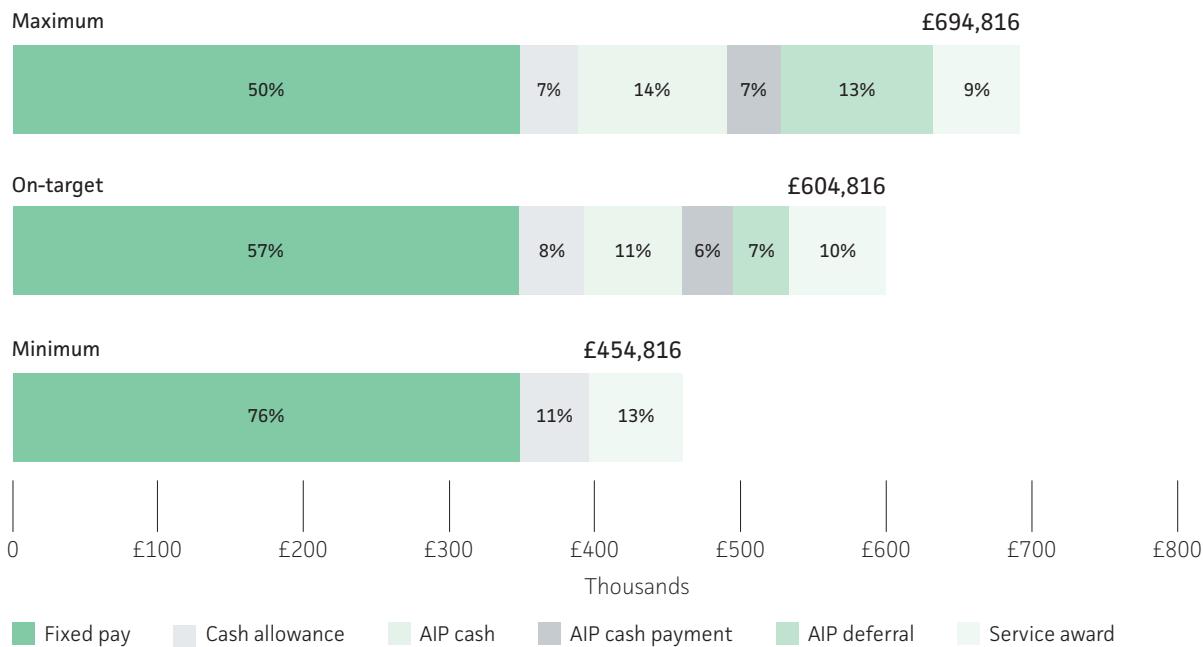
Minimum	Fixed pay, which comprises: FY25/26 salary, pension contribution (10% of salary); benefits and company car trade (using FY24/25 as an estimate for FY25/26) Cash allowance Service Award, pro-rated to reflect the five-year vesting period (20% of salary)
On-target	All elements of pay as set out under the Minimum scenario, plus: <ul style="list-style-type: none"> Target AIP payout (CEO: 45% of salary; CFO: 35% of salary), of which 66% is paid out immediately and 34% is deferred for two years Target LTIP payout, pro-rated to reflect the five-year vesting period (target payout is assumed to be 50% of maximum, equivalent to 15% of salary for the executive directors)
Maximum	All elements of pay as set out under the Minimum scenario, plus: <ul style="list-style-type: none"> Maximum AIP payout (CEO: 65% of salary; CFO: 50% of salary), of which 66% is paid out immediately and 34% is deferred for two years Maximum LTIP payout, pro-rated to reflect the five-year vesting period (30% of salary)

Updated remuneration policy and implementation in 2025/26 continued

CEO – Illustration of the possible outcomes of the remuneration policy for 2025/26



CFO – Illustration of the possible outcomes of the remuneration policy for 2025/26



Financial Statements

Our values and behaviours are an integral part of underpinning how we deliver our strategy.





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Directors' report

for the year ended 31 March 2025

The directors have pleasure in presenting the group directors' report relating to South East Water Limited ("South East Water" or the "company") and its subsidiary South East Water (Finance) Limited (together referred to as the "group") for the year ended 31 March 2025, together with the audited financial statements.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the group's annual report and the financial statements in accordance with applicable law and regulation. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with UK-adopted international accounting standards.

Under company law, 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 group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- ▶ Select suitable accounting policies and then apply them consistently.
- ▶ State whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- ▶ Make judgements and accounting estimates that are reasonable and prudent.
- ▶ Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The directors consider that the group annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's and company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed in the corporate governance statement confirm that, to the best of their knowledge:

- ▶ The group and company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and loss of the group and loss of the company.
- ▶ The strategic report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the directors' report is approved:

- ▶ As far as the director is aware, there is no relevant audit information of which the group's and company's auditors are unaware.
- ▶ 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 group's and company's auditors are aware of that information.

Principal activities and future developments

The principal activities of the group comprise the supply of water to a population of 2.3 million in an area of 5,700 square kms and the provision of certain ancillary services for customers, developers and other bodies within the constraints of the relevant legislation. The directors consider the performance of the business to be satisfactory and that this is expected to continue in the future. An indication of the likely future developments in the company's business, including its strategy for the period 2025 to 2030, are set out in the strategic report as well as information on the prospects of the company in the long-term viability statement.

The revenue of the group for the year ended 31 March 2025 was £285.5 million (2024: £280.6 million) and profit from operations was £54.5 million for the year (2024: £63.8 million). The loss before taxation for the year was £19.8 million (2024: £36.7 million). The financial position at 31 March 2025 for the group and for the company is shown on pages 218 and 219 respectively. Further analysis of the performance of the business and future developments is included in the strategic report on pages 45 and 66.

Appointment as a water undertaker and the ring-fence

South East Water has been appointed as a water undertaker under the Water Industry Act 1991 and the duties and the obligations of the appointee are set out in that Act, in regulations created under that Act, and in its instrument of appointment. The conditions of the instrument of appointment cover a variety of areas including charges, accounts and requirements to produce information for customers.

The instrument of appointment deals with ring-fencing and requires South East Water to ensure, so far as is reasonably practicable, that it retains at all times sufficient rights and assets (other than financial resources) for a special administrator, if appointed, to be able to manage the affairs of the business, which must be confirmed annually.

Condition P requires South East Water to ensure that it has sufficient financial and managerial resources and adequate systems of planning and internal control to carry out the regulated activities and to certify this annually. Condition P requires South East Water to conduct the appointed business

as if it was substantially the company's sole business and it was a separate public limited company. The ultimate controllers of South East Water are bound by a binding undertaking required under Condition P to procure that their subsidiaries, other than South East Water, provide information required by South East Water to comply with its obligations under the Water Industry Act 1991 and the instrument of appointment and to refrain from any action that would cause the appointee to breach any of these obligations.

The effect of the relevant legislation and the terms of the instrument of appointment mean that our directors have an overriding responsibility to ensure the regulatory ring-fence is maintained. The directors remain mindful of these obligations, along with their duties as directors set out in the Companies Act 2006 and the Articles of Association. One of the ways the directors meet the ring-fencing obligations is by ensuring that all board level matters that affect the company are decided at the board of South East Water, rather than at a holding company level.

Group structure

South East Water is the main operating company in the group of companies headed by HDF(UK) Holdings Limited ("HDF"). Further details of the structure of the HDF group are provided in the strategic report on page 72. There are no branches (as defined in section 1046(3) of the Companies Act 2006) of the company outside of the United Kingdom.

Capital structure

Details of the authorised and issued share capital are shown in note 24 of the financial statements. During the year an equity injection by the company's sole shareholder resulted in the issue of 75 million new shares at a par value of £1 per share. South East Water has one class of share which carries no right to fixed income. There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the Articles of Association and prevailing legislation.

Details of South East Water's immediate and ultimate controlling parties are provided in note 32 and in the strategic report.

Directors' report continued

Accounting framework

The financial information presented in these audited financial statements has been prepared in accordance with the disclosure and transparency rules of the Financial Conduct Authority and UK-adopted international accounting standards. The financial statements are presented in Sterling. The results published in this report describe our performance for the year and incorporate the consolidated performance of South East Water Limited and South East Water (Finance) Limited.

Use of financial instruments

The group's financial risk management policies are set out in note 21.

Research and development activities

South East Water is a member of UK Water Industry Research (UKWIR) and participates in their research programmes.

Dividends

The directors have approved no ordinary dividends (2024: £2.25 million) for the current year. No dividends have been proposed and unpaid at the balance sheet date.

The company's dividend policy is discussed on page 78 of the strategic report.

Capital expenditure

During the year the group's capital expenditure totalled £157.3 million (2024: £123.8 million). Further details are given in notes 12 and 13 of the financial statements.

In the opinion of the directors, the market value of land is significantly more than its book value. However, it would not be practicable because of the number of sites and the costs of valuing such sites to precisely quantify this.

Directors and their interests

The directors who at any time during the financial year and at the date of this report were directors of South East Water, are set out on pages 132 to 134 and further details regarding their appointments are set out on page 152.

No director held any shares or loan stock in South East Water or other associated companies, which is required to be disclosed under the Companies Act 2006, during the financial year.

Directors' indemnities

South East Water has granted an indemnity to its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third-party indemnity provisions were in force during the year (having taken effect on the appointment of the directors) and remain in force as at the date of approving this directors' report.

Principal risks and uncertainties

A description of the principal risks and uncertainties and an explanation of the steps the board takes to mitigate these risks are provided in the strategic report on pages 50 to 65.

Corporate governance arrangements

Information on South East Water's corporate governance arrangements are set out in the corporate governance statement on page 130.

Disclosures on greenhouse gas emissions

Information on greenhouse gas emissions, energy consumption and energy efficiency action (including as required under Part 7, Schedule 7 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 are set out on page 114 of the strategic report and relate to the period from 1 April 2024 to 31 March 2025.

We also report on our greenhouse gas emissions in our performance, people and planet report, which is published on the company's website.

Environmental and corporate social responsibility

South East Water's approach to sustainable development of our business includes a strong commitment to the environment and corporate social responsibility. Details of our actions in this respect are given throughout the strategic report and corporate governance report.

Employment policies on disability and engagement with employees, suppliers, customers and others

South East Water offers equal opportunities to all employees and applicants for employment. Our managers and officers are trained to ensure there is no unlawful discrimination on grounds of race, gender, age, religion, union membership, disability or sexual orientation. Employment policies are intended to confirm South East Water as an employer of choice through provision of a safe work environment, satisfying work, personal development and fair rewards. Further details are given in the strategic report on page 88.

South East Water gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with meeting the requirements of the job.

Opportunities are available to disabled employees for training, career development and promotion. Where existing employees become disabled it is South East Water's policy to provide continuing employment, wherever practicable, in the same position or in an alternative position and to provide appropriate training to achieve this aim.

South East Water places considerable value on the involvement of our employees and has continued to keep them informed on matters affecting them as employees and on various factors affecting the performance of the company. This is achieved through formal and informal meetings, regular bulletins on the intranet and an employee e-magazine.

Employee representatives are consulted regularly through the Staff Council on a wide range of matters affecting their current and future interests.

South East Water has developed a comprehensive engagement programme to ensure that we capture the differing views of our customers, suppliers and other stakeholders in the wider community. This programme has helped us shape our plans for the 2025 to 2030 AMP. There are a number of examples of how South East Water has interacted with stakeholders in forming its policies and decisions.

The strategic report also discusses how the directors have had due regard to the engagement with employees, customers, suppliers and other business relationships on pages 80 to 95.

Independent auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming meeting of the board.

Post balance sheet events

In May 2025 a further equity injection by the company's shareholder resulted in the issue of £200 million new shares at a par value of £1 per share. The £200 million raised from the share issue will primarily be used to reduce the group's gearing.

Political donations

No political donations were made by the group in either the current or prior period.

Approved by the board and signed by order of the board by:

Nicolas Truillet

COMPANY SECRETARY
14 JULY 2025

Independent auditors' report to the members of South East Water Limited

Report on the audit of the financial statements

Opinion

In our opinion, South East Water Limited's group financial statements and company financial statements (the "financial statements"):

- ▶ give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2025 and of the group's and company's loss and the group's and company's cash flows for the year then ended;
- ▶ have been properly prepared in accordance with UK-adopted international accounting standards; and
- ▶ have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the 2024/25 Group Annual Report and Financial Statements (the "Annual Report"), which comprise: the group statement of financial position and the company statement of financial position as at 31 March 2025; the group income statement, the group statement of other comprehensive income, the company income statement, the company statement of other comprehensive income, the group statement of changes in equity, the company statement of changes in equity, the group statement of cash flows and the company statement of cash flows for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 6 of the financial statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 3.1 to the financial statements concerning the group's and the company's ability to continue as a going concern. Note 3.1 details that the group and company forecast base case prepared by the directors does not indicate an additional requirement for financing in the going concern period although shortly after the going concern period it will be necessary to renew the existing revolving credit facility, or find alternative financing, in order to continue as a going concern. The directors' severe but plausible downside case without mitigating actions would indicate a need for financing towards the end of the going concern period. The revolving credit facility matures in September 2026 and discussions with lenders are underway and progressing well, although at the date of approval of these financial statements the renewal has not been legally committed. These conditions, along with the other matters explained in note 3.1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's and the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and the company were unable to continue as a going concern.

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 group's and the company's ability to continue to adopt the going concern basis of accounting included:

- ▶ Obtaining an understanding of the relevant controls related to the directors assessment of going concern;
- ▶ Obtaining third party bank confirmations for the groups' bank accounts, which confirmed cash balances and borrowings, inspected facility agreements and compared to the facility commitments assumed in the forecasts;
- ▶ Obtaining the directors' going concern assessment, including cash flow forecast, liquidity requirements and forecast covenant calculations for the going concern period and performing integrity checks including testing the mathematical accuracy;
- ▶ Assessing the forecasts used for the going concern assessment period for reasonableness and reconciling the data with information from other areas of the audit. We have evaluated the appropriateness of key revenue and expenditure assumptions in the forecasts, considering consistency with the PR24 final price determination and other commitments made by directors. We have also considered the historical accuracy of forecasting;
- ▶ Recalculating debt covenants and assessing compliance over the forecast period, including consideration of the most recent available credit ratings of the company to determine the impact this has on covenant compliance;
- ▶ Evaluating and challenging management's stress test modelling to understand the impact on the group and company's liquidity and covenant ratios;
- ▶ Assessing the appropriateness of the disclosures within the financial statements relating to the material uncertainty on going concern; and.
- ▶ Considering the potential impact of the outcome of the ongoing CMA appeal in respect of the PR24 price determination and the possible outcomes of the s203 investigation on the future cash flows over the going concern period.
- ▶ Obtaining supporting documentation to corroborate the current position of the debt refinancing;

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Our audit approach

Context

The terms of the company's licence under the Water Industry Act 1991 require the company to report as if it had issued equity share capital listed on the London Stock Exchange and therefore the opinion below refers to the Listing Rules of the Financial Conduct Authority (FCA).

Independent auditors' report to the members of South East Water Limited continued

Overview

Audit scope

- ▶ The group comprises South East Water Limited (the regulated water business) and its only subsidiary company South East Water (Finance) Limited (which issues part of the Group's debt). Both of these companies were subject to a full scope audit by the Group audit engagement team.
- ▶ In scoping our audit, with reference to our risk assessment, we identified and included all material financial statement line items within the scope of our audit procedures.
- ▶ Climate change – As part of our audit planning we have considered the impact that the Group has on the environment and the current and potential future impact of climate change on the Group's business and its financial statements. The Group has set out its Climate Change targets with the goal of achieving operational net zero by 2030. The key consequences of global warming identified relate to the quantity and quality of water resources and potentially disruption of operations or those of others on whom the group rely, such as other bulk water suppliers and energy suppliers.
- ▶ As part of our audit, we have made enquiries of management to understand the extent of the potential impact of climate change risks affecting the Group's financial statements. Many of the risks identified are of a medium or long term nature and, in the short term, the directors have concluded that other than the risks arising from adverse weather events which are considered in downside scenarios in the Viability Statement and the going concern assessment, climate change risks have no material impact on the carrying value of assets and liabilities at the balance sheet date.
- ▶ We have performed our own evaluation on the potential impacts of climate change, including assessing the estimates made regarding the useful economic lives of property, plant and equipment. We determined that no heightened audit risk arose in the year in respect of climate change.
- ▶ We have read the group's disclosure of climate related information in the front half of the annual report and considered consistency with the financial statements and our audit knowledge.

Key audit matters

- ▶ Material uncertainty related to going concern
- ▶ Risk of error in household measured income accrual estimate (group and company – note 16) (group and company)
- ▶ Risk of error in bad debt allowance for household revenue (group and company – note 16) (group and company)
- ▶ Risk of incorrect classification of costs between capital and non-capital spend (group and company – note 12) (group and company)

Materiality

- ▶ Overall group materiality: £4.0m (FY24: £4.0m) based on approximately 0.21% of total assets.
- ▶ Overall company materiality: £3.8m (FY24: £3.8m) based on approximately 0.21% of total assets (capped at 95% of group materiality).
- ▶ Performance materiality: £3.0m (FY24: £3.0m) (group) and £2.85m (FY24: £2.85m) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, 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 going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p><i>Risk of error in household measured income accrual estimate (group and company - note 16) (group and company)</i></p> <p>The household measured income accrual of £44.4m (31 March 2024: £42.5m) is an estimate of the water that was supplied but remained unbilled at year end. The calculation primarily relies on historical consumption data for measured household customers. It is determined using the latest average read dates and daily consumption averages for properties within specific zones, subject to adjustments for seasonal factors guided by forecast models, along with verification against historical data and assumptions about leakage. This estimation is based on historical usage for the months and zones where measurement and billing have not occurred, although water supply was provided before year-end. Consequently, the accrual involves significant judgment, affects reported revenue and profit, and is therefore prone to errors and potential management bias.</p>	<p>Our procedures for the household measured income accrual included: undertaking a review of the estimation methods used for determining consumption and other critical date inputs to management's model; obtaining an understanding of the process to calculate the estimate and assessed the design and implementation of related financial controls; reperforming management's calculations to verify mathematical accuracy; testing the validity of management's inputs by assessing the following to ensure consistency with historical billing data over the prior six-month period; verifying the total number of properties and ensuring they are allocated correctly within their designated billing zones and monthly billing groups; sensitising the average duration since the last billing for each monthly billing group; recalculating the weighted average daily consumption rate; validating the tariffs applied against the approved annual tariff listing; evaluating management's seasonal and leakage adjustment assumptions, considering both seasonality and leakage allowances, through examining historical usage trends and conducting sensitivity analyses, which we found reasonable; and reviewing the appropriateness of the related financial statement disclosures. Furthermore, we reviewed the accuracy of household measured income accruals through a look back analysis, comparing the actual bills raised to the accrued amounts at year end. A post year-end assessment, which included revenue data up to May 2025, was conducted, and we concur with management that the applied methodology is materially reasonable. Additionally, we assessed for any contradictory or corroborative evidence regarding the accrual estimates and found no issues arising. Overall, we consider the methodology and assumptions used by management as at 31 March 2025 to be reasonable.</p>

Independent auditors' report to the members of South East Water Limited continued

Key audit matter	How our audit addressed the key audit matter
<p><i>Risk of error in bad debt allowance for household revenue (group and company – note 16) (group and company)</i></p> <p>As of 31 March 2025, the total bad debt provision for household revenue stands at £40.1m (31 March 2024: £35.4m). This provision is calculated by applying various percentages, derived from historical cash collection rates to trade receivables according to their ageing. In making their provision assessment management continues to use a 3-year average cash collections basis to recognise the risk around customers paying their bills acknowledging the current state of the economy and the cost of living demands on households. Management's view is that no specific adjustment is needed to the provision, particularly when considering that a position has been taken to provide for 100% of debt over 4 years despite cash being collected annually on significantly aged debt. Management have not identified any basis for applying a further increase in bad debts based on evidence they have available to them at present. These provision calculations involve significant judgement and estimation and affect revenue and profit.</p>	<p>Our audit procedures on the bad debt provision included: Challenging management on their assessment of the impact of inflationary and cost of living pressures on customers looking forwards and considering whether any additional overlay is required in relation to this; testing the ageing of accounts receivable balances incorporated in the bad debt provision; assessing the collection levels of debts from accounts previously provided for; verifying the accuracy of data within the cash collection model and testing the mechanics of the spreadsheet used for calculating the provision as well as the methodology for determining provision rates; verifying that the final provision has been calculated in line with IFRS 9 methodology through the application of management's bad debt methodology and challenging whether it captures the lifetime expected credit outcomes for receivables, which involved assessing the alignment of recoverability assumptions with current cash collection rates and future credit risks; obtaining an understanding of the process to calculate the estimate and assessed the design and implementation of related financial controls; and reviewing the adequacy of related financial statement disclosures. We conclude that when taken together, these are reasonable assumptions and that the bad debt provision is fairly stated.</p>

Key audit matter	How our audit addressed the key audit matter
<p><i>Risk of incorrect classification of costs between capital and non-capital spend (group and company – note 12) (group and company)</i></p> <p>For FY25, capital expenditures amounted to £156.0m, compared to £119.2m in FY24. The capitalised amount excludes £23.6m (FY24: £23.0m) of reactive maintenance, which has been recorded as an operating expense in the income statement, adhering to IFRS requirements. The distinction between capitalised costs and those allocated to renewals and maintenance can be subjective and significantly impacts profit. Due to the judgement involved and the magnitude of these figures, there is a risk of management bias or error potentially leading to inappropriate capitalisation.</p>	<p>The audit procedures we conducted on assets capitalised during the period included: understanding and evaluating the controls governing the approval of capital expenditure requests and then testing the operating effectiveness; examining, on a sample basis, additions to assets under construction during the year, verifying supporting documentation to confirm both the amount capitalised and its capital nature per IAS 16 capitalisation criteria; assessing management's controls over assets under construction to identify any assets that should be operational and subject to depreciation. We also tested a sample of assets moved from assets under construction to the fixed asset register, ensuring appropriate transfer and that depreciation is based on a suitable useful economic life; and reviewing aged assets under construction to identify any that should be moved to the fixed asset register. For overheads capitalised during the period: Understanding and evaluating the control processes that review overhead recovery rates and the overhead capitalisation methodology; testing the capitalisation process for staff costs by matching samples to timesheets and evaluating the reasonableness of the proportion of salary capitalised against total costs; and evaluating management's allocation of departmental overheads based on time invested in the capital programme, assessing the proportion of costs capitalised compared to prior years, and finding the methodology consistent and reasonable. Based on all procedures carried out to address the identified risk, we have concluded there are no material errors in the classification of capital and non-capital expenditures.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Both legal entities in the group were considered financially significant and therefore subject to full scope audits for group purposes. South East Water Limited is the primary trading entity within the group; it generates the vast majority of revenue for the group and incurs the related costs. South East Water (Finance) Limited holds a significant portion of the group's external debt. All audit procedures were led by the Group audit team located in the United Kingdom.

Independent auditors' report to the members of South East Water Limited continued

The impact of climate risk on our audit

As part of our audit, we have made enquiries of Management to understand its process to assess the extent of potential climate change risk, the determination of mitigating actions and the impact on the financial statements and support the disclosures made within the Strategic Report. We further obtained Management's climate-related risk assessment and reviewed their draft 25 year environment plan. Management has made commitments to reach operational net zero by 2030. While Management acknowledge that the physical and transition risks posed by climate change have the potential to impact the medium to long-term success of the business, they have assessed that there is no quantitatively material impact arising from climate change on the judgements and estimates made in the financial statements for the year ended 31 March 2025.

We reviewed Management's climate change risk assessment and evaluated the completeness of identified risks and the impact on the financial statements. We also considered the impact of climate change in our own audit risk assessment procedures and did not identify any additional risks of material misstatement. We have, however, made additional considerations throughout our audit work to address areas which are commonly seen to be impacted by climate change risks, such as when assessing going concern forecast assumptions, long term viability assumptions, and the appropriateness of useful economic lives of material non-current assets. Our audit procedures also included: reading disclosures included in the Strategic Report and considering whether they are materially consistent with the financial statements and our knowledge obtained in the audit; and, evaluating financial statement disclosures to assess whether climate risk assumptions were appropriately disclosed, where relevant.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – group	Financial statements – company
<i>Overall materiality</i>	£4.0m (FY24: £4.0m).	£3.8m (FY24: £3.8m).
<i>How we determined it</i>	approximately 0.21% of total assets	approximately 0.21% of total assets (capped at 95% of group materiality)
<i>Rationale for benchmark applied</i>	An asset-based benchmark is considered appropriate as the Group is a significant provider of crucial infrastructure, and generates revenues almost entirely through using its infrastructure assets. Assets are a key driver of business value for readers of the accounts for the group. As such we have determined that this is the most appropriate benchmark for the consolidated group accounts of South East Water Limited.	An asset-based benchmark is considered appropriate as the Company is a significant provider of crucial infrastructure, and generates revenues almost entirely through using its infrastructure assets. Assets are a key driver of business value for readers of the accounts for the company. As such we have determined that this is the most appropriate benchmark for the company accounts of South East Water Limited.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £3.4m and £3.8m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (FY24: 75%) of overall materiality, amounting to £3.0m (FY24: £3.0m) for the group financial statements and £2.85m (FY24: £2.85m) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £200,000 (group audit) (FY24: £200,000) and £190,000 (company audit) (FY24: £190,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2025 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' report, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 group's and 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 group or the company or to cease operations, or have no realistic alternative but to do so.

Independent auditors' report to the members of South East Water Limited continued

Auditors' 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 auditors' 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.

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.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to industry regulation, including the requirements of The Water Services Regulation Authority ('Ofwat'), the Listing Rules, health and safety regulation (including the requirements of The Health and Safety at Work etc. Act 1974), environmental regulation, and pensions legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- ▶ **Discussions with management, including consideration of known or suspected instances of non-compliance with laws, regulation and fraud;**
- ▶ **Evaluation of Management's controls to prevent and detect irregularities;**
- ▶ **Challenging assumptions and judgements made by management in their significant accounting estimates and judgements; in particular in relation to the recoverability of trade receivables, the capitalisation of costs in fixed assets and accuracy of the household measured income accrual, including the disclosure of such matters in the financial statements;**
- ▶ **Identifying and testing journal entries, in particular any journal entries with unusual combination of account codes with credits to revenue where the debit entry is not to an expected account and credits to the income statement (excluding staff costs) where the debit entry is to property, plant and equipment, or journals with certain key unusual words.**

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- ▶ we have not obtained all the information and explanations we require for our audit; or
- ▶ adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- ▶ certain disclosures of directors' remuneration specified by law are not made; or
- ▶ the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the members on 17 December 2021 to audit the financial statements for the year ended 31 March 2022 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 March 2022 to 31 March 2025.

Other matter

The company is required by the Financial Conduct Authority Disclosure Guidance and Transparency Rules to include these financial statements in an annual financial report prepared under the structured digital format required by DTR 4.1.15R – 4.1.18R and filed on the National Storage Mechanism of the Financial Conduct Authority. This auditors' report provides no assurance over whether the structured digital format annual financial report has been prepared in accordance with those requirements.

Other voluntary reporting

Directors' remuneration

The company voluntarily prepares a Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Remuneration Report specified by the Companies Act 2006 to be audited as if the company were a quoted company.

In our opinion, the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Andy Grimbley (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
14 JULY 2025

Group income statement

for the year ended 31 March 2025

	Note	2025 £000	2024 £000
Revenue	4	285,517	280,594*
Bad debts	16	(4,055)	(4,533)*
Net operating costs	6	(241,471)	(225,711)
Other income	4	14,496	13,427
Profit from operations		54,487	63,777
Finance income	8	2,490	1,711
Finance expense	8	(76,758)	(102,151)
Loss before taxation		(19,781)	(36,663)
Taxation	9	6,240	8,620
Loss for the year		(13,541)	(28,043)

	Note	2025 Pence	2024 Pence
Loss per share attributable to the ordinary equity holders of the parent		(17.53)	(56.87)

* see note 4 for details of prior year changes to presentation

The group activities above are derived from continuing operations.

Group statement of other comprehensive income

for the year ended 31 March 2025

	Note	2025 £000	2024 £000
Loss for the year		(13,541)	(28,043)
Other comprehensive loss:			
Items that will not be reclassified to the income statement:			
Net actuarial loss on pension schemes	23	(21,176)	(8,015)
Deferred tax credit on net actuarial loss	9	5,294	2,004
Other comprehensive loss for the year		(15,882)	(6,011)
Total comprehensive loss		(29,423)	(34,054)

The notes on pages 224 to 283 form part of these financial statements.

Company income statement

for the year ended 31 March 2025

	Note	2025 £000	2024 £000
Revenue	4	285,517	280,594*
Bad debts	16	(4,055)	(4,533)*
Net operating costs	6	(241,465)	(225,705)
Other income	4	14,496	13,427
Company profit from operations		54,493	63,783
Finance income	8	2,400	1,692
Finance expense	8	(76,781)	(102,173)
Loss before taxation		(19,888)	(36,698)
Taxation	9	6,267	8,629
Loss for the year		(13,621)	(28,069)

	Note	2025 Pence	2024 Pence
Loss per share attributable to the ordinary equity holders of the company		(18.33)	(56.92)

* see note 4 for details of prior year changes to presentation

The company activities above are derived from continuing operations.

Company statement of other comprehensive income

for the year ended 31 March 2025

	Note	2025 £000	2024 £000
Loss for the year		(13,621)	(28,069)
Other comprehensive loss:			
Items that will not be reclassified to the income statement:			
Net actuarial loss on pension schemes	23	(21,176)	(8,015)
Deferred tax credit on net actuarial loss	9	5,294	2,004
Other comprehensive loss for the year		(15,882)	(6,011)
Total comprehensive loss		(29,503)	(34,080)

The notes on pages 224 to 283 form part of these financial statements.

Group statement of financial position

Registered number: 02679874
as at 31 March 2025

	Note	31 March 2025 £000	31 March 2024 £000
Assets			
Non-current assets			
Property, plant and equipment	12	1,870,841	1,777,640
Right of use assets	12	3,461	3,804
Intangible assets	13	8,787	10,066
Defined benefit pension surplus	23	8,378	23,014
		1,891,467	1,814,524
Current assets			
Inventories	15	1,268	1,343
Trade and other receivables	16	99,278	97,477
Cash and cash equivalents	17	36,072	4,986
		136,618	103,806
Total assets		2,028,085	1,918,330
Liabilities			
Non-current liabilities			
Trade and other payables	20	3,483	3,864
Loans and borrowings	18	1,325,934	1,250,980
Deferred income	22	3,913	3,646
Defined benefit pension liability	23	2,357	2,493
Deferred tax liability	9	178,169	189,665
		1,513,856	1,450,648
Current liabilities			
Trade and other payables	20	143,759	114,849
Loans and borrowings	18	69,484	97,436
Deferred income	22	4,615	5,651
Provisions	19	8,014	6,966
		225,872	224,902
Total liabilities		1,739,728	1,675,550
Net assets		288,357	242,780
Issued capital and reserves attributable to owners of the parent			
Share capital	24	124,312	49,312
Revaluation reserve		204,067	208,657
Retained losses		(40,022)	(15,189)
Total equity		288,357	242,780

The financial statements on pages 216 to 283 were approved and authorised for issue by the board of directors and were signed on its behalf by:

David Hinton
CHIEF EXECUTIVE OFFICER
14 JULY 2025

Andrew Farmer
CHIEF FINANCIAL OFFICER
14 JULY 2025

The notes on pages 224 to 283 form part of these financial statements.

Company statement of financial position

Registered number: 02679874
as at 31 March 2025

	Note	31 March 2025 £000	31 March 2024 £000
Assets			
Non-current assets			
Property, plant and equipment	12	1,870,841	1,777,640
Right of use assets	12	3,461	3,804
Intangible assets	13	8,787	10,066
Defined benefit pension surplus	23	8,378	23,014
		1,891,467	1,814,524
Current assets			
Inventories	15	1,268	1,343
Trade and other receivables	16	99,217	97,092
Cash and cash equivalents	17	35,664	2,717
		136,149	101,152
Total assets		2,027,616	1,915,676
Liabilities			
Non-current liabilities			
Trade and other payables	20	3,483	3,864
Loans and borrowings	18	1,325,934	1,250,980
Deferred income	22	3,913	3,646
Defined benefit pension liability	23	2,357	2,493
Deferred tax liability	9	178,169	189,665
		1,513,856	1,450,648
Current liabilities			
Trade and other payables	20	144,936	113,761
Loans and borrowings	18	69,484	97,436
Deferred income	22	4,615	5,651
Provisions	19	8,014	6,966
		227,049	223,814
Total liabilities		1,740,905	1,674,462
Net assets		286,711	241,214
Issued capital and reserves attributable to owners of the parent			
Share capital	24	124,312	49,312
Revaluation reserve		204,067	208,657
Retained losses		(41,668)	(16,755)
Total equity		286,711	241,214

The financial statements on pages 216 to 283 were approved and authorised for issue by the board of directors and were signed on its behalf by:

David Hinton
CHIEF EXECUTIVE OFFICER
14 JULY 2025

Andrew Farmer
CHIEF FINANCIAL OFFICER
14 JULY 2025

The notes on pages 224 to 283 form part of these financial statements.

Group statement of changes in equity

for the year ended 31 March 2025

	Note	Issued share capital £000	Revaluation reserve £000	Retained (losses)/ earnings £000	Total equity £000
At 1 April 2023		49,312	213,254	16,518	279,084
Loss for the year		-	-	(28,043)	(28,043)
Other comprehensive loss	25	-	-	(6,011)	(6,011)
Total comprehensive loss for the year		-	-	(34,054)	(34,054)
Dividends	10	-	-	(2,250)	(2,250)
Amortisation of revaluation reserve		-	(6,110)	6,110	-
Release revaluation reserve on disposals		-	(19)	19	-
Deferred tax on revaluation and retained earnings transfer ¹		-	1,532	(1,532)	-
		-	(4,597)	2,347	(2,250)
At 31 March 2024		49,312	208,657	(15,189)	242,780
At 1 April 2024		49,312	208,657	(15,189)	242,780
Loss for the year		-	-	(13,541)	(13,541)
Other comprehensive loss	25	-	-	(15,882)	(15,882)
Total comprehensive loss for the year		-	-	(29,423)	(29,423)
Issue of shares	24	75,000	-	-	75,000
Amortisation of revaluation reserve		-	(6,110)	6,110	-
Release revaluation reserve on disposals		-	(10)	10	-
Deferred tax on revaluation and retained earnings transfer ¹		-	1,530	(1,530)	-
		75,000	(4,590)	4,590	75,000
At 31 March 2025		124,312	204,067	(40,022)	288,357

The notes on pages 224 to 283 form part of these financial statements.

All transactions relate to the equity holders of the group.

¹The movement between the revaluation reserve and retained earnings arises from the depreciation and associated deferred tax on the fair value uplift of assets at the time of transition to IFRS.

Company statement of changes in equity

for the year ended 31 March 2025

	Note	Issued share capital £000	Revaluation reserve £000	Retained (losses)/ earnings £000	Total equity £000
At 1 April 2023		49,312	213,254	14,978	277,544
Loss for the year		-	-	(28,069)	(28,069)
Other comprehensive loss	25	-	-	(6,011)	(6,011)
Total comprehensive loss for the year		-	-	(34,080)	(34,080)
Dividends	10	-	-	(2,250)	(2,250)
Amortisation of revaluation reserve		-	(6,110)	6,110	-
Release revaluation reserve on disposals		-	(19)	19	-
Deferred tax on revaluation and retained earnings transfer ¹		-	1,532	(1,532)	-
		-	(4,597)	2,347	(2,250)
At 31 March 2024		49,312	208,657	(16,755)	241,214
At 1 April 2024		49,312	208,657	(16,755)	241,214
Loss for the year		-	-	(13,621)	(13,621)
Other comprehensive loss	25	-	-	(15,882)	(15,882)
Total comprehensive loss for the year		-	-	(29,503)	(29,503)
Issue of shares	24	75,000	-	-	75,000
Amortisation of revaluation reserve		-	(6,110)	6,110	-
Release revaluation reserve on disposals		-	(10)	10	-
Deferred tax on revaluation and retained earnings transfer ¹		-	1,530	(1,530)	-
		75,000	(4,590)	4,590	75,000
At 31 March 2025		124,312	204,067	(41,668)	286,711

The notes on pages 224 to 283 form part of these financial statements.

All transactions relate to the equity holders of the group.

¹The movement between the revaluation reserve and retained earnings arises from the depreciation and associated deferred tax on the fair value uplift of assets at the time of transition to IFRS.

Group statement of cash flows

for the year ended 31 March 2025

	Note	2025 £000	2024 £000
Cash flows from operating activities			
Loss for the year		(13,541)	(28,043)
Adjustments for:			
Depreciation and impairment of property, plant and equipment	12	62,953	61,054
Amortisation of intangible assets including impairment	13	2,524	2,315
Finance income	8	(2,490)	(1,711)
Finance expense	8	76,758	102,151
Profit on sale of property, plant and equipment		(63)	(69)
Difference between pension contributions paid and amounts recognised in the income statement		(5,547)	(5,996)
Income tax credit	9	(6,240)	(8,620)
		114,354	121,081
Movements in working capital			
Increase in trade and other receivables		(2,066)	(5,196)
Decrease/(increase) in inventories		75	(211)
Increase in trade and other payables		16,026	3,160
Cash generated from operations		128,389	118,834
Income taxes paid		(1,048)	(8,464)
Interest element on lease liability payments		(136)	(121)
Interest received		1,144	526
Interest paid		(50,521)	(46,294)
Net cash generated from operating activities		77,828	64,481
Cash flows from investing activities			
Purchase of property, plant and equipment		(140,951)	(123,342)
Proceeds from disposal of property, plant and equipment		285	256
Purchase of intangible assets		(1,250)	(4,613)
Net cash outflow from investing activities		(141,916)	(127,699)
Cash flows from financing activities			
Credit facility (repayment)/drawdowns	26	(28,000)	67,000
Index linked borrowing	26	50,000	-
Issue of shares	24	75,000	-
Net payment of lease liabilities	26	(445)	(548)
Issue costs of debt	26	(1,381)	-
Dividends paid to shareholders	10	-	(2,250)
Net cash generated from financing activities		95,174	64,202
Net increase in cash and cash equivalents		31,086	984
Cash and cash equivalents at the beginning of year	17	4,986	4,002
Cash and cash equivalents at the end of the year	17	36,072	4,986

The notes on pages 224 to 283 form part of these financial statements.

Company statement of cash flows

for the year ended 31 March 2025

	Note	2025 £000	2024 £000
Cash flows from operating activities			
Loss for the year		(13,621)	(28,069)
Adjustments for:			
Depreciation and impairment of property, plant and equipment	12	62,953	61,054
Amortisation of intangible assets including impairment	13	2,524	2,315
Finance income	8	(2,400)	(1,692)
Finance expense	8	76,781	102,173
Profit on sale of property, plant and equipment		(63)	(69)
Difference between pension contributions paid and amounts recognised in the income statement		(5,547)	(5,996)
Income tax credit	9	(6,267)	(8,629)
		114,360	121,087
Movements in working capital			
Increase in trade and other receivables		(2,066)	(5,196)
Decrease/(increase) in inventories		75	(211)
Increase in trade and other payables		16,026	3,160
Cash generated from operations		128,395	118,840
Income taxes paid		(1,048)	(8,457)
Interest element on lease liability payments		(136)	(121)
Interest received		1,073	506
Interest paid		(48,595)	(48,554)
Net cash generated from operating activities		79,689	62,214
Cash flows from investing activities			
Purchase of property, plant and equipment		(140,951)	(123,342)
Proceeds from disposal of property, plant and equipment		285	256
Purchase of intangible assets		(1,250)	(4,613)
Net cash outflow from investing activities		(141,916)	(127,699)
Cash flows from financing activities			
Credit facility (repayment)/drawdowns	26	(28,000)	67,000
Index linked borrowing	26	50,000	-
Issue of shares	24	75,000	-
Net payment of lease liabilities	26	(445)	(548)
Issue costs of debt	26	(1,381)	-
Dividends paid to shareholders	10	-	(2,250)
Net cash generated from financing activities		95,174	64,202
Net increase/(decrease) in cash and cash equivalents		32,947	(1,283)
Cash and cash equivalents at the beginning of year	17	2,717	4,000
Cash and cash equivalents at the end of the year	17	35,664	2,717

The notes on pages 224 to 283 form part of these financial statements.

Notes to the group financial statements

for the year ended 31 March 2025

1. Basis of preparation and authorisation of financial statements

The financial statements of South East Water Limited and its subsidiary (the “group”) for the year ended 31 March 2025 were authorised for issue by the board of directors on 14 July 2025 and the Statement of Financial Position was signed on the board’s behalf by David Hinton and Andrew Farmer. South East Water Limited is a private company that has limited liability by shares and is incorporated in the United Kingdom and registered in England and Wales.

These consolidated and company only financial statements have been prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

Details of the group’s accounting policies, including changes during the year, are included in note 3.

The group financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except where otherwise indicated.

1.1 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items, which are measured on an alternative basis on each reporting date.

Items	Measurement basis
Pension assets	Fair value
Certain assets in property, plant and equipment	Measured at deemed cost by reference to fair value on adoption of IFRS on 1 April 2014

1.2 Changes in accounting policies

i) New standards, interpretations and amendments effective from 1 April 2024

The group has adopted the following standards and amendments with mandatory adoption date on or before 1 April 2024:

- ▶ Presentation of financial statements on non-current liabilities with covenants – IAS 1 (amended)
- ▶ Lease Liability in a Sale and Leaseback – IFRS 16 (amended)
- ▶ Supplier finance – IAS 7 and IFRS 7 (amended)
- ▶ Sustainability related financial information – IFRS S1
- ▶ Climate – IFRS S2
- ▶ Lack of Exchangeability – IAS 21

The standards and amendments listed above did not have any material impact on the amounts recognised in the prior year and are not expected to significantly affect the current or future years.

ii) New standards, interpretations and amendments not yet effective

At the date of these financial statements, the following Standards were in issue but not yet effective (and in some cases had not yet been adopted by the UK) and have not been applied to these Financial Statements.

Notes to the group financial statements

for the year ended 31 March 2025

1. Basis of preparation and authorisation of financial statements continued

New standard or interpretation	EU Endorsement status	Mandatory effective date (period beginning)
IFRS 7 and 9 (amended)	Classification and Measurement of Financial Instruments	1 April 2026
IFRS 7 and 9 (amended)	Contracts referencing nature-dependent electricity	1 April 2027
IFRS 18	Presentation and Disclosure in Financial Statements	1 April 2027
IFRS 19	Subsidiaries without public accountability disclosure	1 April 2027

The directors do not anticipate that the adoption of the Standards and Interpretations listed above will have a material impact on the finances of the group or company, but may have an impact on the presentation in the financial statements of the group or company in future periods.

2. Key judgements and sources of estimation uncertainty

2.1 Key judgements

The preparation of financial statements requires the application of judgements and assumptions by management which affects the value of assets and liabilities at the balance sheet date and income and expenditure for the year. Actual results may differ from those arrived at based on management's judgements and assumptions.

Revenue recognition

The company bills customers in line with its entitlement to receive revenue based on the limits established by successive regulatory periodic review processes. Revenue is recognised when the performance obligations are met and when collection of the resulting revenue receivable is probable. Assessment of the probability of collection and therefore the fair value of revenue to be recognised during the year is judgemental. Management considers historical trends in determining any potential adjustment to revenue to reflect instances where collection is not probable at the point of delivery. This has resulted in a decrease in underlying revenue for the current year of £3.8 million (2024 £1.2 million), with a corresponding decrease in receivables as shown in note 16.

The capitalisation of costs including employee and other directly attributable costs

The group incurs significant expenditure on its infrastructure assets and management has to exercise judgement in determining the classification of these costs between capital and operating expenditure. The group capitalises expenditure where the expenditure enhances assets or increases the capacity of the network. Expenditure which maintains the asset's potential to deliver future economic benefits is commonly referred to as "repairs and maintenance" and is recognised in the income statement in the period in which it is incurred. Differentiating between enhancement and maintenance works can be subjective, particularly where projects may include both activities.

The group determines employee costs directly attributable to capital projects based on the time spent on the projects. Other directly attributable costs are then assessed. The costs relating to capital projects are then capitalised into individual projects. During the year £12.1 million of directly attributable employee costs (2024: £11.1 million) and £6.1 million of other attributable costs (2024: £5.7 million) have been capitalised. This represents 7.0 per cent of total operating costs before capitalisation (2024: 6.9 per cent). In addition, the group capitalises borrowing costs incurred for significant projects that meet certain criteria and judgement is required to identify which projects qualify for this. The capitalised borrowing costs for property, plant and equipment for the year ended 31 March 2025 were £4.6 million (2024: £1.3 million).

Notes to the group financial statements

for the year ended 31 March 2025

2. Key judgements and sources of estimation uncertainty continued

2.1 Key judgements continued

Provisions for other liabilities and charges – recognition of other provisions

A provision is recognised when it is probable that the group has an obligation for which a reliable estimate can be made of the amount of the obligation. The group is subject to commercial and legal claims that are incidental to the day-to-day operation of its business. These could include contractual, regulatory, employment and environmental matters which are managed in the ordinary course of business. Assessing the outcome of uncertain commercial and legal cases requires judgement to be made regarding the extent to which any claim against the group is likely to be successful. On a case-by-case basis, management evaluates the likelihood of adverse outcomes to these matters and whether it is possible to derive a reliable estimate and makes a judgement about whether or not a provision should be recognised.

Other provisions, which are detailed in note 19, total £3.1 million at 31 March 2025 (2024: £1.9 million).

Retirement benefit obligations – recognition of a defined benefit asset

The Trust Deeds for the South East Water Pension Scheme (SEWPS) and the Mid Kent Group Pension Scheme (MKGPS) provide the group with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan winding-up. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind-up the schemes or otherwise augment the benefits due to members of the schemes. Based on these rights, the group considers that under IFRIC 14, it is appropriate to recognise the net surpluses in SEWPS and MKGPS of £5.7 million (2024: £19.3 million) and £2.7 million (2024: £3.8 million) respectively in full.

Climate change

We have identified climate change as our leading principal risk. The natural environment in which the group operates is continually changing and the expected impact on the group from climate change is set out within the climate related disclosures in the strategic report on pages 98 to 117. The consequences of global warming could affect the quantity and quality of water resources and potentially disrupt our operations or those of others on whom we rely, such as energy suppliers.

The risks associated with climate change are long-term in nature, and will create a need for us to adapt our infrastructure to improve resilience. Our assessment of transitional risks has identified a potential impact on asset values to the extent that investment in new low carbon technology could reduce remaining useful economic lives of existing assets. However, at this stage of our assessment and long-term planning we have not identified any material impact on the value or lives of specific assets that can be directly linked to climate change.

2.2 Key sources of estimation uncertainty

Estimates are required to be made by management when preparing the financial statements. These estimates affect the value of assets and liabilities at the balance sheet date and income and expenditure for the year. The estimates and underlying assumptions are reviewed on an ongoing basis with any revisions to accounting estimates recognised in the period in which the estimate is revised and future periods where the revision affects both current and future periods. The actual results may differ from those arrived at based on management's estimates.

Notes to the group financial statements

for the year ended 31 March 2025

2. Key judgements and sources of estimation uncertainty continued

2.2 Key sources of estimation uncertainty continued

Unbilled water income

Unbilled water income at the year-end (Household customers): metered customers are billed on a six monthly cycle. This means that at the year-end there is a large volume of water which has been supplied but not billed to customers. The value of unbilled water income at 31 March 2025 is estimated to be £44.4 million (2024: £42.5 million).

The methodology for arriving at the value of unbilled consumption incorporates estimates of water used based on historical consumption data and the relevant tariffs for customers. Previously billed consumption history provides a reliable basis for the estimate that is included in the financial statements. Our historical analysis of consumption indicates that billed revenue has generally been within 2 per cent of our previous estimates of the value of unbilled consumption.

The sensitivity of the estimate of unbilled consumption is illustrated in the table below where the impact of fluctuations in estimated water consumption in one year of one per cent and two per cent have been set out. These variants have been selected because our annual assessment of unbilled revenue is usually within 2 per cent of actual billed revenue.

Sensitivity					
Unbilled water income	+1%	+2%	-1%	-2%	
31 March 2025	£44.4 m	+£0.4 m	+£0.9 m	-£0.4 m	-£0.9 m
31 March 2024	£42.5 m	+£0.4 m	+£0.9 m	-£0.4 m	-£0.9 m

Unbilled water income at the year end (Non-Household customers): Water revenue chargeable to Non-Household customers is governed by the Market Settlement Process and information provided by the Central Market Operating System. System data is used to estimate the amount of unbilled revenue in respect of Non-Household customers. As at 31 March 2025, the level of unbilled revenue was estimated to be £4.9 million (2024: £5.1 million).

Sensitivity					
Unbilled water income	+1%	+2%	-1%	-2%	
31 March 2025	£4.9 m	+£0.05 m	+£0.10 m	-£0.05 m	-£0.10 m
31 March 2024	£5.1 m	+£0.05 m	+£0.11 m	-£0.05 m	-£0.11 m

Our calculations are prepared at the year-end but based on consumption patterns over the last six months.

Notes to the group financial statements

for the year ended 31 March 2025

2. Key judgements and sources of estimation uncertainty continued

2.2 Key sources of estimation uncertainty continued

Household debt

Our Household customer base includes customers who cannot or will not pay their bills and, therefore, we need to make a provision for the level of doubtful debt. The value of the provision for doubtful debts as at 31 March 2025 was £40.1 million (2024: £35.4 million).

Our methodology establishes the expected credit loss of our household debt at the year-end by identifying customer debt categories and projecting historical cash collections across these customer groups to determine an estimate of irrecoverable debt. The expected credit loss is calculated based on estimated cash collection percentages that take into account historical performance, and also on our expectations of the future impact of external economic factors on the group's collection of household debt. The continuing economic factors including higher energy and fuel prices, high inflation and increases in taxation are already impacting household disposable income and are expected to continue to do so.

In our calculations of the expected credit loss we do not take credit for cash collections expected to be received after more than four years. This is equivalent to reducing cash collection percentages by 3.1 per cent. We consider that this adjustment fairly reflects the potential future impact of wider economic factors on cash collection rates.

Our cash collection history over the past three years has been used to determine future collection rates, in line with the approach for 2023/24. This is considered a reasonable approach in recognising the economic pressures brought about by the cost of living crisis.

The sensitivity of the bad debt provision is illustrated in the table below where the impact of using cash collection histories over the past two years and four years as the basis for determining the expected credit loss is shown.

Cash collection history			
Bad debt provision estimate	2 years	4 years	
31 March 2025	+£0.2 m	-£1.0 m	
31 March 2024	+£1.0 m	-£0.9 m	

Retailers

South East Water Limited provides wholesale supply to Retailers through the Non-Household market/ (MOSL). Trading terms are governed under the Wholesale Code and as such we secure collateral from Business Retailers in the form of bank guarantee, deposit or other form of security. At the year end, our assessment is that the security provided by Business Retailers obviates the need to make a provision against retailer debt.

The useful lives of property, plant and equipment and intangible assets

Management estimates the useful economic lives of property, plant and equipment and intangible assets employed by the group in meeting its business objectives. Tangible and intangible assets are categorised by type of asset or equipment and an appropriate estimate of how long the assets in each category will remain operational and economically viable is made. This estimate will determine the value of depreciation charged to the income statement each year and the carrying value of fixed assets in the balance sheet.

The estimates are based on management's judgement and experience and are reviewed annually to ensure they are still suitable. Additionally, an impairment review of assets is undertaken each year to identify any assets that may be impaired and to write down the value of those assets to the future economic value.

Notes to the group financial statements

for the year ended 31 March 2025

2. Key judgements and sources of estimation uncertainty continued

2.2 Key sources of estimation uncertainty continued

The sensitivity on the annual depreciation charge due to the estimates of asset lives is illustrated in the tables below using examples of the lives attributed to:

- ▶ Wells and boreholes of 60 years (included in Land, wells, structures and buildings)
- ▶ Light plant and machinery of 20 years (included in Plant, equipment and vehicles)
- ▶ Computer software of 5 years

		Sensitivity			
	Wells and boreholes	+5 years	+20 years	-5 years	-20 years
31 March 2025	£4.8 m	-£0.4 m	-£1.2 m	+£0.4 m	+£2.4 m
31 March 2024	£3.7 m	-£0.3 m	-£0.9 m	+£0.3 m	+£1.9 m

		Sensitivity			
	Light plant and machinery	+5 years	+10 years	-5 years	-10 years
31 March 2025	£24.1 m	-£4.8 m	-£8.0 m	+£8.0 m	+£24.1 m
31 March 2024	£24.7 m	-£4.9 m	-£8.2 m	+£8.2 m	+£24.7 m

		Sensitivity			
	Computer software	+1 years	+3 years	-1 years	-3 years
31 March 2025	£2.5 m	-£0.4 m	-£0.9 m	+£0.6 m	+£3.8 m
31 March 2024	£2.3 m	-£0.4 m	-£0.9 m	+£0.6 m	+£3.5 m

Pension and other post-employment benefits

There are a range of variables required to be determined to value the company's defined benefit pension schemes and the underlying costs of providing post employment benefit.

The costs of defined benefit pension schemes are determined using actuarial valuations. The actuarial valuations are determined by using certain assumptions for discount rates, mortality rates, expected return on assets and corporate bond performance projections as set out in note 23. Pension increases are based on expected future inflation rates. The net defined benefit pension scheme asset at 31 March 2025 is £8.4 million (2024: £23.0 million) and is recognised in full.

Notes to the group financial statements

for the year ended 31 March 2025

2. Key judgements and sources of estimation uncertainty continued

2.2 Key sources of estimation uncertainty continued

The sensitivity of the estimate of the surpluses in the pension schemes is illustrated in the table below where the impact of fluctuations in prevailing market conditions on key assumptions of discount rate, inflation and life expectancy have been set out.

Sensitivities	31 March 2025	Decrease in schemes' surplus
0.1% decrease to the discount rate	£1.7 m	1.1 %
0.1% increase to inflation	£1.7 m	1.1 %
One year increase in life expectancy	£5.6 m	3.1 %

Sensitivities	31 March 2024	Decrease in schemes' surplus
0.1% decrease to the discount rate	£2.1 m	1.2 %
0.1% increase to inflation	£1.9 m	1.1 %
One year increase in life expectancy	£6.7 m	3.8 %

In 2020 and 2021 mortality rates were significantly higher than the long-term trend as a result of Covid-19, although 2021 was an improvement on 2020. Mortality experience continued to be elevated during 2022 and subsequent years, and although excess deaths could be attributed to the virus in the years following the pandemic, recent evidence suggests that excess deaths are now primarily due to other causes. The latest available version of the CMI projections model (CMI_2023) used in the calculations for the 2025 year end gives weight to post-pandemic experience. The CMI_2023 model differs from that adopted in previous years in that there is a single weighting calibration parameter with users able to determine what weighting to apply to 2022 and 2023.

The choice of weighting to apply to recent data is a complex area and will require judgements to be made. The UK has continued to see the impact of the pandemic over 2022 and 2023 with significant excess deaths compared to pre-pandemic levels. However the prominent cause of deaths is no longer a direct result of Covid-19, with factors such as delayed diagnoses from lockdown events, strain on the NHS due to backlogs and poorer health due to long Covid being possible reasons for the sustained higher mortality.

Whilst the CMI has accepted that recent mortality may be indicative of future mortality trends (by setting $w_{2022} = w_{2023} = 15$ per cent), we view this as conservative given the UK's economic situation with a cost-of-living crisis and associated challenges. Therefore, given the UK's uncertain outlook but recognising that the core CMI_2023 model may well represent an overly cautious view of experience in the near-term, the group's current view is that the CMI_2023 with weighting parameters of 25 per cent for 2022 and 2023 experience is appropriate.

The increase in weighting compared with the core CMI_2023 model results in a reduction in liabilities of 0.5 to 1.0 per cent for a typical scheme.

As this is a roll-forward calculation, the liabilities are based on the membership as at the last formal valuation at 31 March 2023 and will ignore any excess deaths experienced since that date.

Notes to the group financial statements

for the year ended 31 March 2025

3. Material accounting policies

The principal accounting policies adopted by the group are set out below. These policies have been consistently applied in both the current and prior years, except for those changes required due to the mandatory adoption of new reporting standards.

3.1 Going concern

The group and 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 45 and 66.

The directors have undertaken a detailed review of the group and company's liquidity requirements compared with the cash and facilities available, which includes cash at hand, cash on deposit, and committed bank facilities of which £56.0 million remained undrawn at 31 March 2025. The directors have also considered the financial covenant position including projections based on future forecasts, the current credit ratings and financial risk.

The PR24 business plan is the group's most ambitious business plan ever. The proposed investment over the five years 2025 to 2030 amounts to £2.1 billion with goals to improve customer service, reduce customer supply interruptions and strengthen network resilience. A significant investment in environmental schemes is also proposed.

As a result of the higher operating and capital expenditure proposed in the business plan, the group and company has forecasted a net cash outflow position before financing inflows over the going concern period of 12 months to 14 July 2026.

The group and company forecast base case does not indicate an additional requirement for financing in the going concern period although shortly after the going concern period it will be necessary to renew the existing revolving credit facility, or find alternative financing, in order to continue as a going concern. The severe but plausible downside case without mitigating actions would indicate a need for financing towards the end of the going concern period. The revolving credit facility matures in September 2026 and discussions with lenders are underway and progressing well, although at the date of approval of signing these financial statements the renewal has not been legally committed.

The directors are of the opinion that the revolving credit facility will be renewed, but as this has not been legally committed at the date of signing these financial statements and the commitment is not within the control of the directors, the risk that the revolving credit facility will not be renewed constitutes a material uncertainty that may cast significant doubt on the ability of the group and company to continue as a going concern.

Notwithstanding the material uncertainty described above, and on the basis of their assessment of the group and company's overall financial position, and the latest cash flow forecast shared with the board, the directors have a reasonable expectation that the group and therefore the company has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the date of approval of these financial statements. For this reason the directors continue to adopt the going concern basis of accounting in preparing the financial statements. Further details can be found in the strategic report on pages 45 and 66. The financial statements do not include the adjustments that would result if the group and company were unable to continue as a going concern.

3.2 Basis of consolidation

These financial statements incorporate the financial information of South East Water Limited and its subsidiary, South East Water (Finance) Limited (together the "group").

Transactions and balances between the company and its subsidiary have been eliminated fully on consolidation. Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group.

Notes to the group financial statements

for the year ended 31 March 2025

3. Material accounting policies continued

3.3 Revenue

Revenue represents the fair value of the consideration receivable in the ordinary course of business for the goods and services provided. All revenue arises within the United Kingdom and is recorded net of VAT. The company only recognises revenue in respect of "named" customers, that is the company will not bill an address without first knowing the name of the person living at the address. Specific recognition criteria must also be met before revenue is recognised as detailed below.

Bad debt on bills raised in the year considered uncollectable at the time of billing based on historical experience is excluded from revenue. This ensures that the revenue recorded is the amount which the company expects to receive from its customers for the provision of its services in line with the requirements of IFRS 15.

Metered and unmetered income

The performance obligation of the company for metered and unmetered income is the supply of potable water to each named customer in the period under review.

Metered water income is recognised when water has been delivered to the customer and the performance obligation has been satisfied for the period. This income includes an estimation of the volume of mains water supplied but unbilled at the year end which is recorded within contract assets (accrued income). This is estimated using a defined methodology as detailed under key sources of estimation uncertainty above.

Unmetered water income was invoiced in full for the financial year 2024/25 on 1 April 2024 and is recognised over the year as water is supplied to the named customer and the performance obligation is satisfied.

Cash received in advance from customers is not treated as current year revenue, being recognised as payments received in advance within contract liabilities.

Infrastructure charges

Infrastructure charges represent the fees charged to property developers and others for connecting new properties and water outlets to the group's network. The performance obligation within these contracts is the completed connection of the relevant properties and outlets to the mains supply. These fees are recognised in the income statement upon completion of the performance obligation.

Contributions

Contributions are received in respect of both infrastructure and non-infrastructure assets and are usually received in advance of the work being undertaken by the company. The receipts are recognised as deferred income on the balance sheet upon receipt. The performance obligation for this income stream is the completion of the work to which contributions relate. The income is recognised in the income statement upon completion of the specific performance obligations.

Rechargeable works

Rechargeable works includes the administration work required to be performed for developers in managing new connections and other mains related projects. Also included in rechargeable works are the sales of plumbing and related services to third parties.

The performance obligations for rechargeable works are the installation of meters, the connection of new property developments to the mains supply and the completion of specific contracted work. The income for rechargeable works is recognised when the performance obligations are completed.

Notes to the group financial statements

for the year ended 31 March 2025

3. Material accounting policies continued

3.3 Revenue continued

Other income

Other income includes charges for engineering, scientific, laboratory, billing and cash collection services.

The performance obligations for the supply of these services are detailed in the specific contracts with customers and the income is recognised in the income statement when the work to which it relates is complete.

Finance income

Finance income is recognised using the effective interest rate method.

Contract assets

Contract assets are presented in the statement of financial position when the group's right to consideration is met in advance of billing. An example would be contract assets relating to revenue based on an estimate of the amount of water charges unbilled at year end. The group applies the IFRS 9 simplified approach to measuring expected credit losses on contract assets which uses a lifetime expected loss allowance.

Contract liabilities

Contract liabilities are presented in the statement of financial position where a customer has paid an amount of consideration prior to the group performing the transfer of the related good or service to the customer. An example would be for an unmeasured customer where the amount billed is dependent upon the rateable value of the property. The amount is billed at the start of the financial year and is apportioned to revenue over the period. In addition, included in contract liabilities is receipts in advance in relation to contributions received for infrastructure and non-infrastructure assets.

3.4 Outcome Delivery Incentives

Water companies operate on a five-year business plan, known as the Asset Management Plan (AMP). The current period, AMP 7, runs from 1 April 2020 to 31 March 2025. The price review process is undertaken by Ofwat in advance of each five-year period, and they determine the revenue that can be earned through customer bills in exchange for providing a specified level of service.

A key element of the pricing framework is Outcome Delivery Incentives (ODIs), which link performance to financial rewards or penalties. These incentives are designed to either increase or reduce the company's revenues, depending on service levels. ODIs can result in either revenue adjustments or Regulatory Capital Value (RCV) adjustments, influencing future tariff levels.

The ability to benefit from ODI rewards or suffer from ODI penalties is tied to the provision of future services as well as performance in future periods, and ODI adjustments are therefore not recognised as assets or liabilities (entitlement or obligation) at the balance sheet date. Most of South East Water's AMP 7 performance commitments involve financial ODIs, and adjustments may be made either in-period or at the end of the AMP period.

For in-period adjustments, any financial outcomes from exceeding or underperforming targets are assessed annually and reflected in future revenue allowances with a two-year lag. For end-of-AMP adjustments, the financial impact of the ODIs will be reviewed at the next price review, and any adjustments will be applied to the revenue allowances for the next AMP period.

Notes to the group financial statements

for the year ended 31 March 2025

3. Material accounting policies continued

3.5 Taxation

Current tax, being UK Corporation Tax, is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Tax relating to items recognised directly in equity is also recognised directly in equity and not in the income statement.

Deferred tax is calculated using the balance sheet method, addressing temporary differences between asset and liability values for tax accounting purposes. Deferred tax liabilities and assets are generally recognised for all taxable temporary differences. However, a deferred tax asset is only recognised if it is probable there will be enough taxable profits in the future to use it. Deferred tax assets and deferred tax liabilities are measured at the tax rates expected to apply when they reverse, and they are not discounted. Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3.6 Dividends

Dividends are recorded in the financial statements in the year in which they are approved by the board.

3.7 Investments in subsidiaries

Investments are recorded at historical cost. Where the directors are of the opinion that there has been a permanent diminution in the value of investments, the carrying amount of such investments is written down to the recoverable amount.

3.8 Intangible assets

(i) Intangible assets

Externally acquired and internally generated intangible assets, once in use, are recognised at cost. They have finite useful lives and are amortised over three to seven years on a straight-line basis. Useful lives of intangible assets are re-assessed annually and, where necessary, changes are accounted for prospectively.

Employee and other costs directly attributable to intangible asset projects are capitalised in the financial statements as part of the cost of the intangible asset to which they relate. Training costs, administration and other general overhead costs including interest are not capitalised.

Intangible assets under development are amortised once brought in to use.

(ii) Derecognition of intangible assets

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the item, is included in the income statement in the year in which the item is derecognised.

Notes to the group financial statements

for the year ended 31 March 2025

3. Material accounting policies continued

3.8 Intangible assets continued

(iii) Software-as-a-Service “SaaS” arrangements

SaaS arrangements are service contracts that allow the group the right to access the cloud service provider's software over the contract period. Costs incurred to configure or customise the application, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received.

Where costs are incurred relating to the development of software code that enhances or modifies existing on-premise systems, the costs are recognised as intangible software assets, subject to meeting the recognition criteria for an intangible asset. These are amortised over the useful life of the software on a straight line basis. The useful lives of these assets are reviewed at least at the end of each financial year, and any change accounted for prospectively as a change in accounting estimate.

3.9 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and provision for impairment. Certain assets, which were held at the time of the group's transition to IFRS, are stated at deemed cost being the fair value at the transition date less accumulated depreciation and provision for impairment.

Assets in the course of construction are depreciated from the time they are brought into use.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Land, wells, structures and buildings

Freehold land is not depreciated.

Wells (including boreholes): 60 years.

Operational structures are assets used for water treatment purposes and include service reservoirs, water towers and similar assets. They are depreciated over 50 to 80 years.

Freehold buildings: 80 years. Other buildings are depreciated over the length of the lease.

Plant, equipment and vehicles

Fixed plant and machinery: 10 to 35 years.

Meters, vehicles, mobile plant, furniture and office and IT equipment: 3 to 10 years.

Mains and surface reservoirs

Mains comprises a network of pipes and supplementary components which are depreciated over a period of between 20 years and 100 years.

Surface reservoirs: 250 years.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

Residual values and useful lives

Residual values and useful lives of all assets are re-assessed annually and, where necessary, changes are accounted for prospectively.

Notes to the group financial statements

for the year ended 31 March 2025

3. Material accounting policies continued

3.9 Property, plant and equipment continued

Capitalisation of employee and other directly attributable costs

Employee and other costs, including borrowing costs, directly attributable to capital projects are capitalised in the financial statements as part of the cost of the property, plant and equipment to which they relate. Training costs, administration and other general overhead costs are not capitalised.

Leased assets

Property, plant and equipment held under leases are capitalised as a right-of-use asset at the present value of the minimum lease payments. These assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Impairment of property, plant and equipment, investments and intangible assets

At each reporting date an assessment is carried out to determine whether there is any indication that property, plant and equipment, investments and software intangible assets may be impaired. If there is an indication of impairment, the recoverable amount of the asset or respective cash-generating unit is compared to the carrying amount. Where the recoverable amount is less than the carrying amount, the asset value is reduced to the recoverable amount with an impairment loss recognised as an operating cost in the income statement in the year in which the respective assessment takes place.

3.10 Borrowing costs

Borrowing costs are incurred on the group's general borrowings. Where appropriate, borrowing costs are attributed to qualifying assets in line with IAS 23 Borrowing Costs. Otherwise borrowing costs are expensed as incurred. See note 8 for further details.

3.11 Inventories

Inventory is valued at the lower of average cost or net realisable value. The stocks of treated water held by the group are valued at £nil. Consumable chemical purchases are recognised as an expense in the income statement at the point they are received on site for use, either from central stores or from suppliers direct.

Work-in-progress for chargeable services is valued at the lower of cost and net realisable value.

3.12 Provisions

A provision is recognised when the group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. Where the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects the risks specific to the liability.

3.13 Short-term trade and other receivables

Short-term trade and other receivables are initially measured at their transaction price in line with the provisions of IFRS 9. The carrying value for trade receivables includes an allowance for the lifetime expected credit loss (doubtful debts) of the outstanding debts. The group applies the simplified approach permitted by IFRS 9 for estimating expected credit losses on trade and other receivables. An estimate for the expected credit loss for trade receivables that are assessed not to be impaired individually is calculated by the group's management in accordance with the defined methodology detailed under key sources of estimation uncertainty above.

Notes to the group financial statements

for the year ended 31 March 2025

3. Material accounting policies continued

3.14 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Included within cash and cash equivalents are amounts that are held in designated bank accounts as short-term deposits in order to meet the interest falling due in respect of listed debt and other long-term borrowings.

3.15 Cash flow statement

For the purposes of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months maturity from the date of acquisition and include cash and bank balances and investments in liquid funds.

Interest paid in the cash flow statement includes amounts charged to the income statement only and excludes amounts charged to the cost of property, plant and equipment.

3.16 Trade payables

Trade payables are measured at fair value and subsequently measured at amortised cost.

3.17 Financial instruments

The group's financial instruments comprise fixed and variable rate borrowings, index linked loans, fixed rate debentures, lease liabilities, cash, short-term and medium-term bank deposits, trade receivables and trade and other payables.

Recognition

Financial instruments are recognised on the statement of financial position when the group becomes party to the contractual provisions of the instrument. The group determines the classification of its financial liabilities at initial recognition.

Impairment of financial assets other than trade receivables

A provision for twelve month expected credit loss on new financial assets is recognised in the income statement to establish a loss allowance on initial recognition in line with the impairment requirements of IFRS 9.

At each reporting date an assessment is carried out to determine whether there is any indication that the credit risk on financial assets has increased significantly. If this is considered to be the case, full life-time expected credit loss is recognised in the income statement.

Where there is objective evidence that an impairment loss has arisen, the loss is recognised in the income statement in the year in which the respective assessment takes place. Impaired debts are derecognised when they are assessed as irrecoverable.

Derecognition

Financial liabilities are removed from the statement of financial position when the related obligation is discharged, cancelled or it expires.

Financial assets are removed from the statement of financial position when the rights to the cash flows from the asset expire, or when the risks and rewards of ownership of the asset are transferred or when control of the asset is transferred.

Notes to the group financial statements

for the year ended 31 March 2025

3. Material accounting policies continued

3.17 Financial instruments continued

Embedded derivatives

Financial instruments and other host contracts that are not carried at fair value through the income statement are reviewed to determine if they contain embedded derivatives. Embedded derivatives are accounted for separately as derivative financial instruments when the economic characteristics and risks are not closely related to the respective host financial instrument or contract.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

Interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Liabilities arising on leases

The initial values of lease liabilities equate to the present value of future lease payments under the relevant lease contracts. The group has applied the practical expedient of using a single discount rate to leases with reasonably similar characteristics. The discount rates used in calculating the liabilities reflect the interest rates at which the group would currently be able to borrow in order to finance similar assets to those under the lease affected by the transition (the incremental borrowing rate).

3.18 Revaluation reserve

The revaluation reserve was created on the adoption of IFRS when the company took the option to treat the revalued amounts as deemed cost. This reserve is released over the life of the underlying assets to which it relates in line with the depreciation of the revalued assets and transferred to retained earnings. The revaluation uplift remaining on any assets that are disposed of is also transferred to retained earnings at the time of the disposal.

3.19 Research and Development

Research costs are charged to the income statement in the year in which they are incurred.

Development costs are capitalised based on management's judgement that the technological and economic feasibility of a project is confirmed, usually when a project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

3.20 Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the consolidated statement of comprehensive income in the year to which they relate.

3.21 Defined benefit schemes

The pension scheme asset or liability in the statement of financial position represents the net present value of the defined benefit obligation and the fair value of scheme assets at the balance sheet date. The present value of the defined benefit obligation is analysed between the funded and unfunded pension plans.

The present value of the defined benefit obligation and the cost of providing benefits under defined benefit plans is determined on a triennial basis, and updated to each year end by an independent qualified actuary using the Projected Unit Credit actuarial valuation method, discounted at an interest rate equivalent at measurement date to the rate of return on a high quality corporate bond of equivalent term and currency to the scheme liabilities.

Notes to the group financial statements

for the year ended 31 March 2025

3. Material accounting policies continued

3.21 Defined benefit schemes continued

The pension cost in the income statement includes current and past service cost and the effect of any settlements and curtailments. A net finance charge or credit is recognised within finance costs in the income statement and comprises the net of the expected return on pension scheme assets and the interest on pension scheme liabilities.

All actuarial gains and losses and the related deferred taxation are recognised in the statement of comprehensive income.

4. Revenue and other income

The following is an analysis of the group and company's revenue and other income for the year from continuing operations:

Group and Company	2025 £000	2024 £000
Revenue		
Household - measured	204,188	196,554
Household - unmeasured	21,644	21,171
Non-household - measured	52,408	51,864
Non-household - unmeasured	1,124	1,102
Other revenue	9,967	11,084
Charge for bad and doubtful debts	(3,814)	(1,181)*
Total revenue	285,517	280,594*
 Other income		
Rental income	1,168	1,172
Laboratory income	4,354	3,769
Commission income	7,978	7,666
Other income	996	820
Total other income	14,496	13,427

All revenue is from customers within the United Kingdom.

Other revenue comprises a number of income streams, including those associated with activities typically performed for property developers, which impact the group's infrastructure network assets, including diversions works to relocate water assets, and activities that facilitate the creation of an authorised connection through which properties can obtain water services. Other revenue includes new connections income of £4.0 million (2024: £3.9 million), infrastructure income of £0.2 million (2024: £1.0 million) and capital contributions of £3.5 million (2024: £3.5 million).

* Under IFRS 15, revenue should only be recognised to the extent that it is probable that economic benefits will flow to the entity. In previous years, we have estimated the amount of revenue potentially requiring adjustment as immaterial (2024: £1.2 million). We have reviewed the basis on which the adjustment is calculated in the current year, aligning the calculation with the bad debt provision assessment period. This has resulted in an adjustment of £3.8 million for the current year. We have reflected this adjustment as a deduction against revenue in the current year, and in order to ensure comparability between years we have restated the presentation of the bad debt charge for the prior year. This has no impact on operating profit and is purely presentational.

Notes to the group financial statements

for the year ended 31 March 2025

4. Revenue and other income continued

Contract assets and liabilities

The group has recognised the following revenue-related contract assets and liabilities:

	2025 £000	2024 £000
Contract assets		
<i>Current</i>		
Accrued revenue for water supplied to metered customers	49,254	47,593
Accrued income for other activities	1,220	1,284
Total contract assets	50,474	48,877
Contract liabilities		
<i>Non-current</i>		
Deferred revenue from infrastructure charges	3,913	3,646
Deposits payable to developers	3,483	3,864
Total non-current contract liabilities	7,396	7,510
<i>Current</i>		
Advance payments received	47,674	46,227
Deferred revenue from infrastructure charges	4,215	5,247
Deferred revenue from other activities	400	404
Total current contract liabilities	52,289	51,878
Total contract liabilities	59,685	59,388

Revenue recognised in relation to contract liabilities

The table below shows how much revenue was recognised in the reporting period relating to brought forward contract liabilities.

Year ended 31 March	2025 £000	2024 £000
<i>Revenue recognised that was included in the contract liability balance at the start of the period</i>		
Advance payments received	46,227	48,087
Deferred revenue from infrastructure charges	5,247	4,972
Deferred revenue from other activities	404	340
Total	51,878	53,399

Notes to the group financial statements

for the year ended 31 March 2025

5. Segmental Analysis

Financial and other performance information is reported internally every month to the South East Water Limited Executive Committee. The Executive Committee is responsible for the day to day running of the business, and accordingly the Executive Committee is considered to be the chief operating decision maker of the group for the purposes of segmental reporting under IFRS 8: Operating Segments. The Executive Committee considers that the group's activities largely fall into one main business segment, namely Regulated Water, with all other activities included in "Other" below. Regulated Water is the supply of potable water on a wholesale and retail basis, both of which are governed by the Water Act 2014.

A segmental analysis of the management results are presented below together with a reconciliation to the statutory revenue and loss before tax.

	Regulated water £000	Other activities £000	Total £000
Year ended 31 March 2025			
Water revenue	279,365	-	279,365
Other income	5,782	18,594	24,376
Net operating costs	(179,801)	(14,538)	(194,339)
EBITDA	105,346	4,056	109,402
Depreciation, amortisation and impairment	(65,477)	-	(65,477)
Company operating profit	39,869	4,056	43,925
Year ended 31 March 2024			
Water revenue	270,692	-	270,692
Other income	6,994	17,725	24,719
Net operating costs	(163,948)	(14,033)	(177,981)
EBITDA	113,738	3,692	117,430
Depreciation, amortisation and impairment	(63,346)	-	(63,346)
Company operating profit	50,392	3,692	54,084

Water revenue on a management basis above of £279.4 million (2024: £270.7 million) compares with total revenue on a statutory basis of £285.5 million (2024: £280.6 million). The difference is Other revenue of £10.0 million (2024: £11.1 million) (see note 4) and an adjustment of £3.8 million (2024: £1.2 million) attributed to bad debt on bills raised in the year, in line with the requirements of IFRS 15.

Notes to the group financial statements

for the year ended 31 March 2025

5. Segmental Analysis continued

The business segments' operating profit is reconciled to the group's statutory operating profit and loss before tax as follows:

	2025 £000	2024 £000
Management operating profit	43,925	54,084
Results of South East Water (Finance) Limited (1)	(6)	(6)
Pension costs adjustment (2)	5,576	6,064
Statutory depreciation and write-off adjustments (3)	-	-
Profit on disposal of property, plant and equipment	63	69
Capitalisation of new connections (4)	4,498	4,660
Additional bad debt provision (5)	(1,095)	-
Other statutory adjustments	1,526	(1,094)
Statutory profit from operations	54,487	63,777
Finance income	2,490	1,711
Finance expense	(76,758)	(102,151)
Statutory loss before taxation	(19,781)	(36,663)

- 1) The profit of South East Water (Finance) Limited is consolidated into these financial statements but not included in the finance reports presented to the Executive Committee.
- 2) The internal finance reports include pension costs on the basis of contributions paid whereas the financial statements include pension costs on the basis of IAS 19 Employee Benefits.
- 3) Adjustments are made to depreciation and impairment or write-off of assets between internal finance reports and the financial statements.
- 4) The internal finance reports record the costs associated with new connections in operating costs but these costs are capitalised as Property, Plant and Equipment in the financial statements.
- 5) The bad debt provision for 2025 was reviewed and increased as part of the process to finalise the financial statements.

The group analyses results by segment to profit from operations only, so no segmental statement of financial position or statement of cash flows are presented.

Notes to the group financial statements

for the year ended 31 March 2025

6. Net Operating Costs

Group	Note	2025 £000	2024 £000
Employee benefits expense	7	43,494	38,643
Asset expense:			
Depreciation - owned assets		62,418	59,941
Depreciation - right-of-use assets		535	1,113
Amortisation of intangible assets	13	2,524	2,315
Profit on disposal of property, plant and equipment		(63)	(69)
		65,414	63,300
Other operating expenses:			
Operating lease rentals:			
Vehicles and office equipment		328	324
Land and buildings		16	(7)
Energy costs		29,982	27,674
Rates		16,254	16,640
Contractors		45,653	41,484
Bulk water supplies and abstraction licences		11,489	10,294
Chemicals		6,939	6,758
Insurance and related costs		4,281	4,161
Compensation and donations		1,707	2,152
IT costs		7,263	4,699
Other		14,776	15,311
Other operating expenses charged to capital projects		(6,125)	(5,722)
		132,563	123,768
Total operating costs		241,471	225,711

The other operating costs includes admin fees of £6,000 (2024: £6,000) for South East Water (Finance) Limited.

Group and Company		2025 £000	2024 £000
Fees payable to the group's auditors in respect of:			
Audit of the group and company financial statements		529	564
Audit of subsidiary		1	1
Total audit		530	565
Regulatory accounts		78	76
Other assurance services		18	17
Total non-audit services		96	93
Total fees payable to the group's auditors		626	658

Notes to the group financial statements

for the year ended 31 March 2025

7. Employees and directors

Group and Company	2025 £000	2024 £000
Employee benefit expenses (including directors) comprise:		
Wages and salaries	45,704	41,467
Social security costs	4,628	4,181
Defined contribution pension cost	3,419	3,114
Defined benefit scheme charge	1,825	957
Labour costs capitalised	(12,082)	(11,076)
	43,494	38,643

Key management personnel compensation

Emoluments of the directors, who are the group's key management, were:

	2025 £000	2024 £000
Aggregate emoluments including bonuses (short-term employee benefits)	1,056	1,016
Pension scheme costs – defined contribution plans	23	20
	1,079	1,036

Emoluments of the highest paid director including bonuses were: £448,000 (2024: £430,000).

One director (2024: one) has a deferred pension from the defined benefit pension schemes which closed to future accrual in 2015. There are currently two directors (2024: two) under a defined contribution scheme.

Further disclosures in respect of directors' emoluments are set out in the remuneration report on page 170.

The monthly average number of persons, including the directors, employed by the group during the year was as follows:

	2025 No.	2024 No.
Operations	505	443
Management and Administration	622	628
	1,127	1,071

Notes to the group financial statements

for the year ended 31 March 2025

8. Finance income and expense

Group	2025 £000	2024 £000
Finance income		
Interest receivable on bank balances and short-term deposits	1,361	530
Net interest income on defined benefit asset	1,129	1,181
Total finance income	2,490	1,711
Finance expense		
Debenture interest	42	42
Effective interest on listed debt	15,185	15,003
Interest on lease liabilities	136	121
Financing guarantee fees	1,320	1,188
Bank interest and other finance charges	20,148	18,151
Amortisation of loan issue costs	827	652
Indexation on index linked bonds	7,051	12,349
Interest payable on index linked loans	17,856	16,044
Indexation on index linked loans	18,765	39,942
Interest capitalised	(4,572)	(1,341)
Total finance expense	76,758	102,151

Interest is capitalised at the weighted average rate of interest on the group senior long-term debt of 5.0 per cent (2024: 5.0 per cent).

Indexation on index linked bonds and loans are lower due to the decreased inflation and lower RPI compared to prior year.

Company	2025 £000	2024 £000
Finance income		
Interest receivable on bank balances and short-term deposits	1,271	511
Net interest income on defined benefit asset	1,129	1,181
Total finance income	2,400	1,692
Finance expense		
Debenture interest	42	42
Interest payable to subsidiary	19,058	18,728
Indexation payable to subsidiary	12,605	22,766
Interest on lease liabilities	136	121
Financing guarantee fees	1,320	1,188
Bank interest and other finance charges	20,148	18,150
Amortisation of loan issue costs	827	652
Interest payable on index linked loans	14,006	12,342
Indexation on index linked loans	13,211	29,525
Interest capitalised	(4,572)	(1,341)
Total finance expense	76,781	102,173

Interest is capitalised at the weighted average rate of interest on the group senior long-term debt of 5.0 per cent (2024: 5.0 per cent).

Indexation on index linked bonds and loans are lower due to the decreased inflation and lower RPI compared to prior year.

Notes to the group financial statements

for the year ended 31 March 2025

9. Taxation

9.1 Income tax recognised in profit or loss

Group	2025 £000	2024 £000
Current tax		
Current tax on profits for the year	27	9
Adjustments in respect of prior years	(65)	(93)
Total current tax credit		
	(38)	(84)
Deferred tax credit		
Origination and reversal of timing differences	(4,715)	(9,053)
Adjustments in respect of prior years	(1,487)	517
Total deferred tax credit		
	(6,202)	(8,536)
Total tax credit		
	(6,240)	(8,620)

Total tax credit above consists of a tax credit of £6,267,000 (2024: £8,629,000) for South East Water Limited and a charge of £27,000 (2024: £9,000) for South East Water (Finance) Limited.

The reasons for the difference between the actual tax credit for the year and the standard rate of corporation tax in the United Kingdom applied to losses before income tax for the year are as follows:

Group	2025 £000	2024 £000
Loss for the year	(13,541)	(28,043)
Income tax credit	(6,240)	(8,620)
Loss before income taxes		
Tax using the company's domestic tax rate of 25% (2024: 25%)	(4,945)	(9,166)
Expenses not deductible for tax purposes, other than goodwill, amortisation and impairment	273	138
Adjustments to current tax charge in respect of prior periods	(65)	(92)
Adjustments to deferred tax charge in respect of prior periods	(1,487)	517
Tax effect of income not taxable in determining taxable profit	(16)	(17)
Total tax credit		
	(6,240)	(8,620)

Notes to the group financial statements

for the year ended 31 March 2025

9. Taxation continued

9.1 Income tax recognised in profit or loss continued

The deferred tax on temporary differences as at 31 March 2025 have been calculated using 25 per cent (2024: 25 per cent), the enacted corporation tax rate for the periods during which the temporary differences are expected to unwind.

The adjustments to current and deferred tax charge in respect of previous years represent the changes between the prior year financial statements and the prior year tax computations submitted. The expenses not deductible for tax purposes are primarily driven by the movement on general provisions, non-deductible entertainment expenditure, and depreciation on non-qualifying capital expenditure.

Changes in tax rates and factors affecting the future tax charges

Capital investment is expected to remain at similar or higher levels and the group expects to be able to claim capital allowances in excess of depreciation in future years. There are losses of £61.8 million available within the company to mitigate future profits. The enacted enhanced 100 per cent first year full expensing capital allowance for qualifying plant and machinery and 50 per cent allowance for special rate assets expenditure have been made permanent.

9.2 Income tax recognised in other comprehensive income

Group and Company	2025 £000	2024 £000
Deferred tax		
Deferred tax on defined benefit pension schemes	5,294	2,004

The net credit recognised in other comprehensive income for the year ended 31 March 2025 is £5.3 million (2024: £2.0 million).

9.3 Deferred tax balances

The following is the analysis of deferred tax liabilities presented in the consolidated statement of financial position:

Group and Company	2025 £000	2024 £000		
Group and Company	Opening balance £000	Recognised in profit or loss £000	Recognised directly in equity £000	Closing balance £000
2025 Deferred tax (liabilities)/assets in relation to:				
Property, plant and equipment				
Property, plant and equipment	(199,197)	7,090	-	(192,107)
Losses carried forward	14,662	781	-	15,443
Defined benefit obligations	(5,130)	(1,669)	5,294	(1,505)
	(189,665)	6,202	5,294	(178,169)

Notes to the group financial statements

for the year ended 31 March 2025

9. Taxation continued

9.3 Deferred tax balances continued

Group and Company	Opening balance £000	Recognised in profit or loss £000	Recognised directly in equity £000	Closing balance £000
2024 Deferred tax (liabilities)/assets in relation to:				
Property, plant and equipment	(206,514)	7,317	-	(199,197)
Losses carried forward	11,649	3,013	-	14,662
Defined benefit obligations	(5,340)	(1,794)	2,004	(5,130)
	(200,205)	8,536	2,004	(189,665)

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax liability at 31 March 2025 was £178.2 million (2024: £189.7 million).

Temporary timing differences

All temporary timing differences are recognised in the deferred tax calculation.

The total amount of qualifying tangible fixed assets for R&D claims recognised in the deferred tax liability as at 31 March 2025 is £191,000 (2024: £144,000).

10. Dividends

Group and Company	2025 £000	2024 £000
No dividends were paid during the year (2024: Interim dividend of 4.56 pence).	-	2,250

There were no dividends proposed for approval as at 31 March 2025.

Notes to the group financial statements

for the year ended 31 March 2025

11. Earnings per share

Group	2025	2024
	£000	£000
Loss for the year from continuing operations	(13,541)	(28,043)
Basic and diluted weighted average number of shares	2025	2024
	Number	Number
	74,312,454	49,312,354
Company	2025	2024
	Pence	Pence
Basic and diluted loss per share from continuing operations	(17.53)	(56.87)
Loss for the year from continuing operations	2025	2024
	£000	£000
	(13,621)	(28,069)
Basic and diluted weighted average number of shares	2025	2024
	Number	Number
	74,312,354	49,312,354
Basic and diluted loss per share from continuing operations	2025	2024
	Pence	Pence
	(18.33)	(56.92)

Notes to the group financial statements

for the year ended 31 March 2025

12. Property, plant and equipment

Group and Company	Land, wells, structures and buildings £000	Plant, equipment and vehicles £000	Mains and surface reservoirs £000	Assets under construction £000	Total £000
Cost or valuation					
At 1 April 2023	273,405	525,682	1,247,856	107,292	2,154,235
Additions	-	2,685	-	116,479	119,164
Disposals	(200)	(10,181)	(228)	-	(10,609)
Transfers between classes	22,589	14,956	60,674	(98,219)	-
At 31 March 2024	295,794	533,142	1,308,302	125,552	2,262,790
Additions	193	2,568	-	153,267	156,028
Disposals	(205)	(16,033)	(72)	-	(16,310)
Transfers between classes	19,008	46,945	42,319	(108,272)	-
At 31 March 2025	314,790	566,622	1,350,549	170,547	2,402,508

Group and Company	Land, wells, structures and buildings £000	Plant, equipment and vehicles £000	Mains and surface reservoirs £000	Assets under construction £000	Total £000
Accumulated depreciation and impairment					
At 1 April 2023	43,687	219,346	167,681	-	430,714
Charge for the year	5,762	33,560	21,732	-	61,054
Disposals	(140)	(10,108)	(174)	-	(10,422)
At 31 March 2024	49,309	242,798	189,239	-	481,346
Charge for the year	6,826	34,041	22,086	-	62,953
Disposals	(135)	(15,914)	(44)	-	(16,093)
At 31 March 2025	56,000	260,925	211,281	-	528,206
Net book value					
At 1 April 2023	229,718	306,336	1,080,175	107,292	1,723,521
At 31 March 2024	246,485	290,344	1,119,063	125,552	1,781,444
At 31 March 2025	258,790	305,697	1,139,268	170,547	1,874,302

Notes to the group financial statements

for the year ended 31 March 2025

12. Property, plant and equipment continued

12.1 Assets held under leases

The net book value of owned and leased assets included as "Property, plant and equipment" in the group statement of financial position is as follows:

Group and Company	31 March 2025 £000	31 March 2024 £000
Property, plant and equipment owned	1,870,841	1,777,640
Right-of-use assets, excluding investment property	3,461	3,804
	1,874,302	1,781,444

Information about right-of-use assets is summarised below:

Net book value	31 March 2025 £000	31 March 2024 £000
Property	3,426	3,701
Plant and machinery	35	103
	3,461	3,804

There are no substantial additions to the leases during the financial year.

12.2 Assets under construction relate to the following categories

	31 March 2025 £000	31 March 2024 £000
Land, wells, structures and buildings	55,168	32,411
Mains and surface reservoirs	79,881	26,889
Plant, equipment and vehicles	35,498	66,252
	170,547	125,552

Notes to the group financial statements

for the year ended 31 March 2025

13. Intangible assets

Group and Company	Computer software £000	Assets in course of construction £000	Total £000
Cost			
At 1 April 2023	32,167	840	33,007
Additions	-	4,613	4,613
Transfers between classes	1,895	(1,895)	-
Disposals	(10,350)	-	(10,350)
At 31 March 2024	23,712	3,558	27,270
Additions	-	1,250	1,250
Transfers between classes	3,456	(3,456)	-
Disposals	(1,127)	-	(1,127)
At 31 March 2025	26,041	1,352	27,393
Accumulated amortisation and impairment			
At 1 April 2023	25,239	-	25,239
Charge for the year	2,315	-	2,315
Disposals	(10,350)	-	(10,350)
At 31 March 2024	17,204	-	17,204
Charge for the year	2,524	-	2,524
Disposals	(1,122)	-	(1,122)
At 31 March 2024	18,606	-	18,606
Net book value			
At 1 April 2023	6,928	840	7,768
At 31 March 2024	6,508	3,558	10,066
At 31 March 2025	7,435	1,352	8,787

Notes to the group financial statements

for the year ended 31 March 2025

14. Subsidiaries

Details of the group's material subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the group (%)	
			2025	2024
South East Water (Finance) Limited	Finance company	Cayman Islands	100	100

South East Water (Finance) Limited

South East Water (Finance) Limited's principal purpose is to raise debt on behalf of South East Water Limited and any proceeds from such issues are lent on to South East Water Limited. South East Water (Finance) Limited is a company registered in the Cayman Islands but the company does not gain any tax benefit from this as the company is resident for tax purposes in the UK.

South East Water (Finance) Limited is wholly-owned by South East Water Limited, which owns 100 per cent of the voting rights and 100 ordinary shares of £1 each at a par value. Its registered address is P.O. Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands.

15. Inventories

Group and Company	2025 £000	2024 £000
Consumables	1,256	1,313
Work in progress	12	30
	1,268	1,343

Notes to the group financial statements

for the year ended 31 March 2025

16. Trade and other receivables

Group	2025 £000	2024 £000
<i>Financial asset receivables</i>		
Gross trade receivables	82,081	78,793
Less expected credit loss provision	(41,616)	(37,067)
Net trade receivables	40,465	41,726
Contract assets	49,445*	47,985*
Sundry debtors	3,639	2,018
Amounts due from parent and fellow subsidiary undertakings due within one year	443	50
	93,992	91,779
<i>Non-financial asset receivables</i>		
Prepayments	5,286	5,698
Total trade and other receivables	99,278	97,477

* Shown net of expected credit loss provision of £1.0 million (2024: £0.9 million).

Company	2025 £000	2024 £000
<i>Financial asset receivables</i>		
Gross trade receivables	82,081	78,793
Less expected credit loss provision	(41,616)	(37,067)
Net trade receivables	40,465	41,726
Contract assets	49,445*	47,985*
Sundry debtors	3,617	2,014
Amounts due from parent and fellow subsidiary undertakings due within one year	443	50
	93,970	91,775
<i>Non-financial asset receivables</i>		
Prepayments	5,247	5,317
Total trade and other receivables	99,217	97,092

* Shown net of expected credit loss provision of £1.0 million (2024: £0.9 million).

Group and Company

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This is calculated based on historical experience of levels of recovery and expectation of what might happen in the future.

Notes to the group financial statements

for the year ended 31 March 2025

16. Trade and other receivables continued

Movements in expected credit losses provision were as follows:

Group and Company	2025 £000	2024 £000
At 1 April	37,959	34,920
Charge for the year – charged against revenue	3,814	1,181
Charge for the year – included within operating expenses	4,055	4,533
Amounts written off (utilised)	(3,183)	(2,675)
Total at 31 March	42,645	37,959
Provision against trade receivables	41,616	37,067
Provision against contract assets	1,029	892
	42,645	37,959

As at 31 March, the ageing of gross trade receivables is as follows:

	2025 £000	2024 £000
Up to 365 days	33,870	33,075
1-2 years	13,164	11,775
2-3 years	8,993	8,423
3-4 years	6,610	6,603
Over 4 years	19,444	18,917
	82,081	78,793

As at 31 March, the ageing of the expected credit loss provision is as follows:

	2025 £000	2024 £000
Up to 365 days	6,629	5,208
1-2 years	7,143	5,728
2-3 years	6,018	5,054
3-4 years	4,852	4,463
Over 4 years	18,003	17,506
	42,645	37,959

The loss allowance for trade receivables is set out below:

	2025 Per cent (%)	2024 Per cent (%)
Up to 365 days	19.6	15.7
1-2 years	54.3	48.6
2-3 years	66.9	60.0
3-4 years	73.4	67.6
Over 4 years	92.6	92.5

Notes to the group financial statements

for the year ended 31 March 2025

17. Cash and cash equivalents

Cash and cash equivalents comprise the following at 31 March:

Group and Company	Group		Company	
	2025 £000	2024 £000	2025 £000	2024 £000
Cash at bank and in hand	36,072	4,986	35,664	2,717

Included in the group and company cash at bank and in hand balance at 31 March 2025 was £32.5 million (2024: £1.3 million) held in an on demand deposit account.

At 31 March 2025, £0.4 million (2024: £2.3 million) of cash was held for the group in designated bank accounts and £0.03 million (2024: £Nil) of cash was held for the company in designated bank accounts in order to meet interest falling due in respect of the listed debt and index linked loans (note 8).

18. Loans and borrowings

Group	2025 £000	2024 £000
Non-current		
Loans and borrowings (a)	1,321,754	1,246,511
Debentures (b)	981	981
Lease liabilities (c)	3,199	3,488
	1,325,934	1,250,980
Current		
Drawdown facility (d)	68,984	96,973
Lease liabilities (c)	500	463
	69,484	97,436
Total loans and borrowings	1,395,418	1,348,416

The loan documentation for the group's long and short-term loans and borrowings contain a number of covenants that the group is required to meet to safeguard the interest of its lenders.

The loans and borrowings are secured over the entire property, assets, rights and undertakings of South East Water (Holdings) Limited, South East Water Limited and South East Water (Finance) Limited (the South East Water (Holdings) Limited group) as far as allowed by the Water Industry Act 1991 and South East Water's licence. It is not possible to quantify the value of property, assets, rights and undertakings pledged as security.

a. Group	2025 £000	2024 £000
Loans and borrowings		
Listed bonds (i)	400,184	392,971
Index linked loans (ii)	578,488	510,271
Variable rate loan (iii)	119,140	119,393
Fixed rate loan notes (iv)	223,942	223,876
	1,321,754	1,246,511

Notes to the group financial statements

for the year ended 31 March 2025

18. Loans and borrowings continued

i. Group	Loan due 2029 £000	Loan due 2041 £000	Total £000
2025			
Listed bonds			
Original loan consideration	166,000	130,000	296,000
Indexation on bonds	-	105,440	105,440
Less: unamortised issue costs	(444)	(812)	(1,256)
	165,556	234,628	400,184
2024			
Original loan consideration	166,000	130,000	296,000
Indexation on bonds	-	98,388	98,388
Less: unamortised issue costs	(554)	(863)	(1,417)
	165,446	227,525	392,971

The group holds non-current bonds listed on the London Stock Exchange with an original value of £296 million (2024: £296 million), with effective terms, as follows:

- ▶ £166 million at a fixed rate of 5.5834 per cent, falling due for repayment on 29 March 2029 (or earlier at the option of the group)
- ▶ £130 million at a variable rate linked to inflation, falling due for repayment on 3 June 2041 (or earlier at the option of the group)

Issue costs incurred by the group in securing the long-term borrowings were deducted from the amount of the consideration received. The issue costs have been amortised under the effective interest rate method over the lives of the bonds to which the costs relate.

Indexation accrues on the bond repayable in 2041 under the terms of the bond.

ii. Group	Loan due 2032 £000	Loan due 2033 £000	Loan due 2037 £000	Loan due 2040 £000	Total £000
2025					
Index linked loans					
Original loan amounts	135,000	34,000	100,000	50,000	319,000
Indexation on bonds	164,199	35,892	61,279	543	261,913
Less: unamortised issue costs	(626)	(132)	(949)	(718)	(2,425)
	298,573	69,760	160,330	49,825	578,488
2024					
Original loan amounts	135,000	34,000	100,000	-	269,000
Indexation on bonds	153,929	33,493	55,725	-	243,147
Less: unamortised issue costs	(707)	(145)	(1,024)	-	(1,876)
	288,222	67,348	154,701	-	510,271

Notes to the group financial statements

for the year ended 31 March 2025

18. Loans and borrowings continued

The group holds index linked loans with an original value of £319 million (2024: £269 million) and with effective terms as follows:

- ▶ £135 million at a variable rate linked to inflation, falling due for repayment on 30 September 2032 (or earlier at the option of the group)
- ▶ £34 million at a variable rate linked to inflation, falling due for repayment on 30 September 2033 (or earlier at the option of the group)
- ▶ £100 million at a variable rate linked to inflation, falling due for repayment on 1 December 2037 (or earlier at the option of the group)
- ▶ £50 million at a variable rate linked to inflation, falling due for repayment on 19 September 2040 (or earlier at the option of the group)

In August 2024, the group entered into a new loan arrangement for £50 million index linked to CPI with a nominal interest rate of 3.5 per cent. This loan matures in September 2040. All other loans are linked to RPI.

Indexation on the loans accrues under the terms of the loans. Issue costs incurred by the group in securing the long-term borrowings were deducted from the amount of the consideration received. The issue costs have been amortised under the effective interest rate method over the lives of the bonds to which the costs relate.

	2025 £000	2024 £000
iii. Group		
Variable rate loan		
Original loan amount	120,000	120,000
Less: unamortised issue costs	(860)	(607)
	119,140	119,393

In December 2018 the group entered into a loan facility for £120 million which matures in June 2026. This loan facility was drawn down in full in September 2019 at a variable rate of London Inter-Bank Offered Rate "LIBOR" plus 1.2 per cent. The group agreed amendments with its lenders to the fall back provisions to move from GBP LIBOR to Sterling Overnight Index Average "SONIA" on the £120.0 million floating rate loan. This took effect from 28 December 2021, after UK LIBOR ceased.

In December 2024, the group entered into an agreement with the lenders of the £120 million loan facility to extend the maturity of the facility from 20 December 2025 to 20 June 2026. As part of this "amend and extend" agreement, it was further agreed that the applicable margin on the loan would increase from 1.2 per cent over SONIA to 2.2 percent from 1 July 2025 to 31 December 2025, and that a margin of 3.2 per cent would apply to the term extension from 1 January 2026 to 20 June 2026.

	2025 £000	2024 £000
iv. Group		
Fixed rate loan notes		
Loan note series 1	75,000	75,000
Loan note series 2	100,000	100,000
Loan note series 3	50,000	50,000
Less: unamortised issue costs	(1,058)	(1,124)
	223,942	223,876

Notes to the group financial statements

for the year ended 31 March 2025

18. Loans and borrowings continued

On 16 September 2019 the group issued fixed rate loan notes totalling £175 million. The notes were issued in two tranches being:

- ▶ £75 million falling due for repayment on 16 September 2031
- ▶ £100 million falling due for repayment on 16 September 2042

On 1 December 2021 the group issued new fixed rate loan notes totalling £50 million.

- ▶ £50 million falling due for repayment on 1 December 2035

	2025 £000	2024 £000
b. Group		
Irredeemable Debenture Stock		
3 % perpetual stock	25	25
3.5 % perpetual stock	384	384
4 % perpetual stock	175	175
5 % perpetual stock	359	359
5.5 % perpetual stock	1	1
6 % perpetual stock	37	37
	981	981

Interest on irredeemable debenture stock is payable six monthly.

	2025 £000	2024 £000
c. Group		
Lease liability		
Balance as at 1 April	3,951	4,499
Remeasurement of lease liability	193	-
Less: capital repayment	(445)	(548)
	3,699	3,951

The total cash outflow in the year in respect of the group's leasing activities was £0.4 million (2024: £0.5 million).

	2025 £000	2024 £000
Group		
Lease liability		
Non-current lease liability	3,199	3,488
Current lease liability	500	463
	3,699	3,951

	2025 £000	2024 £000
d. Group		
Current bank loans		
Original loan amount	69,000	97,000
Less: unamortised issue costs	(16)	(27)
	68,984	96,973

Notes to the group financial statements

for the year ended 31 March 2025

18. Loans and borrowings continued

The current bank loans are the total of the Group's draw downs on its revolving credit facility. The facility has a limit of £125 million (2024: £125 million). Each draw down can be for an interest period of one, three or six months. Interest is charged at a rate of SONIA plus 0.75 per cent margin and the principal and interest on each draw down is repayable at the end of the interest period. The facility expires in September 2026.

At 31 March 2025 the total draw downs were £69 million (2024: £97 million).

Company	2025 £000	2024 £000
Non-current		
Loans and borrowings (a)	1,321,754	1,246,511
Debentures (b)	981	981
Lease liabilities (c)	3,199	3,488
	1,325,934	1,250,980
Current		
Drawdown facility (d)	68,984	96,973
Lease liabilities (c)	500	463
	69,484	97,436
Total loans and borrowings	1,395,418	1,348,416

The carrying value of loan and borrowings classified as financial liabilities measured at amortised cost approximates fair value.

a. Company	2025 £000	2024 £000
Loans and borrowings		
Loans from subsidiary (i)	560,514	547,672
Index linked loans (ii)	418,158	355,570
Variable rate loan (iii)	119,140	119,393
Fixed rate loan (iv)	223,942	223,876
	1,321,754	1,246,511

The loan documentation for the company's long and short-term loans and borrowings contain a number of covenants that the company is required to meet to safeguard the interest of its lenders.

The loans and borrowings are secured over the entire property, assets, rights and undertakings of South East Water (Holdings) Limited, South East Water Limited and South East Water (Finance) Limited (the South East Water (Holdings) Limited group) as far as allowed by the Water Industry Act 1991 and South East Water's licence. It is not possible to quantify the value of property, assets, rights and undertakings pledged as security.

Notes to the group financial statements

for the year ended 31 March 2025

18. Loans and borrowings continued

i. Company	Loan due 2029 £000	Loan due 2041 £000	Loan due 2037 £000	Total £000
2025				
Loans from subsidiary				
Original loan consideration	166,000	130,000	100,000	396,000
Indexation on bonds	-	105,440	61,279	166,719
Less: unamortised issue costs	(444)	(812)	(949)	(2,205)
	165,556	234,628	160,330	560,514
2024				
Original loan consideration	166,000	130,000	100,000	396,000
Indexation on bonds	-	98,388	55,725	154,113
Less: unamortised issue costs	(554)	(863)	(1,024)	(2,441)
	165,446	227,525	154,701	547,672

The company's subsidiary undertaking, South East Water (Finance) Limited, has debt with an original consideration of £396 million (2024: £396 million), of which £296 million (2024: £296 million) is listed on the London Stock Exchange. The funds raised are lent to the company under loan agreements between the company and its subsidiary. An annual fee of £23,000 (2024: £23,000) was charged by South East Water (Finance) Limited to South East Water Limited.

The effective terms of the £396 million loans due to South East Water (Finance) Limited are as follows:

- ▶ £166 million at a fixed rate of 5.5834 per cent, falling due for repayment on 29 March 2029 (or earlier at the option of the company)
- ▶ £130 million at a variable rate linked to inflation, falling due for repayment on 3 June 2041 (or earlier at the option of the company)
- ▶ £100 million at a variable rate linked to inflation, falling due for repayment on 1 December 2037 (or earlier at the option of the company)

Issue costs incurred by the company in securing the long-term borrowings were deducted from the amount of the consideration received. The issue costs have been amortised under the effective interest rate method over the lives of the bonds to which the costs relate.

Indexation accrues on the loans repayable in 2041 and 2037.

Notes to the group financial statements

for the year ended 31 March 2025

18. Loans and borrowings continued

ii. Company	Loan due 2032 £000	Loan due 2033 £000	Loan due 2040 £000	Total £000
2025				
Index linked loans				
Original loan amounts	135,000	34,000	50,000	219,000
Indexation on bonds	164,199	35,892	543	200,634
Less: unamortised issue costs	(626)	(132)	(718)	(1,476)
	298,573	69,760	49,825	418,158
2024				
Original loan consideration	135,000	34,000	-	169,000
Indexation on bonds	153,929	33,493	-	187,422
Less: unamortised issue costs	(707)	(145)	-	(852)
	288,222	67,348	-	355,570

The company holds index linked loans with an original consideration of £219 million (2024: £169 million) and effective terms as follows:

- ▶ £135 million at a variable rate linked to inflation, falling due for repayment on 30 September 2032 (or earlier at the option of the company)
- ▶ £34 million at a variable rate linked to inflation, falling due for repayment on 30 September 2033 (or earlier at the option of the company)
- ▶ £50 million at a variable rate linked to inflation, falling due for repayment on 19 September 2040 (or earlier at the option of the group)

In August 2024, the company entered into a new loan arrangement for £50 million index linked to CPI with a nominal interest rate of 3.5 per cent. This loan matures in September 2040. All other loans are linked to RPI.

Indexation on the loans accrues under the terms of the loans. Issue costs incurred by the company in securing the long-term borrowings were deducted from the amount of the consideration received.

The issue costs have been amortised under the effective interest rate method over the lives of the bonds to which the costs relate. Index linked loans are stated after the uplift for accrued indexation and the deduction of issue costs to be amortised at the balance sheet date.

iii. Company	2025 £000	2024 £000
Variable rate loan		
Original loan amount		
Original loan amount	120,000	120,000
Less: unamortised issue costs	(860)	(607)
	119,140	119,393

In December 2018 the company entered into a loan facility for £120 million which matures in June 2026. This loan facility was drawn down in full in September 2019 at a variable rate of London Inter-Bank Offered Rate "LIBOR" plus 1.2 per cent. The company agreed amendments with its lenders to the fall back provisions to move from GBP LIBOR to SONIA on its other floating rate borrowing, being the £120 million floating rate loan. This took effect from 28 December 2021, after UK LIBOR ceased.

Notes to the group financial statements

for the year ended 31 March 2025

18. Loans and borrowings continued

In December 2024, the company entered into an agreement with the lenders of the £120 million loan facility to extend the maturity of the facility from 20 December 2025 to 20 June 2026. As part of this "amend and extend" agreement, it was further agreed that the applicable margin on the loan would increase from 1.2 per cent over SONIA to 2.2 percent from 1 July 2025 to 31 December 2025, and that a margin of 3.2 per cent would apply to the term extension from 1 January 2026 to 20 June 2026.

iv. Company	2025 £000	2024 £000
Fixed rate loan notes		
Loan note series 1	75,000	75,000
Loan note series 2	100,000	100,000
Loan note series 3	50,000	50,000
Less: unamortised issue costs	(1,058)	(1,124)
	223,942	223,876

On 16 September 2019 the company issued fixed rate loan notes totalling £175 million. The notes were issued in two tranches being:

- ▶ £75 million falling due for repayment on 16 September 2031
- ▶ £100 million falling due for repayment on 16 September 2042

On 1 December 2021 the company issued new fixed rate loan notes totalling £50 million.

- ▶ £50 million falling due for repayment on 1 December 2035

b. Company	2025 £000	2024 £000
Irredeemable Debenture Stock		
3 % perpetual stock	25	25
3.5 % perpetual stock	384	384
4 % perpetual stock	175	175
5 % perpetual stock	359	359
5.5 % perpetual stock	1	1
6 % perpetual stock	37	37
	981	981

Interest on irredeemable debenture stock is payable six monthly.

c. Company	2025 £000	2024 £000
Lease liability		
Balance as at 1 April	3,951	4,499
Remeasurement of lease	193	-
Less: capital repayment	(445)	(548)
	3,699	3,951

The total cash outflow in the year in respect of the company leasing activities was £0.4 million (2024: £0.5 million).

Notes to the group financial statements

for the year ended 31 March 2025

18. Loans and borrowings continued

Company	2025 £000	2024 £000
Lease liability		
Non-current lease liability	3,199	3,488
Current lease liability	500	463
	3,699	3,951
 d. Company	 2025 £000	 2024 £000
Current bank loans		
Original loan amount	69,000	97,000
Less: unamortised issue costs	(16)	(27)
	68,984	96,973

The current bank loans are the total of the Company's draw downs on its revolving credit facility. The facility has a limit of £125 million (2024: £125 million). Each draw down can be for an interest period of one, three or six months. Interest is charged at a rate of SONIA plus 0.75 per cent margin and the principal and interest on each draw down is repayable at the end of the interest period. The facility expires in September 2026.

At 31 March 2025 the total draw downs were £69 million (2024: £97 million).

19. Provisions

Group and Company	Third party damage claims £000	Leak allowance £000	Other provisions £000	Total £000
As at 1 April 2024	2,484	2,588	1,894	6,966
Additional amounts provided	1,303	4,176	5,387	10,866
Unused amounts reversed	-	-	(956)	(956)
Amounts utilised	(1,173)	(4,505)	(3,184)	(8,862)
31 March 2025	2,614	2,259	3,141	8,014
As at 1 April 2023	2,027	3,314	1,944	7,285
Additional amounts provided	1,306	3,618	1,821	6,745
Unused amounts reversed	-	-	(515)	(515)
Amounts utilised	(849)	(4,344)	(1,356)	(6,549)
31 March 2024	2,484	2,588	1,894	6,966

Other provisions are recognised when it is probable that the group has an obligation for which a reliable estimate can be made of the amount. This includes amounts that may become payable under Ofwat's Innovation Fund and estimates of debt collection fees that may become payable. It also includes capital infrastructure provisions to cover various potential third party costs, including compensation claims, arising from the construction of infrastructure assets. The amounts recorded represent Management's best estimate of the value of settlement and any associated costs.

Notes to the group financial statements

for the year ended 31 March 2025

19. Provisions continued

The timing of settlement for these obligations is uncertain but management consider that settlement is more likely than not within the next year, and therefore amounts provided have been classified as current.

The group needs to determine the chances of settlement of these obligations, the likelihood of an outflow of economic benefits occurring and whether there is a need to disclose a contingent liability or whether a provision is required based on this assessment. There is an inherent risk that the final outcome of legal claims will be different to amounts provided.

20. Trade and other payables

Group	2025 £000	2024 £000
Current liabilities		
Financial liability payables		
Trade payables	38,864	17,398
Amounts due to parent and fellow subsidiary undertakings	168	1,261
Other payables	9,481	8,129
Accruals	44,645	40,530
	93,158	67,318
Non-financial liability payables		
Payments received in advance	47,674	46,227
Other taxes and social security	2,927	1,304
	50,601	47,531
Total trade and other payables	143,759	114,849
Non-current liabilities		
Financial liability payables		
Deposits payable to developers	3,483	3,864
Company	2025 £000	2024 £000
Current liabilities		
Financial liability payables		
Trade payables	38,864	17,398
Amounts due to parent and fellow subsidiary undertakings	4,545	5,551
Other payables	9,481	8,129
Accruals	41,445	35,152
	94,335	66,230
Non-financial liability payables		
Payments received in advance	47,674	46,227
Other taxes and social security	2,927	1,304
	50,601	47,531
Total trade and other payables	144,936	113,761
Non-current liabilities		
Financial liability payables		
Deposits payable to developers	3,483	3,864

Notes to the group financial statements

for the year ended 31 March 2025

21. Financial instruments – Fair values and risk management

Financial risk management objectives and policies

The group's financial instruments comprise index linked loans, variable rate loans, fixed rate loans, cash, short-term and medium-term deposits, trade receivables and trade and other payables. The main purpose of the group's financial instruments is to raise finance for the group's operations.

The group's treasury operations are managed within parameters defined by the board and the board of HDF (UK) Holdings Limited. It is the group's policy to minimise liquidity risk within an acceptable range of interest rates. The group does not use foreign currency financial instruments. The main risks arising from the group's financial instruments are interest rate and liquidity risk. There are no regulatory capital requirements placed on the group.

Interest rate and Cash flow risk

The group finances its activities through a mixture of cash generated from operations, irredeemable debentures and other fixed rate long-term loans, variable rate loans and long-term index linked loans. Debentures are long-term fixed rate loans. Other fixed rate loans include listed bonds and loan notes. Long-term index linked loans comprise loans linked to inflation.

The group's policy is to manage short-term interest rate risk and cash flow risk by using short-term fixed rate drawdowns under a revolving committed facility. During the year to 31 March 2025 there was a net outflow of £28 million (2024: inflow of £67 million). It is the view of the group that long-term fluctuations in interest rates will be within the parameters that are considered acceptable by the group.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the group's profit before tax. The sensitivity analysis excludes all fixed rate financial instruments carried at amortised cost.

Group and Company	Increase/ decrease in basis points	Effect on profit before tax £000	Effect on shareholders' equity £000
2025			
Sterling	+300	(5,670)	(4,253)
Sterling	-100	1,890	1,418
2024			
Sterling	+300	(6,510)	(4,883)
Sterling	-100	2,170	1,628

Liquidity risk

The group aims to maintain a balance between continuity of funding and flexibility. Continuity of funding has been guaranteed throughout the period by the existence of long-term funding facilities. Short-term flexibility is achieved by varying the drawdown amounts under the revolving committed facility. Further details are given below. Cash is also put on deposit with variable maturity dates so as to mitigate liquidity risk.

Inflation risk

The group manages its inflation risk on its financial liabilities through the use of index linked bonds and loans (note 18). The group considers that the inflation rate risk is effectively managed as Ofwat allows revenues to be increased in line with inflation.

Notes to the group financial statements

for the year ended 31 March 2025

21. Financial instruments – Fair values and risk management continued

Credit risk

The group's financial assets include short-term and medium-term bank deposits and trade receivables, which represent the group's maximum exposure to credit risk in relation to financial assets. The group's credit risk is primarily attributable to its trade receivables, which are stated in the statement of financial position at original invoice amount less an allowance for any doubtful debts (see note 16). An estimate for the provision for doubtful debts is calculated by management based on the application of expected recovery rates to an aged debt profile. We have no significant concentration of credit risk with exposure spread over a large number of domestic customers and a number of retail customers. For our retail customers, we have secured adequate collateral under the Market Codes to mitigate any risk.

Capital risk management

Capital risk primarily relates to whether the group is adequately capitalised and financially solvent. The board reviews the group's exposure to these risks and actively oversees the treasury activities, reviewing the treasury policy and approving the treasury strategy and funding plan. The group's key objectives in managing capital are:

- ▶ To maintain a broad portfolio of debt, diversified by source and maturity
- ▶ To retain the company's investment grade credit rating
- ▶ To satisfy the covenants under South East Water's financing documents
- ▶ To provide liquidity sufficient to fund ongoing obligations on an ongoing basis without reliance on the standby liquidity facilities
- ▶ To maintain customer bills at a level which is both affordable and sustainable

At the date of signing the financial statements the group has sufficient committed liquidity to continue to meet its obligations until at least September 2026, when the existing revolving credit facility is due to mature. Discussions with lenders on the renewal of our revolving credit facility are well advanced, but at the date of signing the financial statements the renewal has not been legally committed. The directors believe that it is reasonable to assume that the renewal of revolving credit facility will become legally binding during the summer 2025 and are therefore of the opinion that the group will have adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the date of approval of the financial statements.

The group is part of a Whole Business Securitisation ("WBS") Group of companies. The other companies in the Securitisation Group (South East Water (Finance) Limited (SEWF) and South East Water (Holdings) Limited (SEWH)) guarantee the funding activity of South East Water Limited (the company), and the company and SEWH guarantee the funding activity of SEWF, which has historically raised debt finance for the company. The Securitisation Group is required to comply with certain covenants, which include, amongst others:

- ▶ Interest cover ratios
- ▶ Gearing ratios
- ▶ An obligation to manage the maturity profile of debt arrangements
- ▶ An obligation to manage the proportion of future interest cost which is fixed and/or index-linked

The Securitisation Group complied with these covenants throughout the financial year.

The capital structure of the group as at 31 March 2025 consists of net debt and equity as follows:

	2025 £000	2024 £000
Net debt (statutory basis – note 18)	1,395.4	1,348.4
Unamortised issue costs	5.7	5.1
Cash	(36.1)	(5.0)
Net debt (covenant basis)	1,365.0	1,348.5
Equity attributable to owners of the group	288.4	242.8

After the end of the financial year, in May 2025, shareholders injected £200 million of equity into the company. This equity injection is not reflected in the table above.

Notes to the group financial statements

for the year ended 31 March 2025

21. Financial instruments – Fair values and risk management continued

Fair values of financial assets and financial liabilities

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties.

The following tables provide a comparison by category of the carrying amount and the fair values of the group's financial assets and financial liabilities at 31 March 2025.

Notes	Book Value 2025 £000	Fair Value 2025 £000	Book Value 2024 £000	Fair Value 2024 £000
<i>Financial assets at amortised cost</i>				
Trade and other receivables	16	44,547	44,547	43,794
Cash	17	36,072	36,072	4,986
		80,619	80,619	48,780
<i>Financial liabilities at amortised cost</i>				
Trade and other payables	20	92,990	92,525	66,057
Irredeemable debentures	18	981	853	981
Listed bonds	18	400,184	330,040	392,971
Index linked loans	18	578,488	504,536	510,271
Drawdown facility	18	68,984	70,650	96,973
Variable rate loan	18	119,140	118,773	119,393
Fixed rate loan notes	18	223,942	137,367	223,876
Lease liability	18	3,699	3,733	3,951
Amounts due to parent and group undertakings	20	168	167	1,261
Trade and other payables over 1 year	20	3,483	3,466	3,864
		1,492,059	1,262,110	1,419,598
				1,354,261

The net book value is considered to equate to the fair value for trade and other receivables due to the short maturity of the amounts receivable. The fair value of trade and other payables and amounts due to parent and group undertakings have been adjusted for the appropriate credit risk. The fair values of irredeemable debentures and the lease liability has been calculated using the discounted cash flow method. The calculation includes all future capital and interest payments discounted by an amount representing credit risk and a further amount representing future inflation.

The fair value of the group's other long-term debt, consisting of listed bonds, index linked loans, variable rate loans and fixed rate loan notes have been calculated based on the expected future yields on each of the debt instruments, except where a current market valuation is available.

Fair value hierarchy

The group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- ▶ Level 2: other techniques for which all inputs with a significant effect on the recorded fair value are observable, either directly or indirectly
- ▶ Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

Notes to the group financial statements

for the year ended 31 March 2025

21. Financial instruments – Fair values and risk management continued

The group held the following financial instruments which are not measured at fair value but fair value disclosures are required:

31 March 2025	Total £000	Level 1 £000	Level 2 £000	Level 3 £000
<i>Fair value of financial liabilities at amortised cost</i>				
Trade and other payables	92,525	-	92,525	-
Irredeemable debentures	853	-	853	-
Listed bonds	330,040	-	330,040	-
Index linked loans	504,536	-	504,536	-
Drawdown facility	70,650	-	70,650	-
Variable rate loan	118,773	-	118,773	-
Fixed rate loan notes	137,367	-	137,367	-
Lease liability	3,733	-	3,733	-
Amounts due to parent and group undertakings	167	-	167	-
Trade and other payables over 1 year	3,466	-	3,466	-
Total fair value of financial liabilities at amortised cost	1,262,110	-	1,262,110	-
31 March 2024	Total £000	Level 1 £000	Level 2 £000	Level 3 £000
<i>Fair value of financial liabilities at amortised cost</i>				
Trade and other payables	65,727	-	65,727	-
Irredeemable debentures	758	-	758	-
Listed bonds	386,112	-	386,112	-
Index linked loans	507,723	-	507,723	-
Drawdown facility	97,143	-	97,143	-
Variable rate loan	120,335	-	120,335	-
Fixed rate loan notes	167,526	-	167,526	-
Lease liability	3,837	-	3,837	-
Amounts due to parent and group undertakings	1,255	-	1,255	-
Trade and other payables over 1 year	3,845	-	3,845	-
Total fair value of financial liabilities at amortised cost	1,354,261	-	1,354,261	-

Notes to the group financial statements

for the year ended 31 March 2025

21. Financial instruments – Fair values and risk management continued

Maturity of financial instruments

The table below summarises the maturity profile of the group's financial assets and liabilities based on contractual undiscounted payments:

31 March 2025	Within 1 year £000	1 – 2 years £000	2 – 5 years £000	Over 5 years £000	Total £000
<i>Fixed rate</i>					
Fixed rate financial liabilities:					
Irredeemable debentures	41	41	124	1,077	1,283
Listed bonds	9,268	9,268	184,537	-	203,073
Fixed rate loan notes	6,445	6,445	19,335	274,127	306,352
Total fixed rate financial liabilities	15,754	15,754	203,996	275,204	510,708
<i>Floating rate</i>					
Floating rate financial assets:					
Short-term financial assets	93,992	-	-	-	93,992
Cash	36,072	-	-	-	36,072
Total floating rate financial assets	130,064	-	-	-	130,064
Floating rate financial liabilities:					
Short-term financial liabilities	93,158	-	-	-	93,158
Listed bonds	5,993	6,091	18,867	373,188	404,139
Index-linked loans	19,058	19,361	59,901	416,755	515,075
Variable rate loan	79,160	121,907	-	-	201,067
Lease liability	500	664	1,475	1,513	4,152
Trade and other payables over 1 year	-	3,483	-	-	3,483
Total floating rate financial liabilities	197,869	151,506	80,243	791,456	1,221,074
31 March 2024	Within 1 year £000	1 – 2 years £000	2 – 5 years £000	Over 5 years £000	Total £000
<i>Fixed rate</i>					
Fixed rate financial liabilities:					
Irredeemable debentures	41	41	124	1,078	1,284
Listed bonds	9,268	9,268	27,805	175,268	221,609
Fixed rate loan notes	6,445	6,445	19,335	274,127	306,352
Total fixed rate financial liabilities	15,754	15,754	47,264	450,473	529,245
<i>Floating rate</i>					
Floating rate financial assets:					
Short-term financial assets	91,779	-	-	-	91,779
Cash	4,986	-	-	-	4,986
Total floating rate financial assets	96,765	-	-	-	96,765
Floating rate financial liabilities:					
Short-term financial liabilities	67,318	-	-	-	67,318
Listed bonds	5,871	6,003	18,798	402,034	432,706
Index-linked loans	16,744	17,079	53,241	351,901	438,965
Variable rate loan	218,794	-	-	-	218,794
Lease liability	463	662	1,499	1,867	4,491
Trade and other payables over 1 year	-	3,864	-	-	3,864
Total floating rate financial liabilities	309,190	27,608	73,538	755,802	1,166,138

Notes to the group financial statements

for the year ended 31 March 2025

21. Financial instruments – Fair values and risk management continued

Borrowing facilities

The group has committed borrowing facilities of £201 million (2024: £196 million), of which £69 million (2024: £97 million) was drawn down. Any drawdowns under these facilities are repayable in less than one year. The capital and working capital facility of £125 million (2024: £125 million) expires in September 2026. The DSR Liquidity Facility of £51 million (2024: £47 million) and the O&M Reserve Facility of £25 million (2024: £24 million) expire in June 2025. The facilities were renewed in June 2025 for a further year at £45 million for the DSR facility and £33 million for the O&M facility.

Items of income, expense, gains and losses

The net gains or losses of the different classes of financial instruments on the income statement are:

	Note	2025 £000	2024 £000
Financial assets at amortised cost	8	2,490	1,711
Financial liabilities at amortised cost	8	(76,758)	(102,151)
Financial assets due to impairment	16	(4,055)	(5,714)

22. Deferred Income

Group and Company		2025 £000	2024 £000
As at 1 April		9,297	10,188
Received in the year		7,171	7,194
Released during the year		(7,940)	(8,085)
As at 31 March		8,528	9,297
Non-current		3,913	3,646
Current		4,615	5,651
		8,528	9,297

Contributions received towards below ground assets are released to the income statement on completion of the performance obligations within the contracts with customers.

Notes to the group financial statements

for the year ended 31 March 2025

23. Retirement benefit schemes

Group and Company (hereafter referred to as "group" in this note)

The South East Water pension scheme "SEWPS" provides benefits to current and former group employees. From 17 June 2011 onwards, benefits from the SEWPS have been provided solely on a defined contribution basis.

The scheme was originally contracted-out under the Guaranteed Minimum Pension Test. From 6 April 1997, after taking independent actuarial advice, the group decided to contract-out via the Protected Rights Test. With effect from 6 April 2012, the Government removed the option for schemes to contract-out via a Protected Rights basis. From 6 April 2012, the group decided to contract-out via a salary related basis.

The final salary defined benefit section of the scheme was closed to new entrants with effect from July 2002.

As a result of the merger of South East Water Limited and Mid Kent Water Limited in October 2006, the group acquired the Mid Kent Group Pension Scheme "MKGPS", which is a defined benefit scheme in the UK.

Both of the defined benefit schemes are separate funds that are legally separate from the group. The trustees of the pension schemes are required by law to act in the interests of the funds and all relevant stakeholders in the plans. The trustees of the pension funds are responsible for the investment policies with regard to the assets of the funds.

On 31 March 2015 both of the group's defined benefit schemes closed to further benefit accrual. This was advised to the schemes' members on 13 December 2012. From 31 March 2015 all active members became deferred members and their accrued benefits will increase in line with statutory deferred revaluation. All members were invited to join the group's defined contribution scheme from 1 April 2015.

On 5 December 2022 the trustees of the MKGPS entered into an insurance transaction to fully insure the pension scheme. The "buy-in" transaction involved the payment of a one-off premium by the pension scheme to an insurance company. In return the insurance company will make regular payments to the scheme exactly matching the insured benefit payments. There was no transfer of the retirement benefit obligation which remains with the pension scheme. The insurance policy is an asset of the pension scheme in place of cash and other investments previously held.

Following the buy-in a revised Schedule of Contributions was agreed between the company and the trustees. No further deficit contributions are to be paid to MKGPS, although if additional funding is required in a future period in respect of pension scheme expenses the trustees can request that the company pays these. Deficit contributions that would previously have been paid to MKGPS have been diverted to SEWPS until 31 March 2025.

On 12 December 2024 the trustees of the SEWPS entered into an insurance transaction to fully insure the pension scheme. The "buy-in" transaction involved the payment of a one-off premium by the pension scheme to an insurance company. In return the insurance company will make regular payments to the scheme exactly matching the insured benefit payments. There is no transfer of the retirement benefit obligation which remains with the pension scheme. The insurance policy is an asset of the pension scheme in place of cash and other investments previously held.

Following the buy-in a revised Schedule of Contributions was agreed between the company and trustees. No further deficit contributions are to be paid to SEWPS after 31 March 2025, although if additional funding is required in a future period in respect of pension scheme expenses the trustees can request that the company pays these.

The last full actuarial valuation of the SEWPS took place as at 31 March 2023. The next full actuarial valuation will be performed as at 31 March 2026.

Notes to the group financial statements

for the year ended 31 March 2025

23. Retirement benefit schemes continued

The group contribution rate for the SEWPS defined benefit pension scheme during the year was nil (2024: nil) of pensionable remuneration plus an annual contribution of £7.0 million (2024: £6.6 million) in respect of the deficit as at 31 March 2023. The group's future annual contribution is expected to be £nil as the buy-in transaction has ensured that the scheme's liabilities are fully insured.

The last full actuarial valuation of the MKGPS took place as at 31 March 2023. The next full actuarial valuation will be performed as at 31 March 2026.

The triennial valuation of the MKGPS adopted a different methodology in 2023 following the insurance transaction in 2022. The valuation of the liabilities was taken as the valuation used by the insurers at the time of the insurance transaction rather than the usual actuarial assumptions calculation. This does not affect the net position of the scheme as the liabilities are matched with a corresponding asset, namely the value of the insurance policy. The IAS19 valuation was based on the 2023 triennial valuation.

The group contribution towards the MKGPS defined benefit pension scheme during the year was nil (2024: nil) of pensionable remuneration plus an annual contribution of £nil (2024: £nil million) in respect of the deficit as at 31 March 2023. The group's future annual contribution is expected to be £nil as the buy-in transaction has ensured that the scheme's liabilities are fully insured.

Following the Court of Appeal's ruling on 25 July 2024 in the Virgin Media case regarding certain contracted-out pension scheme benefits and the statutory requirements for making changes to those benefits, an assessment has been undertaken to determine whether any of the changes made in either of the group's defined benefit schemes could be affected by the ruling. The ruling means that amendments made to contracted out scheme rules would only be effective if the scheme had obtained actuarial advice regarding the proposed amendments. If advice had not been received, the amendments could be set aside. The group has undertaken a review of its defined benefit schemes and concluded that there are no expected liability impacts for either scheme.

The group also has obligations to pay a number of former employees' pensions on a defined benefit basis which are not included in either of the pension schemes. These pensions are paid by the group directly. The payments are treated as contributions for unfunded pensions in the tables below and are equal to the benefits paid. The value of future obligations has been calculated on an actuarial basis and the liability of £2.4 million (2024: £2.5 million) is recognised on the statement of financial position.

Notes to the group financial statements

for the year ended 31 March 2025

23. Retirement benefit schemes continued

Defined contribution scheme

Pension costs recognised in the income statement for the defined contribution scheme were as follows:

Group and Company	2025 £000	2024 £000
Defined contribution scheme	3,419	3,114

Defined benefit schemes

The major assumptions used for the actuarial valuations were:

	SEW Pensions 2025 %	SEW Pensions 2024 %	MKW Pensions 2025 %	MKW Pensions 2024 %
<i>Main assumptions</i>				
Rate of increase in pensions in payment	2.65	2.65	2.65	2.65
Rate of increase in deferred pensions	2.70	2.70	2.70	2.70
Discount rate	5.70	4.85	5.70	4.85
RPI assumption	3.15	3.20	3.15	3.20
CPI assumption	2.70	2.70	2.70	2.70
<i>Life expectancies from age 65</i>				
Currently aged 65 – male	20.9	20.6	20.9	20.6
Currently aged 65 – female	23.5	23.2	23.5	23.2
Currently aged 45 – male	22.6	22.3	22.6	22.3
Currently aged 45 – female	25.5	25.2	25.5	25.2

The weighted average duration of the defined benefit obligation at the end of the year is 13 years (2024: 14 years).

The following table demonstrates the sensitivity to a reasonably possible change in the above key assumptions, with all other variables held constant, on the schemes' liabilities:

	(Decrease)/ increase in liabilities £000	(Decrease)/ increase %
0.1% decrease to the discount rate	1,782	1.1
0.1% increase to inflation	1,689	1.1
One year increase in life expectancy	5,561	3.1

Notes to the group financial statements

for the year ended 31 March 2025

23. Retirement benefit schemes continued

The fair value of the assets in the schemes and the present value of the liabilities in the schemes were:

Group and Company	SEW Pensions £000	MKW Pensions £000	Total £000
2025			
Fair value of scheme assets	106,526	58,476	165,002
Present value of defined benefit obligations	(100,827)	(55,797)	(156,624)
Surplus in the schemes	5,699	2,679	8,378
			£000

Unfunded obligation 2025

Present value of unfunded obligations **(2,357)**

Group and Company	SEW Pensions £000	MKW Pensions £000	Total £000
2024			
Fair value of scheme assets	131,924	67,173	199,097
Present value of defined benefit obligations	(112,672)	(63,411)	(176,083)
Surplus in the schemes	19,252	3,762	23,014
			£000

Unfunded obligation 2024

Present value of unfunded obligations **(2,493)**

SEW Pension Scheme Group and Company	Quoted £000	Unquoted £000	Total £000	%
2025				
Equities	-	97	97	0%
Cash	3,534	2,068	5,602	5%
Insured persons	-	100,827	100,827	95%
Total fair value of assets	3,534	102,992	106,526	100%

SEW Pension Scheme Group and Company	Quoted £000	Unquoted £000	Total £000	%
2024				
Equities	7,802	99	7,901	6%
Corporate bonds	-	62,656	62,656	47%
Government bonds	41,705	-	41,705	32%
Cash	14,692	603	15,295	12%
Insured persons	-	4,367	4,367	3%
Total fair value of assets	64,199	67,725	131,924	100%

Notes to the group financial statements

for the year ended 31 March 2025

23. Retirement benefit schemes continued

MKW Pension Scheme Group and Company	Quoted £000	Unquoted £000	Total £000	%
2025				
Cash	2,659	20	2,679	5%
Insured persons	-	55,797	55,797	95%
Total fair value of assets	2,659	55,817	58,476	100%
MKW Pension Scheme Group and Company	Quoted £000	Unquoted £000	Total £000	%
2024				
Cash	3,507	255	3,762	6%
Insured persons	-	63,411	63,411	94%
Total fair value of assets	3,507	63,666	67,173	100%

Analysis of amounts charged/(credited) to income statement:

Group and Company	SEW Pensions £000	MKW Pensions £000	Unfunded Pensions £000	Total £000
2025				
Net interest on net defined benefit asset	(1,080)	(161)	112	(1,129)
Administrative expenses	911	914	-	1,825
Total amount (credited)/charged to income statement	(169)	753	112	696
2024				
Net interest on net defined benefit asset	(1,106)	(187)	112	(1,181)
Administrative expenses	596	361	-	957
Total amount charged/(credited) to income statement	(510)	174	112	(224)

Notes to the group financial statements

for the year ended 31 March 2025

23. Retirement benefit schemes continued

Analysis of amounts recognised in the statement of comprehensive income:

Group and Company	SEW Pensions £000	MKW Pensions £000	Unfunded Pensions £000	Total £000
2025				
Return on schemes' assets excluding interest income	(30,207)	(5,765)	-	(35,972)
Actuarial gain due to changes in financial assumptions	10,215	6,001	109	16,325
Actuarial loss due to changes in demographic assumptions	(511)	(431)	-	(942)
Experience loss on obligation	(240)	(135)	(212)	(587)
Actuarial loss recognised in the statement of comprehensive income	(20,743)	(330)	(103)	(21,176)
Cumulative actuarial losses	(41,756)	(38,590)	(3,677)	(84,023)
2024				
Return on schemes' assets excluding interest income	(5,091)	(2,894)	-	(7,985)
Actuarial loss due to changes in financial assumptions	(891)	(562)	(29)	(1,482)
Actuarial gain due to changes in demographic assumptions	3,648	2,164	66	5,878
Experience loss on obligation	(5,362)	1,197	(261)	(4,426)
Actuarial loss recognised in the statement of comprehensive income	(7,696)	(95)	(224)	(8,015)
Cumulative actuarial losses	(21,013)	(38,260)	(3,574)	(62,847)

Reconciliation of defined benefit obligations:

Group and Company	SEW Pensions £000	MKW Pensions £000	Unfunded Pensions £000	Total £000
2025				
Opening defined benefit obligations	112,672	63,411	2,493	178,576
Interest cost	5,281	2,952	112	8,345
Actuarial (gain)/loss	(9,464)	(5,435)	103	(14,796)
Benefits paid	(7,662)	(5,131)	(351)	(13,144)
Closing defined benefit obligations	100,827	55,797	2,357	158,981
2024				
Opening defined benefit obligations	112,692	68,171	2,482	183,345
Interest cost	5,276	3,183	113	8,572
Actuarial loss/(gain)	2,605	(2,799)	224	30
Benefits paid	(7,901)	(5,144)	(326)	(13,371)
Closing defined benefit obligations	112,672	63,411	2,493	178,576

Notes to the group financial statements

for the year ended 31 March 2025

23. Retirement benefit schemes continued

Reconciliation of fair value of plans' assets:

Group and Company	SEW Pensions £000	MKW Pensions £000	Total £000
2025			
Opening fair values of schemes' assets	131,924	67,173	199,097
Interest income on assets	6,361	3,113	9,474
Return on scheme assets excluding interest income	(30,207)	(5,765)	(35,972)
Contributions by employer	7,021	-	7,021
Administrative expenses	(911)	(914)	(1,825)
Benefits paid	(7,662)	(5,131)	(12,793)
Closing fair values of schemes' assets	106,526	58,476	165,002
2024			
Opening fair values of schemes' assets	132,503	72,202	204,705
Interest income on assets	6,382	3,370	9,752
Return on scheme assets excluding interest income	(5,091)	(2,894)	(7,985)
Contributions by employer	6,627	-	6,627
Administrative expenses	(596)	(361)	(957)
Benefits paid	(7,901)	(5,144)	(13,045)
Closing fair values of schemes' assets	131,924	67,173	199,097

The Trust Deed provides South East Water Limited with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind up or otherwise augment the benefits due to members of the scheme. Based on these rights, any net surplus in the UK scheme is recognised in full.

There have been no amendments, curtailments or settlements during the year.

24. Share capital

Group and Company	2025 Number	2025 £000	2024 Number	2024 £000
Shares treated as equity				
Ordinary Shares shares of £1.00 each	175,000,000	175,000	100,000,000	100,000
Issued and fully paid				
Ordinary Shares shares of £1.00 each	2025 Number	2025 £000	2024 Number	2024 £000
At 1 April	49,312,354	49,312	49,312,354	49,312
Issued during the period	75,000,000	75,000	-	-
At 31 March	124,312,354	124,312	49,312,354	49,312

Notes to the group financial statements

for the year ended 31 March 2025

25. Analysis of amounts recognised in other comprehensive income

Group and Company	Accumulated losses £000
Year to 31 March 2025	
Net actuarial loss on defined benefit pension schemes	(21,176)
Deferred tax credit on net actuarial loss	5,294
	(15,882)
Year to 31 March 2024	
Net actuarial loss on defined benefit pension schemes	(8,015)
Deferred tax credit on net actuarial loss	2,004
	(6,011)

26. Movement in liabilities arising from financing activities

Group non-current loans and borrowings	Irredeemable debenture stock £000	Listed bonds £000	Fixed, Variable, Indexed linked loans and lease liability £000	Total non-current loans and borrowings £000
Balance 1 April 2023	981	380,461	817,059	1,198,501
Changes from other financing activities:				
Indexation on index linked instruments	-	12,349	39,942	52,291
Lease liability reclassification	-	-	(453)	(453)
Amortisation of issue costs	-	161	480	641
Balance at 31 March 2024	981	392,971	857,028	1,250,980
Balance 1 April 2024	981	392,971	857,028	1,250,980
Changes from financing cash flows:				
Index linked borrowing	-	-	50,000	50,000
Loan fees incurred	-	-	(1,381)	(1,381)
Changes from other financing activities:				
Indexation on index linked instruments	-	7,052	18,764	25,816
Lease liability reclassification	-	-	(482)	(482)
Lease revaluation	-	-	193	193
Amortisation of issue costs	-	161	647	808
Balance at 31 March 2025	981	400,184	924,769	1,325,934

Notes to the group financial statements

for the year ended 31 March 2025

26. Movement in liability arising from financing activities continued

Company non-current loans and borrowings	Irredeemable debenture stock £000	Amounts due to subsidiary undertakings £000	Fixed, Variable, Indexed linked loans & lease liability £000	Total non-current loans and borrowing £000
Balance 1 April 2023	981	524,669	672,851	1,198,501
Changes from other financing activities:				
Indexation on index linked instruments	-	22,766	29,525	52,291
Lease liability reclassification	-	-	(453)	(453)
Amortisation of issue costs	-	237	404	641
Balance at 31 March 2024	981	547,672	702,327	1,250,980
Balance 1 April 2024	981	547,672	702,327	1,250,980
Changes from financing cash flows:				
Index linked borrowing	-	-	50,000	50,000
Loan fees incurred	-	-	(1,381)	(1,381)
Changes from other financing activities:				
Indexation on index linked instruments	-	12,605	13,211	25,816
Lease liability reclassification	-	-	(482)	(482)
Lease revaluation	-	-	193	193
Amortisation of issue costs	-	237	571	808
Balance at 31 March 2025	981	560,514	764,439	1,325,934
 Group & Company current loans and borrowings			Bank loans and lease liability £000	Total current loans and borrowings £000
Balance at 1 April 2023			30,520	30,520
Changes from financing cash flows:				
Credit facility drawdowns			67,000	67,000
Lease capital payments			(548)	(548)
Changes from other financing activities:				
Amortisation of issue costs			11	11
Lease liability reclassification			453	453
Balance at 31 March 2024			97,436	97,436
Balance 1 April 2024			97,436	97,436
Changes from financing cash flows:				
Net credit facility repayments			(28,000)	(28,000)
Lease capital payments			(445)	(445)
Changes from other financing activities:				
Amortisation of issue costs			11	11
Lease liability reclassification			482	482
Balance at 31 March 2025			69,484	69,484

Notes to the group financial statements

for the year ended 31 March 2025

27. Capital commitments

Group and Company	2025 £000	2024 £000
Contracts placed for future capital expenditure not provided in the financial statements	64,605	82,140

All of the above capital commitments relate to Property, plant and equipment.

The overall reduction in the value of capital commitments is due to Butler WTW having a significantly lower value committed, as the majority of work has been undertaken. Furthermore, some of our larger proposed AMP 8 schemes have not reached full approval stage, the largest of which relates to Bewl WTW upgrade and pumping station.

28. Contingent liabilities

Contingent liabilities are potential future outflows of cash which are either possible but not probable, or probable and cannot be measured reliably.

Through the ordinary course of operations, the company is party to various contract disputes. The Directors do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on the company's results of operations, cash flows or financial position.

As discussed in the Annual Report on page 8, Ofwat launched an investigation into our supply resilience in November 2023. The company has been cooperating fully with the investigation and has provided Ofwat with a significant amount of additional information.

At this stage of the investigation it is unclear what the outcome will be. No liability has been provided for in these financial statements, nor is it possible to reliably estimate any potential liability.

29. Obligations under operating leases

Group and Company	Note	2025 £000	2024 £000
Lease payments under operating leases recognised as an expense in the year	6	344	317

30. Events after the reporting date

In May 2025 a further equity injection by the company's shareholder resulted in the issue of £200 million new shares at a par value of £1 per share. The £200 million raised from the share issue will be used to reduce the group's gearing.

Notes to the group financial statements

for the year ended 31 March 2025

31. Related party transactions

The group of companies into which results of the group are consolidated is that headed by HDF (UK) Holdings Limited, a company registered in England and Wales.

Balances and transactions between the company and its subsidiaries, which are related parties of the company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the group and other related parties are disclosed below.

31.1 Transactions with the group's parent company

	2025 £000	2024 £000
Opening balance as at 1 April	-	5,260
Group relief paid	-	(5,260)
Closing balance as at 31 March	-	-

31.2 Other related party transactions

Other related party transactions are as follows:

Group's ultimate parent company	2025 £000	2024 £000
Opening balance as at 1 April	1,071	4,383
Group relief paid	(1,114)	(3,290)
Audit fee reimbursement	(145)	(29)
Legal and professional fees	(150)	-
Other	(104)	7
Closing balance as at 31 March	(442)	1,071

Co-subsidiary of group's ultimate parent company	2025 £000	2024 £000
Opening balance as at 1 April	132	132
Legal and professional fees	(1)	-
Closing balance as at 31 March	131	132

Key management compensation is disclosed in note 7 and discussed further in the remuneration report.

Notes to the group financial statements

for the year ended 31 March 2025

32. Parent company and ultimate controlling parties

Utilities of Australia Pty Limited as Trustee for the Utilities Trust of Australia (“UTA”), NatWest Pension Trustee Limited as Trustee for the NatWest Group Pension Fund (“NWPF”), Régime de Rentes du Mouvement Desjardins (“RRMD”), Desjardins Financial Security Life Assurance Company (“DFSL”) and Certas Home and Auto Insurance Company (“Certas”) are the company’s joint ultimate holding companies. UTA is resident in Australia. NWPF is resident in the United Kingdom, RRMD, DFSL and Certas are resident in Canada. It is the directors’ belief that there is no single ultimate controlling party and that the joint ultimate holding companies control the company jointly.

The immediate parent company is South East Water (Holdings) Limited.

The largest and smallest group of companies into which results of the company are consolidated is that headed by HDF (UK) Holdings Limited, a company which is incorporated in Great Britain and registered in England and Wales. The consolidated financial statements of HDF (UK) Holdings Limited may be obtained from the Company Secretary at the company’s registered office at Rocfort Road, Snodland, Kent, ME6 5AH.