WATER for LIFE from Southern Water

Providing a **Sustainable Water Future**

Annual Report and Financial Statements
for the year ended 31 March 2026

Welcome to Southern Water's Annual Report and Financial Statements 2025–26

Providing a sustainable water future

This report describes the vital role we play in the water cycle, working with the wider industry, the Government, regulators, customers and the communities we serve to provide sustainable water and protect the environment today and for future generations.

Reporting and plans:

Our latest report:

Annual Performance Report

Our plans are bold:

Business Plan 2025–30

Other plans

How we're transforming:

Our performance

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Overview

Strategic Report

Governance

Financial statements

Key highlights

Financial

Total revenue (£)

£1,443.2m

2025–26	1,443.2
2024–25	992.7
2023–24	886.5

(Loss) for the financial year (£m)

£(112.6)m

2025–26	(112.6)
2024–25	(99.0)
2023–24	(229.6)

Capital investment (£m)

£1,167.1m

2025–26	1,167.1
2024–25	976.6
2023–24	828.1

Total shareholder return[1] (actual structure) (%)

-4.7%

2025–26	-4.7
2024–25	-17.8
2023–24	-8.0

Regulatory Capital Value[2] (£m) Net debt/RCV[3] (%)

£8,391.5m 67%

2025–26	67%	8,391.5
2024–25	74%	7,449.7
2023–24	69%	6,787.6

Dividends and equity

No dividends have been paid by Southern Water Services to external shareholders since 2017–18.

Additional investment into the group by shareholders of £900 million with an additional £300 million committed, post year-end.

External dividends

2025–26	0
2024–25	0
2023–24	0

1 Total shareholder return is a key performance indicator for the regulated business and reflects our combined performance on totex, customer ODIs and financing including indexation on the RCV. The total shareholder return is taken from Annual Performance Report, Table 1F

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

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

Operational

00:05:01

Supply interruption

We've significantly reduced the average time that customers are without water during an incident, to 00:05:01 from two hours, 21 minutes and 50 seconds during 2024–25. This is a result of improved access to data, proactive maintenance, safe control of operations and analysis of previous incidents.

2,507 incidents

Outperformed flooding target

We've outperformed the Ofwat target for external flooding incidents over 2025–26, recording 2,507 (2024–25: 3,047) against a target of 3,636. We now have c.34,000 sewer level monitors installed across our network helping us track flows and prevent flooding.

78

Bathing waters excellent, good or sufficient

We met our bathing water quality target and 12 of the 87 bathing waters in our area received improved classifications during 2025. A total of 78 bathing waters were rated excellent, good or sufficient using Ofwat's methodology.

3.19 CRI

Drinking water quality compliance improvement

Our Compliance Risk Index (CRI) improved to 3.19 (2024–25: 3.82). CRI measures risk arising from treated water compliance failures. This was reduced as a result of improved sampling processes and the completion of our reservoir cleaning and maintenance programme.

2.90%

Reduced outage from unplanned works

We outperformed Ofwat's target for unplanned outage of 2.93, achieving 2.90 (2024–25: 5.48). This is a measure of water production capacity lost due to unplanned maintenance. It's reduced because of improved staffing levels and access to critical spare parts at our larger supply sites.

101.1 Ml/d

Reduced leakage on our network

Leakage has reduced for a third year in a row, to a three-year rolling average of 101.1 Ml/d (2024–25: 109.9 Ml/d), inside our Ofwat target of 102.2. This is including customer supply pipe losses, expressed in megalitres or millions of litres per day (Ml/d).

Our vision, strategy and values

We're committed to...

Working together to provide sustainable water and protect the environment today and for future generations.

This vision informs long-term priorities and short-term delivery strategy, co-created with customers.

We exist to provide water for life

Protecting and improving the environment for future generations

We adapt to the impacts of climate change, recycling wastewater responsibly, protecting wildlife and nature, recreational areas, bathing waters and rivers for people to enjoy.

Providing sustainable water to enhance health and wellbeing

We provide a reliable, high-quality supply of drinking water and secure water sources for the future.

Working together with partners to support customers and sustain local communities

We invest in local communities, always improving services for customers, particularly those in vulnerable situations. We support a proud, thriving and safe workforce.

Long-term priorities are linked to UN SDGs

Protecting and improving the environment

6 Clean water and sanitation; 12 Responsible consumption and production; 13 Climate action; 14 Life below water; 15 Life on land

Ensuring a supply of high-quality water for the future

6 Clean water and sanitation; 12 Responsible consumption and production

Understanding and supporting our customers and communities

3 Good health and well-being; 8 Decent work and economic growth; 9 Industry, innovation and infrastructure; 11 Sustainable cities and communities

Enabling our people to drive change and performance

3 Good health and well-being; 8 Decent work and economic growth; 9 Industry, innovation and infrastructure

Key objectives help guide our delivery strategy

Wastewater
- Resilient future wastewater system
- Keep sewage in pipes
- Put clean water back into rivers and seas
- Generate value from safe treatment of wastewater products

Water
- Secure future water sources
- Safeguard high-quality drinking water
- Provide a reliable water supply
- Reduce leakage and per customer usage

Common aims
- Improve customer experience and our reputation
- Support a proud, thriving and safe team
- Be commercially effective and efficient
- Be nature positive

Our values shape how we deliver for customers

Read more about our people on **page 61**

We're committed to creating thriving teams who do their best every day.

Working with care to deliver our vision.

Doing the right thing going beyond compliance.

Always improving learning continuously as we deliver new projects.

Succeeding together improving performance for customers and the environment.

Working together to improve services

Our teams work with local authorities, wildlife trusts, regulators, community partners, environmental organisations and our supply chain to improve services, update local infrastructure and enhance the environment now and for future generations.

Read more about our performance on **pages 24 to 83**

Improving wastewater treatment

Since 2023 a dedicated team of Regional Risk Specialists has created a comprehensive register of key issues across our wastewater network. These have been prioritised, and a programme of work is now in place to deliver upgrades at high-risk treatment works.

Read more on **page 29**

Our goal: putting a stop to serious pollutions

Although total pollutions continue to come down, the level of serious pollutions remains unacceptable. We've carried out an end-to-end review of each incident, with burst rising mains and blockages emerging as the primary root causes.

12
incidents (2025: 12; 2024: 15)

Read more on **page 32**

Thank you to volunteers who helped clean up the coastline

In November 2025, bio-beads used in the treatment of wastewater were accidentally released into the sea from our site in Eastbourne. Hundreds of Southern Water colleagues and contractors supported large teams of community volunteers as part of the clean-up. We'd like to thank everyone for their hard work and commitment.

Read more on **page 41**

Keeping taps running in Hastings for the holidays

Teamwork and quick thinking helped us to avoid thousands of customers losing water on Christmas Eve.

45,000
Customers kept in supply

Read more on **page 48**

We're here to help customers who are worried about bill increases

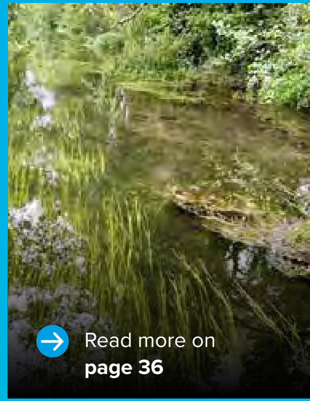
We currently offer tailored financial support to 193,252 customers, or 10% of our entire customer base, with a further £50 million support package in place for customers during 2026–27.

193,252
Customers receiving financial support

Read more on **page 58**

Helping to protect endangered chalk stream salmon

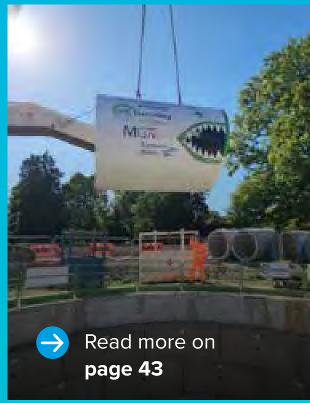
We've joined forces with the Wessex Rivers Trust, Test and Itchen Catchment Partnership and the Atlantic Salmon Trust, among others, to launch Project White Hart – carrying out an audit and restoration work to ensure resilient, thriving salmon populations by 2050.



Read more on **page 36**

Securing future supplies in Hampshire

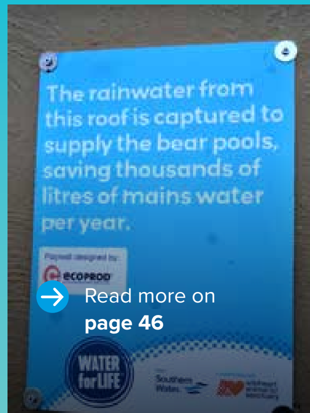
We broke ground over the summer (2025) on a £100 million project to build a new 19km pipeline that will allow us to improve the reliability of water supplies across Hampshire, protecting the environment during a drought.



Read more on **page 43**

475,000 litres of rainwater captured

A rainwater harvesting system was installed as part of the Wildheart Sanctuary's new 'Sustainable Drainage Safari' on the Isle of Wight. The installation is helping to educate visitors about water saving, sustainability and biodiversity.

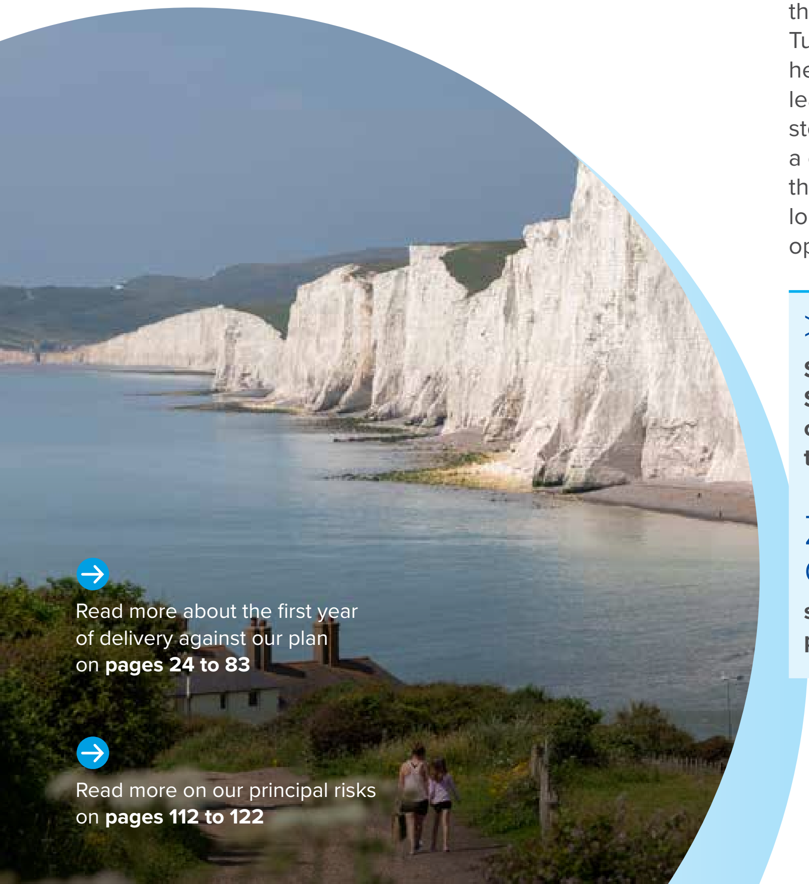


Read more on **page 46**

Strategy at a glance

We're committed to providing high-quality and affordable water services to 2.7 million customers and efficient wastewater services to around 4.8 million customers across Kent, Sussex, Hampshire and the Isle of Wight, while protecting and enhancing local communities and the environment.

The nature of our business means we must think in short, medium and long-term planning and investment cycles.



Read more about the first year of delivery against our plan on **pages 24 to 83**

Read more on our principal risks on **pages 112 to 122**

An improving picture (2020–25)

Our four-phase strategy was clear, delivering a complete reset of the company's leadership, culture, systems, processes and people, as well as a step change in investment levels.

Our shareholders supported these changes, allowing us to spend way above regulatory allowances to improve our services.

Change was rapid as we closed out the investment period, guided by the Turnaround Plan, which, since 2023, helped us to deliver reductions in leakage, total pollutions, flooding and storm overflow releases. It marked a clear turning point – rebuilding the company through sustained, long-term investment and stronger operational oversight.

>£2.8 billion
Shareholder investment into the Southern Water Group since 2021, of which £1.8 billion has come in through equity and loan repayments

Zero external dividends
since 2017, with none expected to be paid until at least 2030

Our current five-year plan (2025–30)

The 2025–30 Business Plan is the next stage in Southern Water's transformation.

£8.9 billion
committed over five years

£6.1 billion
of capital schemes

£3.3 billion
of environmental improvement projects

We'll limit our impact on local rivers by reducing the amount of water we take from them, building new water sources, like reservoirs and water recycling plants and upgrading water and wastewater sites so they're more reliable, protect the environment and can better support future population growth. We'll also improve water quality in 1,000km of rivers and reduce storm overflows at almost 300 locations along the coastline.

It's a bold plan, shaped by new regulatory requirements, the unique ecological characteristics of our region, as well as climate change and population growth impacts. As such, it applies a significant degree of stretch to the performance commitments that we're required to meet.

Long-term opportunities

The way we deliver water and wastewater services to customers in the future is going to look very different.

We continue to map future trends that are likely to affect water supplies and drainage and wastewater systems, examining value frameworks to determine the benefits of investment for customers and the environment and adapting our plans accordingly.

This adaptive planning approach includes looking at multiple scenarios because of the uncertainties associated with growth forecasts and climate change impacts. Our Water Resource Management Plan and Drainage and Wastewater Management Plans look 25 years ahead, and are created in partnership with regional stakeholders, regulators and neighbouring water companies. They are published for consultation every five years and forecast the investment we'll need to make, proposing a mix of options to meet every possible challenge. These plans then inform our Price Review submission to Ofwat.

2028
WRMP will be published

2028
DWMP will be published

2029
Next Price Review

Chair's statement

"We're now entering a period in which the need for renewal and improved resilience in water and energy infrastructure must be addressed with greater urgency."

Keith Lough
Non-Executive Chair

Welcome to the Annual Report and Financial Statements for 2025–26

As I prepare to stand down as Chair, I'd like to offer some reflections on my time with Southern Water. Over the past six years, the company and the wider water industry have faced significant challenges. My tenure began as we faced into COVID-19 and a period of economic uncertainty, alongside unprecedented media scrutiny of the environmental performance of water companies. At the same time, the impacts of climate change and continued population growth have placed increasing pressure on water resources and wastewater storage and treatment capacity, particularly here in the South East.

Against this backdrop, I'm proud of the way our people have responded. Across the business, colleagues have embraced the need for change with greater openness, adaptability and determination. This progress has been supported by substantial investment from our shareholders, led by the Macquarie Group, who have committed more than £2.8 billion to deliver improvements, supporting total investment well beyond our regulatory settlement, as well as providing access to global infrastructure expertise. Importantly, this has been achieved without the payment of any external dividends and with an expectation that none will be paid before 2030.

We're now entering a period in which the need for renewal and improved resilience in water and energy infrastructure must be addressed with greater urgency. This requires a clearer and more transparent contract with the public; one which balances the need for investment with fairness and affordability. Following the recommendations of the Cunliffe review, I'm encouraged by widespread recognition of the need for significant regulatory reform. I hope to see further progress that supports adaptability in an increasingly complex environment, alongside more open engagement with customers about priorities and trade-offs.

An improving picture

Southern Water benefits from a strong leadership team, led by a highly effective CEO, and the support of a patient, long-term shareholder. While the transformation journey is ongoing, there is already evidence of progress across key performance areas.

Where challenges remain, particularly in relation to pollution, there's a determined focus on understanding root causes and implementing sustainable solutions. The company is working collaboratively with peers, regulators and supply chain partners to address persistent issues and drive improvement. The Board has seen first-hand this commitment to operational discipline and continuous improvement and is confident that Southern Water is on the right path towards delivering sustained performance improvement.

More detail on performance can be found in the CEO's review on **pages 8 to 10**

Chair’s statement
ctd

Much-needed reform

The Independent Water Commission review, published last year following extensive engagement across the sector, provides a strong foundation for change. I’m optimistic that regulatory reform will enable clearer prioritisation, supporting outcomes for customers and the environment that are both deliverable at a pace that is affordable, and financeable.

Customers in our region have experienced significant bill increases. These reflect the urgent need to improve water supply resilience and invest in environmental improvements, particularly around the Rivers Test and Itchen. This highlights a 'water trilemma' in the South East: securing long-term water supply, improving the environment and maintaining affordability.

We remain committed to helping vulnerable customers through our Essentials tariff and other support schemes, but it is also vital that the regulatory framework helps reconcile these competing priorities and enables a shared understanding of what can be delivered and when.

Southern Water was the first company to commit to independent and public customer scrutiny – an approach that has proved challenging and valuable. A live-streamed session with our Macquarie director reflected on the alignment between our vision of the future and the Cunliffe report’s objective of focusing on local solutions for river catchments. Our Clean Rivers and Seas Plan echoes this approach, with more collaboration with local authorities, environmental groups and landowners to deliver meaningful improvements to river environments.

Our 2025–30 plan and beyond

Having delivered a marked improvement to address historic underperformance and built stronger operational capabilities, Southern Water is now making encouraging progress against its ambitious 2030 plan.

The next phase of investment represents a significant opportunity to deliver lasting improvements for customers and the environment. This was recognised by the Competition and Markets Authority, whose Final Determination acknowledged both the higher cost of financing and the need to meet new legal and environmental requirements, including those related to supply resilience and pollution reduction.

I'm pleased to see the early progress being made as we enter the second year of delivery.

Succession

As I step down as Chair (16 July 2026), I would like to thank my fellow Board members, particularly Will Price, who will also be leaving this year, and all Southern Water colleagues for their dedication and commitment over the past six years. Together, we’ve made meaningful progress in building a stronger, more resilient company.

I am pleased to be handing over to Andrew Davies, who joined the Board on 6 May 2026 as an independent non-executive director and Chair Designate. Upon completion of Ofwat’s new fitness and propriety processes, Martin Bradley and Steve Hurrell will also join the Board as investor-nominated non-executive directors. Further, following the recent equity transaction, Asterion Industrial Partners are expected to nominate a non-executive director.

I wish Andrew and the rest of the Board well on the next stage of Southern Water’s journey, and I leave knowing that the company is being led by a strong management team with a clear plan to continue to deliver positive change.

Keith Lough
Chair

15 July 2026

Read more about support for customers on **pages 57 to 58**

Further information regarding Board membership can be found on **pages 133 to 136**

CEO's statement

Implementing our 2030 plan: the improvement journey intensifies

“We've made progress in digitalising our water and wastewater networks and completed £3.2 billion of schemes as part of our 2020–25 capital programme – 50% more than allowed by our regulator over that period.”

Lawrence Gosden
CEO

We're entering the final phase of Southern Water's four-step transformation plan. Three years on from launching our turnaround in 2023, we've made progress across the areas that matter most to customers and the environment. Total pollutions have fallen c.30%, water quality risk management has improved, moving us from bottom of the industry to the upper quartile. We've also significantly reduced customer supply interruptions and improved safety performance.

We've reduced leakage and flooding by digitalising our water and wastewater networks and completed £3.2 billion of investment to maintain and upgrade infrastructure as part of our 2020–25 capital programme – 50% more than allowed by our regulator.

We've accelerated environmental improvements, to prevent 1,200 releases from storm overflows and diverted 14.5 hectares of rainwater runoff away from the network, reducing pressure on the system during heavy rainfall. We know customers and communities expect further progress on storm overflows, and our Clean Rivers and Seas Plan sets out how we'll deliver it through sustained investment and practical action.

These improvements have been underpinned by continuing investment. Shareholders, led by Macquarie Asset Management have injected more than £2.5 billion into the company since September 2021, with a further £300 million committed. No external dividends have been paid since 2017 and none are expected to be made until 2030.

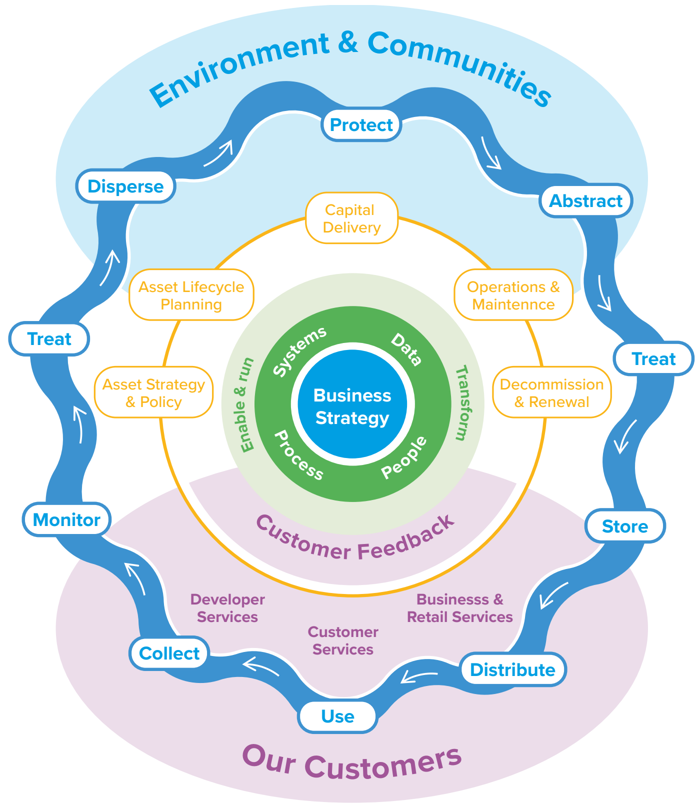
This improved performance, additional equity and debt financing has reduced the cost of regulatory penalties* and improved our financial resilience, with Southern Water maintaining two investment grade ratings.

Further details of our financial performance and credit ratings on **pages 90 to 100** and going concern statement **pages 189 to 190**

* Regulatory penalties, including forecasts for the customer measures of experience, reduced last year to £28 million compared with £49 million in the prior year. We expect to move to a zero-penalty position and into reward as we progress through this investment period.

While we've made meaningful progress, we must continue to build on it. My focus remains firmly on the areas where performance is falling short, and on the actions required to deliver sustained improvement and rebuild trust.

This means remaining relentlessly focused on reducing serious pollutions, improving services and support for customers, and delivering consistent operational performance. We'll achieve this by continuing to learn from our mistakes, working together with partners, maintaining financial stability and applying long-term thinking to complex challenges.



CEO Statement
ctd

Reducing the time customers are without service

Many are looking to the UK as an example of how long-term investment can improve water services. Drinking water quality here now ranks among the very best in the world on the Environmental Performance Index – alongside countries like Switzerland and Germany.

This sustained investment has also reduced water supply interruptions. Over the past year we've significantly improved performance in this area, digitalising operational controls and improving collaboration between teams to ensure major works are completed safely and quickly while keeping customers' tap water flowing. The progress we've made in incident management has been recognised by the Consumer Council for Water, which has invited us to share lessons learned with other companies across the sector.

Read more on **page 47**

Providing reliable water and wastewater services for customers is inherently complex, particularly as we scale up to deliver such a large capital programme. Our teams worked exceptionally hard as we entered the Christmas period when they fixed a huge burst on the strategic main outside Hastings. Thousands of customers could have been without water on Christmas Day, but we fixed the pipe overnight and, instead, a small number of properties experienced low pressure or supply dropping in and out for a short period.

Read more on **page 48**

I'd like to commend the efforts of our teams who, particularly over the winter months, kept sites running and customers in supply, despite experiencing countless storms and the wettest January on record.

Maintaining operational oversight and accountability

To continue to reduce flooding and pollutions, we've strengthened the resilience of our wastewater network by recruiting a team of Regional Risk Specialists to identify and prioritise high-risk assets, supported by data-led insight fed into our Control Centre and targeted investment. This investment has contributed to our external flooding prevention performance exceeding Ofwat's reward cap for the past year.

Read more on **page 29**

However, we've fallen short of our treatment compliance target because of several significant breaches at wastewater sites. While external factors, including permit changes, played a role, we didn't escalate issues fast enough. We must – and will – do better, and have a comprehensive action plan in place.

Pollution performance is improving but not yet at the level we would expect. Serious pollutions reduced to 12 in 2025 from 15 in 2024, but this remains unacceptable. We continue to analyse every incident in detail, while investing in increased network monitoring and predictive data analysis to identify emerging risks before problems occur.

Key transformation projects

We've driven significant in-year leakage reductions through improved pressure management and network visibility, cutting leaks by 23% since the start of our turnaround plan in 2021, and by 12% already this year. We're also repairing significant leaks faster thanks to improvements in planning and scheduling, helping us manage issues in real time, alongside the use of new technologies, such as no-dig fixes.

Supporting further leakage reduction and customer water-saving goals, we're upgrading water meters; with more than one million smart devices due to go in the ground before 2030. The data they provide will give us and customers real-time visibility of how much is being used, reducing leaks and improving billing accuracy and awareness.

In terms of reducing storm overflow releases, we've published a Pathfinder Review, summarising findings from a four-year programme of sustainable drainage, surface and groundwater management trials. These have now informed a Clean Rivers and Seas Plan that will see us invest £1.5 billion between now and 2035 at almost 300 locations along the coastline, reducing storm overflow releases by 14%.

To improve the reliability of future supplies, we've also broken ground on some major infrastructure projects, with work well under way on the Southampton Link Main that will connect the new Havant Thicket Reservoir with our water supply works, increasing resilience across Hampshire. At the same time, we launched consultations on two water recycling projects on the Isle of Wight and in Hampshire, which will reduce the impact of future droughts.

Thank you to those who supported the beads clean-up

The importance of collaboration and learning from failure was highlighted after the accidental release of bio-beads from our Eastbourne site in November 2025. I'd like to repeat my unreserved apology to customers and communities along the south coast, particularly near Camber Sands and the Rye Nature Reserve.

We responded quickly, working with local authorities, regulators, specialist contractors and community volunteers to minimise environmental impact and support a large-scale clean-up operation, donating specialist beach-cleaning equipment. I'd like to thank everyone involved for their support and commitment.

Read more on **page 41**

CEO Statement
ctd

Investment, affordability and customer support

We'll be investing more than £6 billion to build new infrastructure before 2030 – our largest capital programme to date – with £1.1 billion of projects already delivered. The Competition and Markets Authority's Final Determination recognised the need for additional funding to support this essential investment while balancing affordability concerns.

We're very conscious that the scale and complexity of the schemes we're delivering before 2030 has meant increasing customer bills. I know this is unwelcome as the cost-of-living crisis continues to put pressure on household budgets. I'm also mindful that the additional 3% increase announced to future bills will have added to customers' concerns.

We've done all we can since our charges increased in the spring to communicate the changes to customers in advance of them receiving a bill, explaining the benefits the extra funding will deliver, and increasing support to those who need it most. We're currently offering a total of 193,252 customers extra help with various payment schemes and adjusted tariffs and we'll be providing an additional £235 million to 2030.

Our focus on customer support doesn't stop there. We've started a thorough review of processes, systems and channels, as we know that we're still not providing the level of service that our customers expect. Although we offered new payment options, such as ApplePay and GooglePay during the year, we also saw customer waiting times and complaints increase because of bill increases and changes we made in our contact centres. We know our customers wanted to talk to us about the changes to their bills, and that restructuring at this time was, in hindsight, the wrong decision. We're committed to doing better and are focused on improving services for customers.

We're listening to customers and inviting challenge

We recognise the value in listening to our customers to provide the changes they want to see, speaking to more than 75,000 people over the year. Many of the projects we plan to deliver depend on close collaboration with regulators, local authorities, community groups and customers. That's why my management team and I continue to engage regularly, seeking feedback, sharing progress and addressing challenges as they arise.

One important development has been the establishment of our Independent Customer Scrutiny Committee. Aligned to the government's Water Special Measures Act and chaired by Dan McDonald, CEO of Citizens Advice Medway and a local councillor, the committee brings together representatives from local government, charities, business and healthcare to provide independent challenge. Its role is not to endorse our decisions, but to challenge them, helping ensure that customer and community perspectives are properly considered in a publicly accessible forum.

Improving water quality and the natural environment

Another highlight for me has been our involvement in the effort, with partners, to improve river health and protect wild salmon in the Test and Itchen chalk streams. The Atlantic salmon is a species sadly threatened with extinction.

Working with the Test and Itchen Catchment Partnership (led by Wessex Rivers Trust and the Hampshire and Isle of Wight Wildlife Trust), the Atlantic Salmon Trust and local communities, we helped launch 'Project White Hart'. As part of the initiative, we're supporting a full audit of the river catchment to look at key drivers having an impact on these precious habitats, and will then deliver a restoration programme focusing on improving water quality and salmon populations by 2050.

Read more on **page 36**

Keeping everyone safe and well

Keeping our people safe is one of my most important responsibilities as CEO, and as we deliver our largest-ever investment programme, maintaining a focus on safety and accountability remains essential. We've continued to improve across key health and safety measures via our Safe and Well Everyday Plan, with the Lost Time Injury Frequency Rate (time lost because of injury in the workplace) reducing to 0.11, significantly below our target of 0.20.

The security and safety of our teams in our communities has also been front of mind as media and public scrutiny of the water industry remains constant. The need to protect our teams from physical and verbal abuse while they're doing their jobs has become a reality – so much so that we've started to run a course for our field teams to better prepare them to de-escalate any confrontations and explain the facts to customers.

Looking ahead

Performance is improving, but we acknowledge that public trust needs to be rebuilt. We're now entering a pivotal phase, with a huge investment programme, and a clear delivery strategy. We'll continue to reduce overflow releases, remove more nutrients from wastewater, and improve treatment processes to support the long-term recovery of the natural environment across our region. It's an opportunity to leave a lasting legacy for future generations, and I know everyone at Southern Water is committed to delivering the outcomes in our plan.

With a refreshed leadership team, we're building a different company – one that's transparent about the past and future, focused on improving environmental performance, digitally connected, operationally disciplined, customer-centred and committed to work in partnership with the customers and communities we serve.

Lawrence Gosden
CEO

15 July 2026

Regional context and challenges

The localities we serve shape how we operate as a business.

We operate across five separate regions, each with its own distinct characteristics.
We're making progress: We've reduced in-year leakage by 23% and total pollutions by c.30% since 2023. This is a result of sustained investment in our water and wastewater network (more than £11.5 billion since privatisation in 1989), delivering a programme of upgrades detailed in our Leakage Recovery and Pollution Incident Reduction Plans.

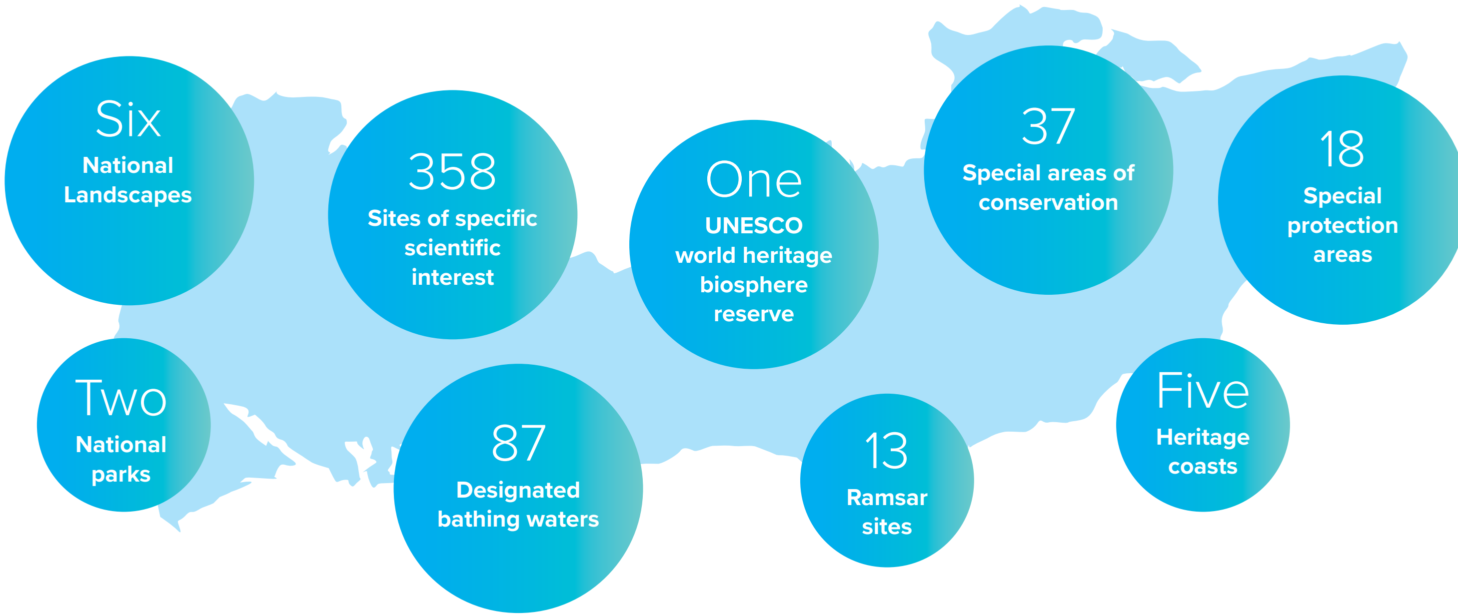
We'll go further: Before 2030 we'll invest more than £6 billion to improve assets and services; increasing capacity, making sites and networks more resilient to population growth and climate change, further reducing bursts, flooding and pollutions.

Read more on **pages 27, 53 and 83**

We help to look after more than 700 miles of coastline.
We're making progress: A total of 50% of storm overflows in our region already meet the government's 2050 target – releasing 10 times or less a year. This is a result of a range of projects to reduce surface water and groundwater flooding of the sewer network, through updates to private drains, and the installation of sustainable drainage systems. This work with local partners – councils, landowners and highways – continues as part of our Clean Rivers and Seas Plan.

We'll go further: By 2035 we'll have invested a further £1.5 billion to reduce releases by an average of 8,000 a year, an 81% reduction in bathing water areas.

Read our Clean Rivers and Seas Plan



A high proportion of Southern Water customers live in coastal communities.
We're making progress: We monitor 100% of our storm overflows and were one of the first UK water companies to openly report spill performance online. We've set up a dedicated near-real-time reporting service, called Rivers and Seas Watch, that was updated in consultation with community partners (including Surfers Against Sewage) in early 2025. It uses modelling and AI to provide an accurate view of both where a release occurs and the entire bathing water area affected.

We'll go further: We've got further plans to improve the accuracy of bathing water alerts. Based on input from tidal modelling and bathing water experts, we'll be using industry-leading forecasting to provide users with more confidence when making decisions on where and when to use the water. We'll do this by providing more regular updates on our storm overflow reduction programme and transparent data from our river-water-quality buoys as they are rolled out across the region.

Read more on **pages 35 and 40**

Much of the water supply in Hampshire comes from the Test and Itchen chalk streams. We must replace 30% of water sources in the county over the next five to six years.
We're making progress: We broke ground on a major new 19km pipeline near Southampton in June 2025 that will improve the resilience of supplies across Hampshire, while public consultations have already been launched in Hampshire and the Isle of Wight for new, water recycling plants – some of the first in the UK.

We'll go further: These are just a few of the major projects planned in the area, including another link main at Andover, two more water recycling projects at Ford and Aylesford, major transfer schemes with neighbouring water companies and a new reservoir at Havant Thicket, which we're funding in partnership with Portsmouth Water. The last time new water resources were developed on this scale in the UK, was to support the fast-growing industrial cities of Liverpool and Birmingham in the late 1800s.

Read more on **page 43**

Performance overview

Core values shape how we do things:

For 2025–26 we're looking to go beyond headline metrics and present a complete picture of the improvements we're making in terms of capabilities, delivery and performance.

Real transformation takes time, but we're making steady progress.

Working with care
To deliver our vision

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

Doing the right thing
Going beyond compliance

We're transforming internally and doing things differently to enable long-term success.

Always improving
Learning continuously as we deliver new projects

The infrastructure and investment programmes already underway that will take us to 2030 and beyond.

Succeeding together
Improving performance for customers and the environment

We're focused on delivering ambitious outcomes every day.

For a more detailed overview of performance go to **pages 24 to 85**

	Turnaround performance		Current performance	
Customer priority performance area:	2023–24	2024–25	**2025–26**	More info
Total pollutions	○	○	○	Page 31
Internal flooding	○	○	○ *	Page 33
External flooding	●	●	●	Page 34
Storm overflows	◒	◒	○	Page 35
Bathing water quality	◒	◒	◒ *	Page 35
Leakage	○	○	●	Page 44
Water use	○	○	○	Page 45
Water supply interruptions	○	○	●	Page 47
Water quality	○	○	○	Page 51
Customer satisfaction (C-MeX)	○	○	○ *	Page 55
Priority Services Register	●	●	●	Page 57

* Metrics have changed for 2025–26 – see performance chapters for commentary.

Key

○ Below target

◒ On track

● Ahead of target

Delivering ambitious outcomes for customers

Key

Benefits delivered by 2030

Looking ahead to 2030

We're transforming at pace, changing our relationship with water; thinking differently about how we source, treat and get it to our customers' taps. We're also improving the quality of the water we return to the environment.

We'll balance the building of new infrastructure with natural solutions to reduce the use of storm overflows, and improve the health of rivers and water quality at bathing water sites along the coast. By 2030, we'll also have delivered one of the UK's first water recycling plants and two major transfer projects with neighbouring water companies, reducing impact on local rivers – including rare and precious chalk streams.

We're doing all this working with our customers and communities to provide sustainable water and protect the environment today and for future generations.

Protecting and improving the environment for future generations

Resilient future wastewater system

Wastewater treatment works upgraded to increase capacity and meet growth.

- 65 sites.

Generate value from safe treatment of wastewater products

Increase energy generated from wastewater.

- 116 GWh/yr (2025: 70GWh/yr).

Advanced digestion sludge treatment centres.

- Two sites.

Be nature positive

Carbon reduction and progress to net zero.

- Increase energy generated from wastewater to 116 GWh/yr from 2025 baseline of 70GWh/yr.
- Increase electricity self-generation from 12.5% (2022) to 25%.
- Deliver an additional 10MW of solar.
- At least 40% of fleet converted to hybrid vehicles and BEVs.

Keep sewage in pipes

Digital networks and proactive maintenance – reduce total pollutions and eliminate serious pollutions.

- 50% and 0.

Put clean water back into rivers and seas

95 phosphorus removal schemes at wastewater treatment works.

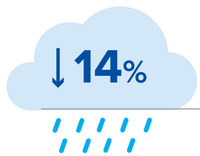
- 73% reduction in phosphorus loads from treated wastewater. 180 tonnes less entering water at 2020 levels.

Remove nitrogen from treated wastewater.

- 37 sites (nitrate removal).

- **Four pilot wetlands.**
- **Review of almost 300+ storm overflow locations.**

- 14% reduction in storm overflow releases.



Delivering ambitious outcomes for customers ctd

Key

Benefits delivered by 2030

Providing sustainable water to enhance health and wellbeing

Reduce leakage and customer water use

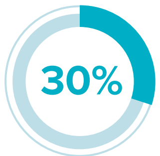
Demand management by reducing leakage, installing smart meters and helping people and businesses to use less water.

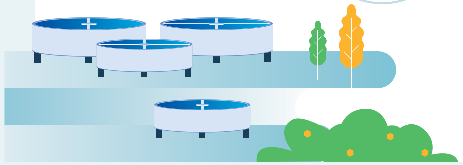
- 34.7% reduction in leakage (from 2024–25 baseline of 101.6 Ml/d).
- Individual water use, per day 120.3 litres.
- Business demand 104.3 Ml/d.

Secure future water resources

Four recycling plants; two new reservoirs and transfer projects; two new link mains.

- Replacing 30% of South East's water supplies.





Provide a reliable water supply

Five largest supply sites upgraded, increasing reliability of supplies.

- c.62% customer properties.

Safeguard high-quality drinking water

Reduce nitrate issues at groundwater sources.

- 25 sites.

Reduce pesticide issues at surface water sources.

- Three sites.

Working together with partners to support customers and sustain local communities

Improve customer experience and our reputation

Improved customer support package.

- *£12m of customer debt write-offs from debt-matching schemes.
- *£7m for customer hardship fund.
- *£40m of bill discounts via the WaterSure tariff.
- *£172m customer discounts from existing social tariff funding.
- Increased transparency – data, scrutiny and challenge sessions.

* (nominal price-base)

Business model

Risks and key factors

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

External environment

Our operations are impacted by external influences. These are risks that we must consider, adapt to and mitigate the impacts of.

Environmental
The region we serve includes a rich mix of landscapes, many of which are nationally and internationally designated for their ecological importance.

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

Regulatory
To comply with our operating licence, we must meet the requirements of many different regulatory, environmental, legal and financial bodies.

Social
The essential services we provide have a direct impact on our communities' health and wellbeing. We constantly talk to customers to make sure that we're meeting their needs.

Innovation and technology
We explore the latest technology, updating services, reducing impact and enhancing the efficiency of operations.

Political
We seek to influence public policy by building relationships with local politicians and policymakers, while adhering to government directives and adapting to policy developments.

Key factors

We plan ahead, looking beyond compliance targets, to consider impacts and dependencies on all resources, and how they may affect our ability to create value in the future.

Nature
Healthy ecosystems underpin water resilience and long-term sustainability.

People
The skills, capabilities and commitment of colleagues and partners help us to deliver our vision.

Financial health
We raise finance to build new assets and repay loans, while shareholder contributions and revenue from customers contribute to the running of the business.

Infrastructure
Sites, equipment, networks and IT systems that enable us to deliver essential services.

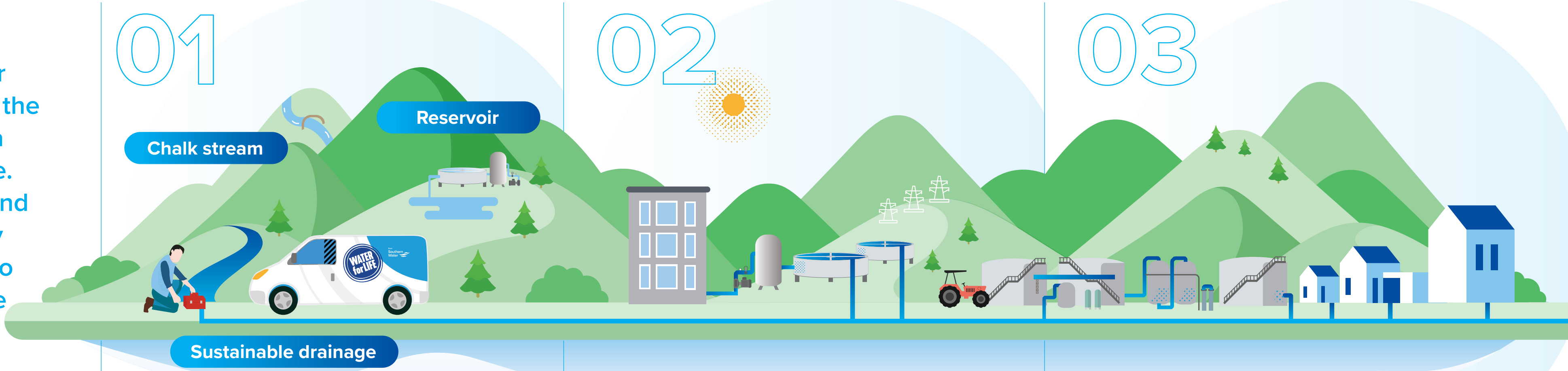
Social
Through transparency, and constant engagement with customers and stakeholders, we build trust and relationships in communities.

Knowledge
We succeed together by sharing the information and data we hold, finding shared solutions to regional challenges. Meanwhile, systems, processes and procedures are improved through learning from partners and peers.

Read more on principal risks on **pages 112 to 122**

Business model ctd
Core activities

The use of water and its return to the environment is a continuous cycle. Managing demand and risk at every stage is critical to protecting future resources.



01 Water is collected from the environment

About 68.2% of the water we supply comes from groundwater (stored in underground reservoirs, called aquifers), 27.6% is taken from rivers and 4.2% comes from reservoirs.

Working closely with farmers, landowners, environmental organisations, catchment partnerships and regulators, the Catchment team protects the health of water sources. The team tests water quality, checking for pollutants like nitrates, phosphates and pesticides. It also assesses river flows and abstraction levels (removal of water from the environment), helping to reduce flood risk, boost biodiversity and support sustainable land use.

Relevant material issues

E – Compliance; protection from climate change; water supplies; land management and access.
S – Drinking water quality; local economies.
G – Trust, transparency and legitimacy.

Associated risk

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

02 Raw water is treated

Our 72 water supply works treat raw water to the highest standards, making it safe to drink. In fact, the UK's drinking water quality now ranks among the very best in the world.

We're always looking to enhance treatment processes, exploring new technology to improve quality and capacity at water supply sites.

Relevant material issues

E – Compliance; protection from climate change; water supplies; energy use.
S – Drinking water quality; health, safety, security and wellbeing.
G – Trust, transparency and legitimacy; political and regulatory environments; responsible supply chain.

Associated risk

Failures at our sites and on the network could pose a risk to public health because of reduced water quality and/or supplies being cut off. We use chemicals to treat water which, if not handled correctly, could cause injury. Area-specific risk assessments help us mitigate risks from the impacts of climate change or urbanisation and help inform monitoring programmes.

03 Clean water is supplied to customers' taps

Our 14,035-kilometre water network, 231 service reservoirs and 646 pumping stations deliver a continuous supply of clean water to customers at required pressure levels. During 2025–26, we put 560 Ml/d per day into supply.

We're developing major new pipelines, water recycling plants and water transfers, and co-funding two new reservoirs in the UK (in Hampshire and Oxfordshire) as part of our Water Resources Management Plan. These projects will help to manage demand and secure water supplies for future generations.

Relevant material issues

E – Compliance; protection from climate change; water supplies and energy use.
S – Drinking water quality; health, safety, security and wellbeing, customer service and local economies.
G – Trust, transparency and legitimacy; political and regulatory environments; responsible supply chain.

Associated risk

We regularly test water in customers' homes and businesses to protect public health. We offer support and advice on private pipework and let customers know when we find any issues, such as leaks. We constantly monitor our sites and networks, repairing and updating them to meet regulatory standards. If we didn't do this, water supplies could be cut off to protect public health. In extreme cases, we could cause injury to colleagues or customers, and damage to property.

Business model ctd

Core activities ctd

Wastewater is collected and treated

Our 40,171 kilometres of sewers and 3,533 pumping stations collect wastewater from our customers' homes and businesses, and from the drains outside. Each day, 1,287 million litres of wastewater is received at our 356 works, where it's treated, to strict environmental standards, before being returned to the environment.

Relevant material issues

E – Energy use; compliance; protection from climate change; land management and access.
S – Drinking water quality: health, safety, security and wellbeing; customer service; local economies.
G – Trust, transparency and legitimacy; political and regulatory environments; responsible supply chain.

Associated risk

Wastewater systems are crucial for public health and environmental protection, preventing the spread of diseases and pollution. If we fail to remove wastewater effectively and manage our network, we may cause sewer flooding and unnecessary distress to our customers or the environment. Potentially hazardous substances and processes are used during treatment that could cause injury.

Varying rainfall patterns, extreme weather events and rising sea levels all contribute to an increased risk of flooding if our sites and networks are overwhelmed. This could also lead to contamination of water supplies and flooding of sewers and sites. Automatic fail-safe valves exist in the system – known as storm overflows – and these are triggered when they are overwhelmed by surface or groundwater, releasing stormwater, along with wastewater from homes and businesses and small amounts of sewage into nearby rivers and seas.

Our Clean Rivers and Seas Task Force is working with community partners and landowners across our region to reduce the volume of surface water and groundwater entering our sewer system, as we have found this is the fastest way to reduce storm overflow releases along the coast. Read more on page 35.

Customers are billed

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

Relevant material issues

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

Associated risk

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

Read more about our 'Where your money goes' on **page 102**

Looking ahead

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

At the same time, our Drainage and Wastewater Management Plans help us model likely scenarios for the future, which allow us to future-proof our sewer network, find opportunities for reducing flooding and groundwater infiltration, better manage excess surface water and reduce the use of storm overflows along the coast.

Read more about our approach to climate change risk on **pages 67 to 83**

Associated risk

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

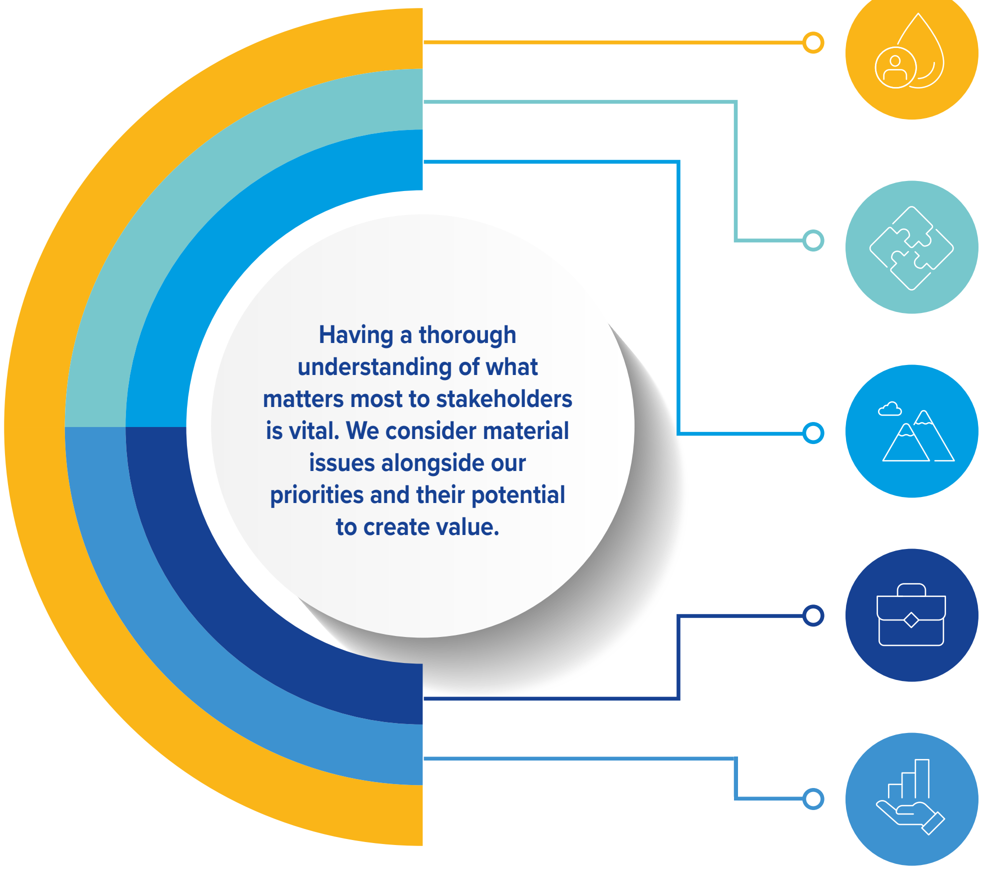
Business model ctd
Stakeholders

Creating value for customers and the environment

We work with many stakeholders to deliver our vision of a sustainable water future.

Delivery partners

Each company listed plays a significant role in the delivery of our plans.



Customers and communities

Providing clean, safe drinking water and hygienic sanitation makes a major contribution to the long-term health and wellbeing of communities across the South East. Customers and community partners directly contribute to our plans, so we can be confident that we're delivering what's most important to them.

People and partners

Our number one priority is the safety of employees and partners, and this applies to both physical and mental health. We celebrate the diverse range of opinions and experience they bring to Southern Water, which inform decision making and how we operate.

The environment

We must meet increasingly stringent environmental consent levels. Working together with regulators, non-governmental organisations, campaigners and local communities we're looking at nature-based solutions, where practicable, and use adaptive planning to make sure we're delivering lasting change.

Regulators

We're subject to regulation of price, performance and compliance by various bodies that exist to help protect the interests of customers and the environment, and assess whether we're meeting our obligations.

Investors

We need investors to have confidence in the way we do business, so we provide them with regular updates on performance and progress – environmental, social and governance (ESG) updates, alongside financial and performance data. We have not paid external dividends since 2017 and do not expect to do so until 2030, at the earliest.

Water in a changing world

While providing essential services to customers, we also help to protect many environmentally significant sites. We must balance this with building operational resilience in our systems to meet the challenges of population growth and climate change. That's why we're taking action now.

Did you know?

Since 1950, average temperatures have risen in the South East by around 1°C and are projected to increase by 2 to 4°C by 2100. The latest Met Office UK Climate Projections (UKCP18) suggest that the region will experience warmer wetter winters and hotter drier summers.

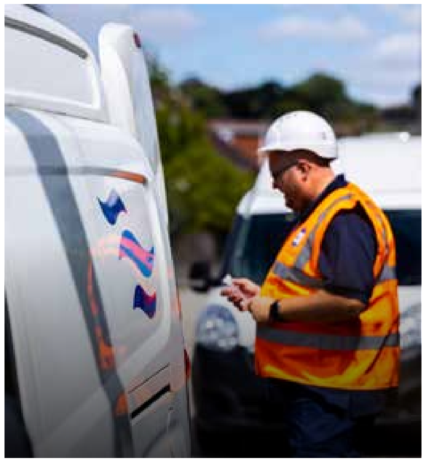
Read more about our approach to climate change on **pages 67 and 83**

Water scarcity

According to the Environment Agency, the South East is 'water stressed' and we'll need to find around 2.6 billion litres a day of extra water by 2050. This problem is particularly acute in Hampshire, where we're currently reliant on local rivers for supply.

We're investing in new sources of water and new pipelines to keep customers' taps running, even during drought. In fact, we'll replace the equivalent of 80% of Hampshire's water supplies over the next 15 years.

Read more on **page 43**



Flooding and storm overflow releases

Milder, wetter winters are bringing more rainfall during the recharge season (September to April). This is causing rapid and significant increases in groundwater levels. At the same time, more intense and frequent heavy rainfall events are overwhelming existing (combined) drainage systems, leading to a significant increase in sewer and surface water flooding, and storm overflow releases (that act as safety valves to prevent flooding). This flooding is also affecting wastewater treatment plants and pumping stations, raising the risk of pollution events during extreme weather.

In 2021 we started a series of Pathfinder trials, working with community partners to change how we manage surface and groundwater. The programme has tested a range of nature-based and traditional 'grey' infrastructure solutions, including additional storage, sustainable drainage, rainfall capture and infiltration schemes that have helped to inform our Clean Rivers and Seas Plan.

Water quality and 'forever chemicals'

Discharges from UK treatment works are facing ever-tightening environmental standards, with regulators increasing scrutiny, imposing stricter limits for nutrients and emerging contaminants (like microplastics), mandating significant investment in infrastructure upgrades, expanding monitoring, and increasing penalties for non-compliance, all driven by government plans to reduce pollution and improve water quality. We expect that these issues, including pharmaceuticals, microplastics and per- and poly-fluoroalkyl substances (PFAS), will require significant future investment.

Our strategic response is built around a holistic framework that addresses PFAS risks from source to tap. This approach recognises the need for proactive catchment management, adaptive site-level operations, and continued investment in research and innovation to build long-term resilience.

We'll focus on:

- **RESEARCH:** into short- to medium-term PFAS prevention and management activities using our water and wastewater assets that have the greatest potential to impact concentrations in the environment and drinking water.
- **PREVENT:** PFAS concentrations entering the environment and our water sources, aiming to deliver measurable reductions at sources and considering pathway mitigations through Drainage and Wastewater Management Plans.
- **MANAGE:** all PFAS concentrations in treated water to meet regulatory requirements.

The regulatory environment

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

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

We operate within this regulatory model, which sets revenue over five-year periods, giving us a high degree of clarity and certainty over future income. The framework offers incentives for companies that outperform through the delivery of customer and environmental outcomes and achieve strong cost control and efficient financing. Both the Environment Agency's Environmental Performance Assessment criteria and Ofwat's Outcome Delivery Incentive model were changed during 2024–25, setting new targets and adjusting benchmarks for all water companies across the UK.

The 25 Year Environment Plan, Environment Bill, review of the Water Industry National Environment Programme, and the government's Independent Water Commission and Water (Special Measures) Act 2025 are bringing much-needed change to the water sector. The reform agenda for the period ahead is significant, with regulatory consultations, independent reviews and subsequent legislation change that will impact the structure and regulation of the industry. This review has highlighted the importance of strengthening relationships between regulators and water companies while improving the regulatory regime to rebuild trust in the sector, protect customers and deliver long-term stability through supporting investment and growth.

Working with our regulators

Our regulators set our price controls and performance targets. Below is a list of the key regulators we currently work with.

The Department for Environment, Food and Rural Affairs (Defra) determines the overall water and sewerage policy framework in England, setting standards, drafting legislation and creating special permits, such as drought orders.

defra.org.uk

Ofwat is the economic regulator of the water and sewerage sectors. It protects the interests of consumers by promoting appropriate competition, making sure water companies properly carry out their functions and they have the adequate finance in place.

ofwat.gov.uk

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

gov.uk/government/organisations/environment-agency

The Drinking Water Inspectorate (DWI) is the drinking water quality regulator and enforces the Water Quality Regulations set by the government. To do this, it checks the tests carried out on drinking water by water companies, along with carrying out company inspections.

dwi.gov.uk

The Consumer Council for Water (CCW) is the independent voice for water and wastewater customers, helping to resolve unresolved complaints, providing customer insight, and offering independent challenge and scrutiny through its customer panels and accountability sessions.

ccwater.org.uk

Natural England advises the government by providing practical guidance, grounded in science, on how to best safeguard England's natural wealth. Its purpose is to protect and improve England's natural environment and encourage people to enjoy and get involved with their surroundings.

gov.uk/government/organisations/natural-england

Understanding what matters most to stakeholders

Approach to materiality

By recognising what matters most to our stakeholders we can deliver value where it counts. This year's assessment of stakeholder priorities and the relative value of our activities are presented in a materiality matrix. This year's assessment shows no changes compared to last year.

Step one

Defining the issues

Our stakeholder engagement activities provide insights that inform the selection of material issues. Our corporate strategy and values, and external trends are also considered. We reviewed these in the context of the UN Sustainable Development Goals, risks and the external ESG framework GRESB.

Step two

Prioritisation

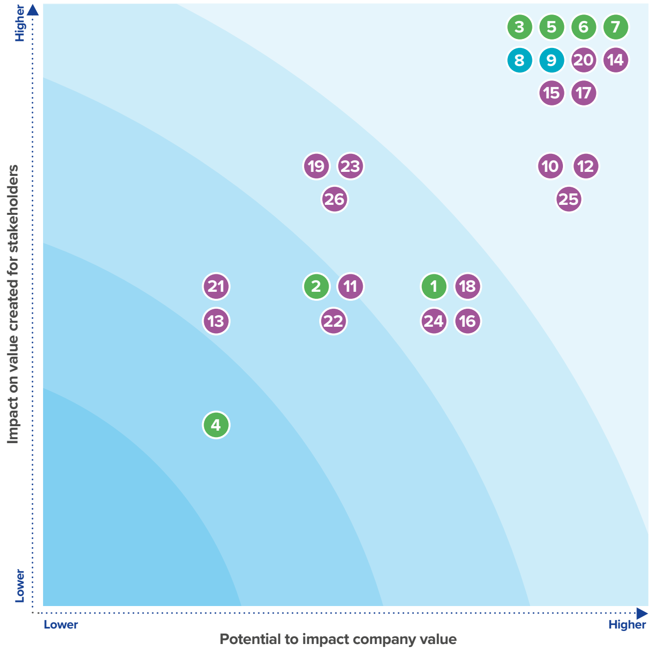
Each issue is scored one to five on two scales: its importance to stakeholders, and its significance for us in terms of creating value. One, indicates no or negligible impact or ability to influence and very infrequent stakeholder interest. Five, indicates critical impact for all functions or high levels of control, and significant interest of many stakeholders. A total of 26 material issues were identified for 2025–26.

Step three

Review

We test the prioritisation scores to validate the ranking. Executive and senior leaders are included in this process.

Read more about how our Audit Committee addresses risk and value provided to stakeholders on **pages 156 to 160**



Our material issues

Protecting and improving the environment

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

Link to principal risks

Asset and Infrastructure Resilience – see page 115
Climate Change – see page 115
Environment and Public Health – see page 116
Delivery – see page 117
Regulatory Environment Reform – see page 121

Ensuring a supply of high-quality water for the future

8. Water supplies
9. Drinking water quality

Link to principal risks

Asset Infrastructure Resilience – see page 115
Drinking Water Quality – see page 116
Environment and Public Health – see page 116
Water Resources and Drought – see page 117

Understanding and supporting our customers and communities

10. Affordability and vulnerability
11. Community engagement
12. Customer service
13. Local economies
14. Cyber security and data protection
15. Political and regulatory environments
16. Stakeholder engagement and networks
17. Trust, transparency and legitimacy

Link to principal risks

Reputation and Transparency – see page 122

Enabling our people to drive change and performance

18. Diversity and inclusion
19. Fair and equal pay and working conditions
20. Health, safety, security and wellbeing
21. Human rights
22. Skills and employment
23. Company structure, ownership
24. Colleague engagement
25. Financial stability and risk management
26. Responsible supply chain

Link to principal risks

People – see page 120
Transformation – see page 118
Financial Resilience and Funding – see page 118
Digital and Cyber Resilience – see page 119
Legal Compliance – see page 120

How we measure value

"Our panel of 30 to 40 customers help us explore day-to-day issues, sharing views on wider social trends, new pressures and emerging expectations."

Nick Eves
Head of Customer Insight

Q How do we know what matters to customers and stakeholders?

A We continuously listen to customers and stakeholders in a variety of ways. Over the past year, we've actively gathered direct feedback from more than 75,000 people through independent research, focus groups, surveys, drop-in sessions, stakeholder meetings and other engagement tools.

This direct listening is complemented by insight drawn from over 10 million data points, such as industry reports, contacts, complaints, social media conversations and demographic information. Our engagement reflects the diversity of our region, reaching households, families, businesses, developers, farmers, councils, young people, vulnerable groups, diverse communities and specialist experts.

To make sure that this broad evidence base is robust, we work closely with independent specialist insight partners who apply best practice approaches to engagement and analysis. Their involvement means that we can be sure that the voices we hear are reliable, balanced and representative of the millions of customers we serve. Combined, this builds our understanding of what truly matters to customers and stakeholders.

Q How do we stay ahead of changing customer expectations and trends?

A We combine this listening with tracking and expert challenge. At the heart of this is our ongoing household panel of 30 to 40 customers, who help us explore day-to-day issues as well as offering feedback on major programmes, sharing views on wider social trends, new pressures and emerging expectations. Each year we use the panel to carry out a structured trends review, and we then draw on a smaller subgroup to test how we have interpreted the findings.

We also use a rich set of research and stakeholder engagement, including industry and regulatory insight from organisations such as Ofwat, CCW and other water companies, as well as our own independent tracking programme, which surveys 600 customers every six weeks. We also run a specialist tracker with priority services customers to understand the needs of those who may require additional support. We then invite input from subject matter experts and independent challenge from our Independent Customer Scrutiny Committee, helping us sense check emerging shifts in expectations.

By triangulating this evidence, we can spot early signs of changing expectations and adapt our plans.

Q How do we make sure that we act on the feedback we receive?

A We want feedback to lead to meaningful change so we apply the Voice of the Customer to our business plans, so we can effectively prioritise and improve services. This begins with turning what we hear into actionable findings, whether through deep dives on key topics like incident management and drought communication, or through practical tools such as community profiles and insight maps shared across teams.

These materials are brought to life at roadshows, displayed in offices and made accessible via our intranet so that colleagues at all levels can engage with the evidence.

A key part of our governance is our Independent Customer Scrutiny Committee. Its action log is published on our website so customers, stakeholders and partners can directly see how their input shapes our work.

Our Executive team and Board receive regular updates – including summaries, detailed debriefs and reflections from the committee chair – to ensure customer insight influences decisions at the highest level.

Independent review

Independent Customer Scrutiny Committee

The committee came together in May 2025 and officially launched in August with our first live recorded session. It provides visible, credible and independent customer scrutiny of our performance, priorities and long-term plans, strengthening trust through accountability and transparency and supporting better outcomes for communities.

The committee is made up of stakeholders from across our region who are experienced in representing customers. Each member is selected by the independent chair to bring different specialisms and experience to enable the scrutiny to be robust, challenging and constructive. We can then act quickly on any feedback to improve services or outcomes for customers.

The committee meetings are live streamed and uploaded to our website, unedited, for complete openness and transparency. The topics of conversation are selected by the committee so that it is asking the questions that matter to customers. Independent research from our customers is also reviewed by members to make sure that the views of all our customers are represented.

During the year, they held the CEO to account on questions around executive pay and company performance; scrutinised the Board on ownership and commitment to improve our services and challenged our Chief Customer Officer on plans to improve customer service and respond to complaints. In April and June 2026 committee sessions scrutinised the Executive team on wastewater, pollutions and building trust with our customers.

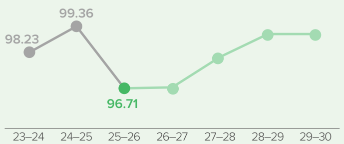
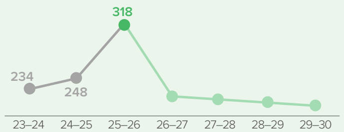
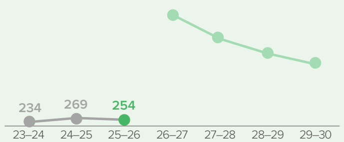
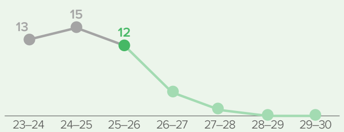
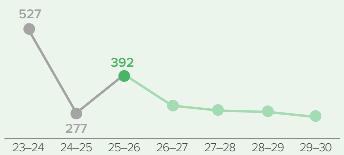
Independent Climate and Environment Challenge Group (ICECG)

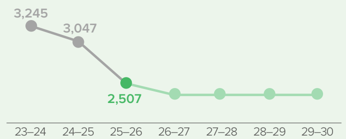
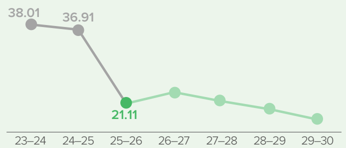
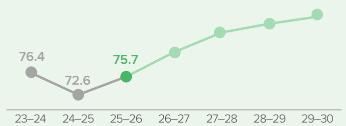
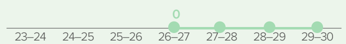
Formed at the suggestion of Southern Water at the start of 2022–23, the ICECG reviews and assesses the company's performance on environment and climate issues. It also advised on the development of the company's new Environment Strategy.

The membership of the group has expanded to include local and national NGOs, government regulators, the CCW, local authorities (including their delivery partnerships) and national parks, along with climate experts and campaign groups. Martin Hurst, Chair of the Southern Regional Flood and Coastal Committee, chairs the group.

2025–26 performance overview

Protecting and improving the environment

Performance commitment		2025–26 KPI target	More info
Resilient future wastewater system			
Treatment works compliance Percentage compliance with discharge permits from our wastewater treatment works, as reported in the Environmental Performance Assessment.		100	Page 28
Sewer collapses Number of sewer collapses (including mains bursts) per 1,000km of sewers.		233	Page 30
Keep sewage in pipes			
Total pollution incidents Total number of Category 1-3 pollution incidents. (From 1 January 2026, the way total pollutions is counted has changed.)		99	Page 31
Serious pollution incidents Number of Category 1-2 pollution incidents. Penalty applies if we have more than one per year.		0	Page 31
Internal sewer flooding Number of flooding incidents.		322	Page 33

Performance commitment		2025–26 KPI target	More info
Keep sewage in pipes			
External sewer flooding Number of flooding incidents.		3,636	Page 34
Put clean water back into rivers and seas			
Storm overflows The average number of times storm overflows have spilled in the year, including an 'uptime adjustment' where each overflow is assumed 100 spills per year if we're not monitoring it in real time. This is a new metric for 2025–30, but with historic data reported.		17.99	Page 35
Bathing water quality Average score out of 100 for bathing water quality. Scores are weighted 100% for excellent classification, 66% for good classification, 33% for sufficient classification and 0% for a poor classification.		75.7	Page 35
River water quality (phosphorus) Percentage reduction in phosphorus discharged by wastewater treatment works compared to 2020 baseline.		0	Page 36

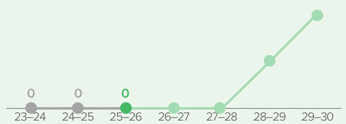
2025–26 performance summary
ctd

Protecting and improving the environment

Performance commitment	2025–26 KPI target	More info

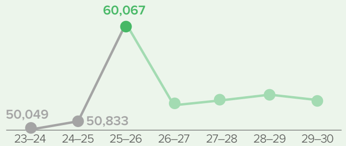
Be nature positive

Biodiversity
This performance commitment measures the net change in the number of biodiversity units on nominated land per 100km² of land in the company's area. A biodiversity unit is a measurement of an area's value to wildlife. It is based on the size and quality of habitats, and whether the habitat is sited in an area identified as being of strategic significance for nature.



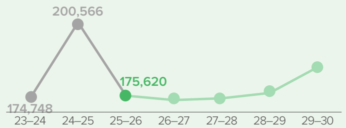
2025–26 KPI target: 0
More info: Page 39

Operational GHG emissions (Water)
The annual amount of greenhouse gas (GHG) emissions associated with the water side of our business measured in tonnes CO_2e, carbon dioxide equivalent.



2025–26 KPI target: 51,737
More info: See our Streamlined Energy and Carbon Report on page 84

Operational GHG emissions (Wastewater)
The annual amount of greenhouse gas (GHG) emissions associated with the wastewater side of our business measured in tonnes CO_2e, carbon dioxide equivalent.



2025–26 KPI target: 175,142
More info: See our Streamlined Energy and Carbon Report on page 84

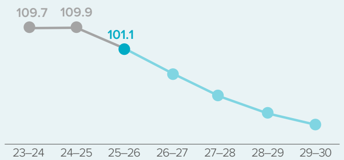
Ensuring a supply of high-quality water for the future

Performance commitment	2025–26 KPI target	More info

Reduce leakage and per customer usage

Leakage (three-year rolling avg)
Level of leakage, including customer supply pipe losses as a three-year rolling average, expressed in megalitres per day (Ml/d).

* Our agreed substitute baseline for this metric as data is unavailable for the full period.



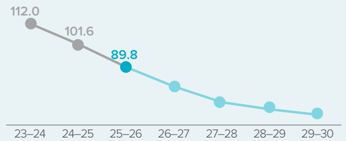
2025–26 KPI target: 102.2
More info: Page 44

Ensuring a supply of high-quality water for the future

Performance commitment	2025–26 KPI target	More info

Reduce leakage and per customer usage

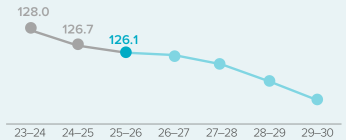
Leakage (in year)
Total level of leakage, including customer supply pipe losses, expressed in megalitres per day (Ml/d).



2025–26 KPI target: 101.6
More info: Page 44

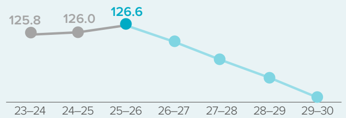
Per capita consumption (three-year rolling avg)
The average amount of water used per person as a three-year rolling average.

* Our agreed substitute baseline for this metric as data is unavailable for the full period.



2025–26 KPI target: 125.9
More info: Page 45

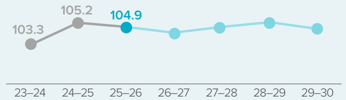
Per capita consumption (in year)
The average amount of water used per person in that year.



2025–26 KPI target: 126.0
More info: Page 45

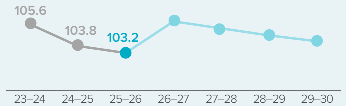
Business demand (water delivered)
The average amount of water supplied for non-household use as a three-year rolling average, expressed in megalitres per day (Ml/d).

* Our agreed substitute baseline for this metric as data is unavailable for the full period.



2025–26 KPI target: 106.9
More info: Page 45

Business demand (in year)
The average amount of water supplied for non-household use per year, expressed in megalitres per day (Ml/d).



2025–26 KPI target: 103.8
More info: Page 45

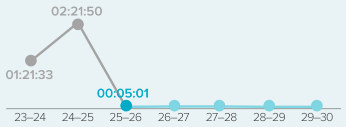
2025–26 performance summary
ctd

Ensuring a supply of high-quality water for the future

Performance title | 2025–26 KPI target | More info

Safeguard high-quality drinking water

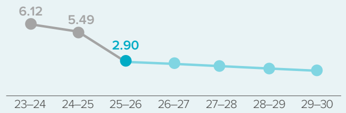
Water supply interruptions
Average minutes lost per property served per year, due to water supply interruptions of greater than three hours.



2025–26 KPI target: 00:08:25

Page 47

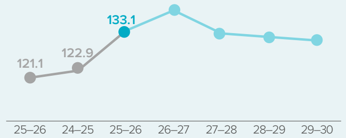
Unplanned outage
Percentage of water production capacity lost due to unplanned maintenance work. This is the updated measure for 2025–30 where we no longer exclude outage resulting from extreme weather or issues with water quality.



2025–26 KPI target: 2.93

Page 49

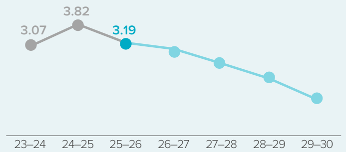
Mains repairs
The number of mains repairs per 1,000km of the entire water network.



2025–26 KPI target: 125.6

Page 50

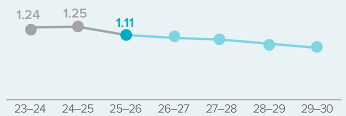
Water quality compliance (CRI)
Risk arising from treated water compliance failures. All compliance failures are assessed and scored by the Drinking Water Inspectorate. Ofwat officially set a target of 0 for all companies, with a penalty deadband set each year.



2025–26 KPI target: 1.83

Page 51

Drinking water appearance, taste and odour
The number of times the company is contacted by consumers due to drinking water quality issues, reported per 1,000 population.



2025–26 KPI target: 1.09

Page 52

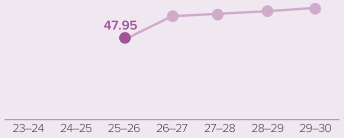
Understanding and supporting our customers and communities

Performance title | 2025–26 KPI target | More info

Improve customer experience and our reputation

C-MeX
The weighted average of customer satisfaction (CSAT) scores from customer service (CS) and customer experience (CE) surveys.

* Reporting starts from 2025–26 due to a change in methodology.

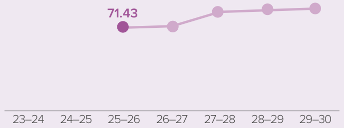


2025–26 KPI target: Median

Page 55

D-MeX
Calculated from two components that contribute equally: qualitative D-MeX score, based on the ratings provided by developer services customers to a customer satisfaction survey; and quantitative D-MeX score, based on the company's performance against a set of selected Water UK performance metrics throughout the reporting year.

* Reporting starts from 2025–26 due to a change in methodology.



2025–26 KPI target: Median

Page 56

Improving our performance

Protecting and improving the environment

Environment strategy

Over the coming year we'll finalise our new Environment Strategy, which defines long-term ambitions and broad targets up to 2050, as well as measurable outcomes across five strategic goals that we'll start to deliver before 2030.

These goals are underpinned by ISO 14001 principles and challenge from the Independent Climate and Environment Challenge Group (ICECG) and are aligned to our Long-Term Delivery Strategy targets to 2050, reflecting our commitments towards nature recovery and becoming nature positive.

Our five strategic goals:

1. **Resilience to climate change and building adaptation:** net zero by 2050, reduced emissions and a future-proofed network.
2. **Healthy catchment areas, rivers and seas:** zero pollution incidents and dry spills by 2040. Reduced overflow releases and improved bathing water quality.
3. **Thriving nature and communities:** restored habitats, Biodiversity Net Gain, strengthened biosecurity and inclusive recreation.
4. **Sustainable drinking water and supplies:** reducing the amount of water we take from the environment (abstraction) where it has negative environmental impacts, new water sources and transfers and reduced water use.
5. **Efficient use and recycling of resources:** ISO 50001 energy management, expansion of renewables and energy from biosolids, circular by-products and sustainable procurement.

Our objective to 'be nature positive' is embedded in our vision and delivery strategy for the current investment period.

How we're doing things differently

We've improved proactive maintenance across our wastewater network by creating a new asset register, supported by AI-driven health checks. A new compliance database and mapping system is in place, increasing visibility of issues and risks, supported by enhanced tankering capability to help manage flows preventing flooding and pollution.

To limit flooding and pollution to local rivers and bathing waters, since April 2025 our contractors have completed over 11 km of sewer rehabilitation. A new pollutions database has been set up improving the accuracy of data and root cause analysis. Alongside our Pollution Incident Reduction Plan 2026, this will help us cut pollutions even further.

We've also completed surveys on a new advanced digestion plant in Kent (our second digestion site) to improve how we process waste, while new contracts are in place for this five-year investment period, to improve overall efficiency in our wastewater operations.

In-year project delivery investment...

£6.4m	to upgrade key wastewater sites and start building a new one at Whitfield, Kent.
£32.4m	to remove phosphorus from the water we return to the environment, improving water quality.
£8.8m	to remove excess nitrogen from the water we return to the environment from wastewater treatment works.
£6.6m	to improve treatment processes at our wastewater sites – and the quality of water returned to the environment.
£203.5m	to upgrade our wastewater network and treatment works to increase capacity, reducing the use of storm overflows.
£46.2m	to continue to protect our water sources and help us maintain world-class standards of drinking water quality.
£30.2m	to upgrade our bioresources sites, driven by the Industrial Emissions Directive.

Improving our performance ctd

Protecting and improving the environment

Key

Working with care to deliver our vision.

Doing the right thing going beyond compliance.

Always improving learning continuously as we deliver new projects.

Succeeding together for customers and the environment.

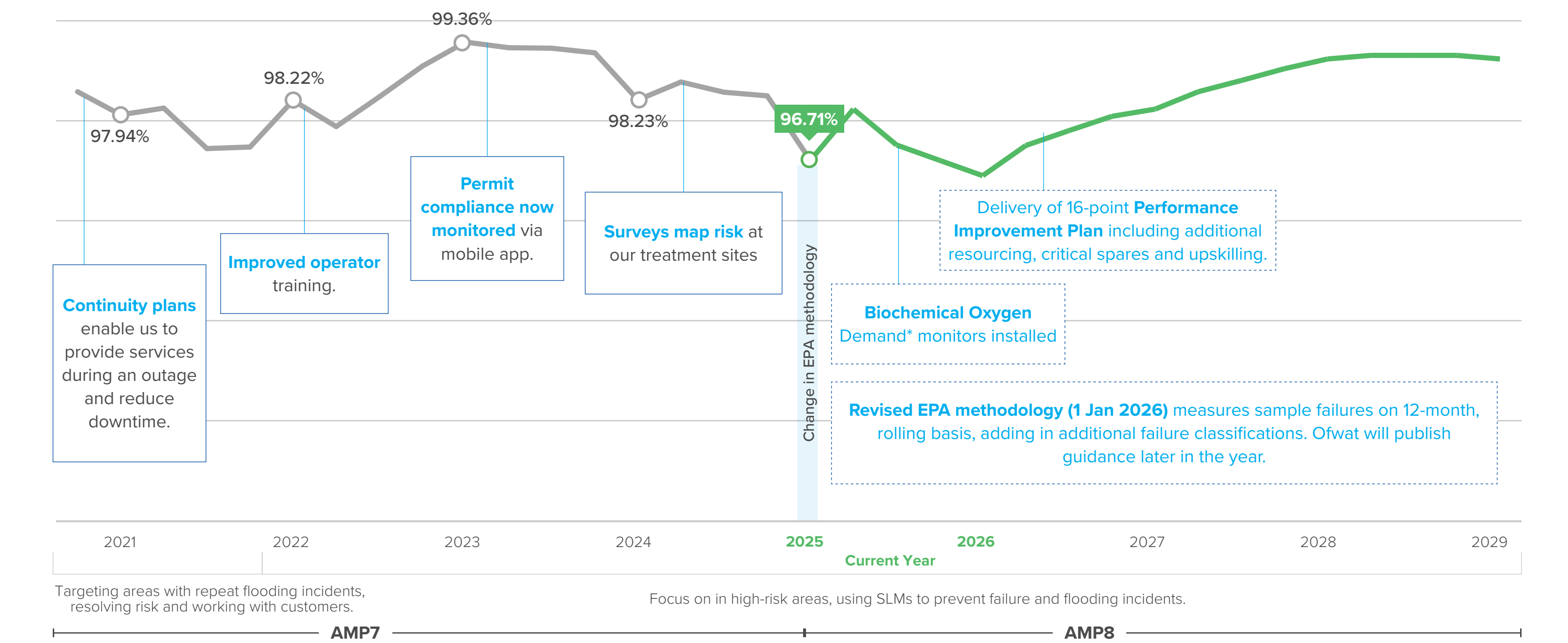
Resilient future wastewater system

Wastewater treatment works compliance

Not met

* Biochemical Oxygen Demand, or BOD tells us how much oxygen tiny organisms need to break down waste, like food scraps or sewage, in the water. The level of BOD in treated wastewater helps us check how well we're cleaning the water before releasing it back into the environment.

Measures how well we're meeting our permits for the treatment and disposal of sewage (calendar year measure). Higher is better.



2025–26 achievements and challenges

- We've seen a deterioration in Treatment Works Compliance during 2025–26, reporting 96.71% (2024–25: 99.36%) against a target of 100%, with failed works tracking to 11 against an Environmental Performance Assessment (EPA) target of two in 2025. Unfortunately, this could negatively affect our EPA rating, although we won't know the outcome of the assessment before publication of this report.
- This decline is largely due to higher nutrient loads from an unusually dry start to 2025, a significant sludge backlog, delays to planned upgrades, more than 50 new tightened phosphorus and iron permits, but also a lack of operational grip and access to critical spares at our wastewater treatment sites.
- Although we saw similar levels of sample failures to 2024, there's been a significant increase in the number of upper tier failures because of issues and risks not being escalated quickly enough from site.
- To improve our visibility of risk, responsiveness to issues, access to critical spares and out-of-hours resource and daily site visits, a 16-point action plan is now in place (containing 37 separate initiatives; 20 of which are already complete or in progress).

Read more on **page 29**

In January 2026, the UK Government published its Water White Paper setting out the most comprehensive overhaul of the water sector since privatisation.

It aims to rebuild trust, bring regulators together, improve water quality, secure investment for long-term infrastructure and make the sector fairer, cleaner, and more resilient for the next generation.

There's a trend towards tighter environmental standards for discharges into rivers and the sea. New legislation for UK wastewater treatment works has already imposed stricter limits for nutrients and emerging contaminants. Over 24% of our wastewater treatment works already have challenging quality permits, and we expect that the Environment Agency will need to tighten these further under the five-yearly Water Industry National Environment Programme (WINEP).

Currently, this cycle means any changes to permits have short-term focus, leading to 'bolt-on' treatment processes. We're hoping reform brings the opportunity to consider the longer-term environmental needs for discharges, over the next 25 years, so we can agree a programme to deliver requirements over several investment cycles.

Links to values

Improving our performance ctd

Protecting and improving the environment

Key

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Succeeding together for customers and the environment.

Case study

Improving performance through better risk management

"I look after 120 sites across the Rother and Ouse river catchments, covering East Sussex and parts of Kent. My role was created as part of the company's turnaround to review our risk management processes, and I have counterparts in each of the counties we serve.

"I started by working my way through more than 400 existing risks, walking every site in my area to check I had a thorough understanding of any issues. My team and I found that although risks had been identified, the way they had been scored and prioritised was inconsistent. We changed our methodology and started recording them all in the same way in our risk management system.

"Now we have all the issues mapped, making it much easier to categorise and prioritise issues, allowing us to use hard data as a key driver. This means we can quickly create lists of operational fixes without the need for Capital Delivery involvement (spades in the ground). Equally, our more complex risks are being more quickly addressed by Capital Delivery. This means we're fixing problems much faster than we were before, and spending money in the right areas. All this is about making sure we live and breathe our underpinning value of 'doing the right thing' to protect the environment while delivering value for our customers.

"There's still more to do. We'll continue to look at problems holistically, bringing teams together to talk through issues."

Daniel Skelton
Regional Risk Specialist

Links to values

Improving our performance ctd

Protecting and improving the environment

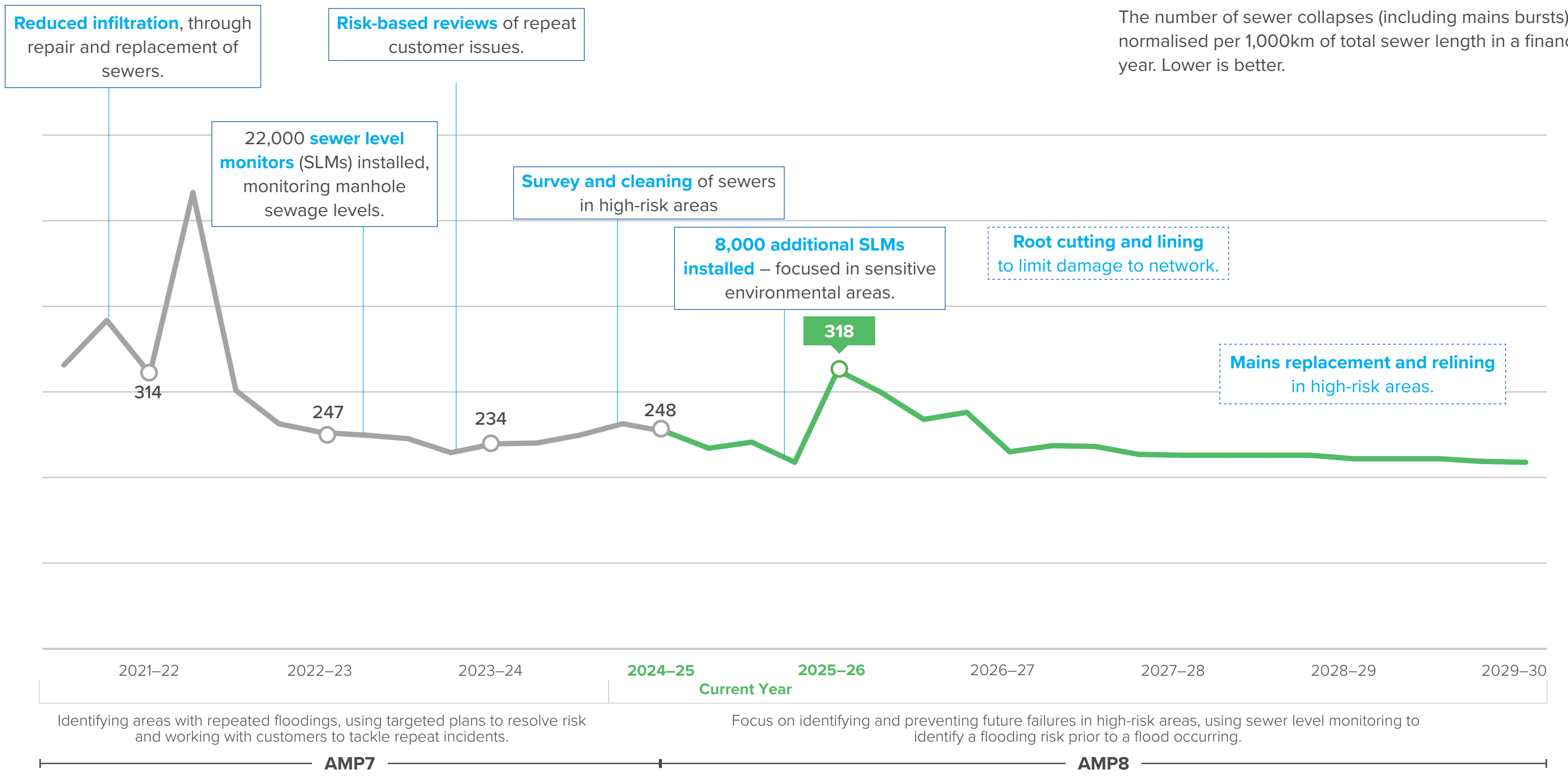
Key

- **Working with care** to deliver our vision.
- **Doing the right thing** going beyond compliance.
- **Always improving** learning continuously as we deliver new projects.
- **Succeeding together** for customers and the environment.

Sewer collapses

Not met

The number of sewer collapses (including mains bursts) normalised per 1,000km of total sewer length in a financial year. Lower is better.



The sewer beneath Eastern Road in Portsmouth was upgraded, with more than 1,700 metres of sewer pipe being successfully lined.

Links to values

2025–26 achievements and challenges

- We made 318 repairs to collapsed sewers in 2025–26, which is equal to 7.92 per 1,000km sewer (2024–25: 248).
- We did not meet our target of limiting sewer collapses to no more than 5.81 per 1,000km of sewer, equivalent to 233 incidents.
- Work continues to rehabilitate and calm rising mains as the primary way to reduce sewer collapses. This includes using lining techniques to prevent repeat incidents.
- Rehabilitation work to support growth projects was carried out, including both full length relining, as well as patching small sections of sewer.
- Lining sewers in high groundwater areas has been challenging. Following the successful testing of a new technique using multiple overlaid patch liners, the Water Research Centre approved this new technique for use.

Sewer collapses can cause internal and external flooding. To prevent them, we use CCTV as a collapse can't always be seen above ground. By launching remote-controlled cameras down a manhole, engineers can inspect the inside of the pipe so we can carry out any repairs.

Improving our performance ctd

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Key

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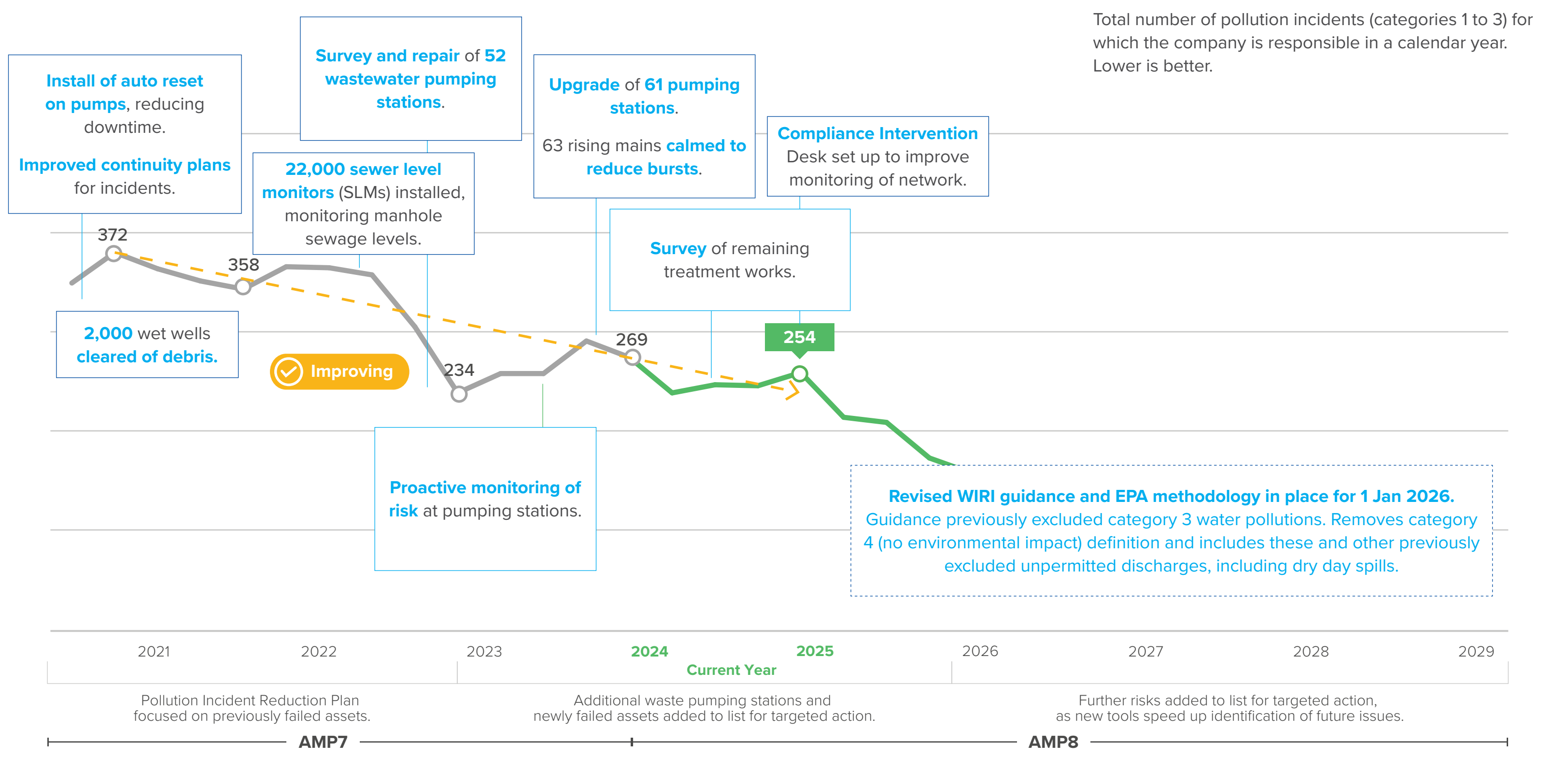
Succeeding together for customers and the environment.

Keep sewage in pipes

Total pollutions*

* as reported under the previous water industry regulation incident (WIRI) definition.

Not met



2025–26 achievements and challenges

- The total number of pollution incidents continues to reduce across the network with a total of 254 incidents (2024: 269). Although this is considerably higher than our Ofwat performance target of 99.
- Our Pollution Incident Reduction Plan 2026 reviewed the root causes for pollution incidents in 2025, finding that blockages caused by a build up of fat, oil and grease and unflushables, have increased year-on-year and are the primary cause of incidents, 27% of the total.
- The number of serious pollution incidents has reduced to 12 (2024: 15). We know that this is unacceptable and we're conducting an end-to-end review of each incident.
- The most significant cause of serious pollutions were burst rising mains. This has prompted further investment to replace up to 41km under the current Business Plan (2025–30).
- To proactively manage potential power failures, we've surveyed our permanent generators and completed remedial works on electrical assets.
- To give us better visibility of issues on our network, we've installed more sewer level monitors and increased the speed of data return so we can spot blockages more quickly.
- Targeted cleaning and CCTV surveys in the worst-performing areas for blockages.
- Our Control Centre has access to more asset insight through installation of additional sensors across our network; and we're recruiting more engineers to find and fix issues more quickly. A new Pollution Management System was launched to improve pollutions response and reporting, with further enhancements and efficiencies to come in subsequent phases.
- We have recruited new roles within the Control Centre – Intensive Care Leads (to proactively review high risk sites) and Containment Leads (who are focused on incident containment, quickly limiting environmental damage).

Case study

A new system for managing incidents

"In February 2026, we officially launched IRIS – our new system for reporting and managing all wastewater and clean water pollution incidents. Fully aligned to the Environment Agency's new Water Industry Regulation Incident (WIRI) requirements, it will enable links with existing monitoring and reporting systems, allowing us to handle all incidents end-to-end. This means more accurate records, less manual entry, automation, reliable reporting, higher-quality data and greater confidence that we're delivering the environmental standards our customers and communities expect."

Chris Perkins
Head of Pollution Performance

Links to values

Improving our performance ctd

Protecting and improving the environment

Key

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Succeeding together for customers and the environment.

Case study

Our goal: putting a stop to serious pollutions

"My team and I look at each incident, in detail, to understand the root causes, and over the past year the most frequent for serious pollutions were burst rising mains and blockages. We know this because we create a Pollution Incident Reduction Plan annually, pulling together learnings from the previous year. It allows us to create a targeted programme of maintenance and upgrades for the year ahead.

"Recently, we've used this plan to upgrade our sites, and we've seen a significant decline in pollutions caused by electrical and mechanical failures.

"We've also seen the number of blockages leading to serious pollutions reduce, despite the number of lower category incidents attributed to blockages increasing.

"On the flip side though, we've seen bursts increase each year since 2022. Using this insight we've targeted burst rising mains, blockages and incident response improvements as part of our 2026 plan.

"Even though we know this is what's happening, it's hard to find issues early on. This is why we've been so focused on installing monitors at key points on our network so we can see flows and spot any points of high pressure, before they become a problem. Interpreting this data can be difficult, and it doesn't always tell you what you might expect. For example, we see more serious pollutions in the drier summer months – with August being a peak. This is because there's less water in the network, river levels are lower and dry ground means faster runoff to ditches and local waterways from any spills.

"This knowledge is helping our teams plan our monitoring and maintenance activity so we can proactively tackle problems we spot on our network. We hope that, over time, this will help us to put a stop to serious pollutions."

Caitlin Baldwin
Operational Solutions Manager

Links to values

Case study

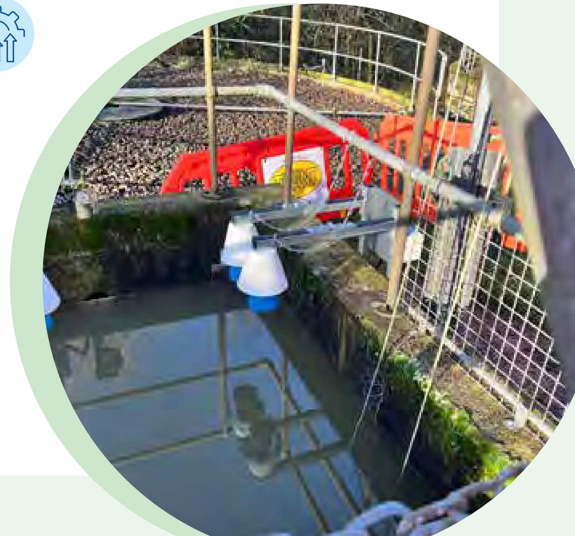
Monitoring our network 24/7

"Our sewer level monitor (SLM) estate is now 34,000 sensors strong. We apply machine learning to the data, incorporating hyper-local rainfall data, daily patterns, seasonality, river levels and other data sources to alert the Control Centre when something unpredicted, such as a blockage or defect in the network, is potentially preventing our sewers from running as they should.

"These alerts are triaged and turned into targeted, well-informed actions for our contractors and network engineers to investigate and resolve. The processes are designed to enable early intervention, wherever possible getting to a blockage before any customers have had to call and before there's been any environmental impact (see pages 33 to 34 for more on internal and external flooding)."

Shauna Pitt
Proactive Waste Network Manager

Links to values



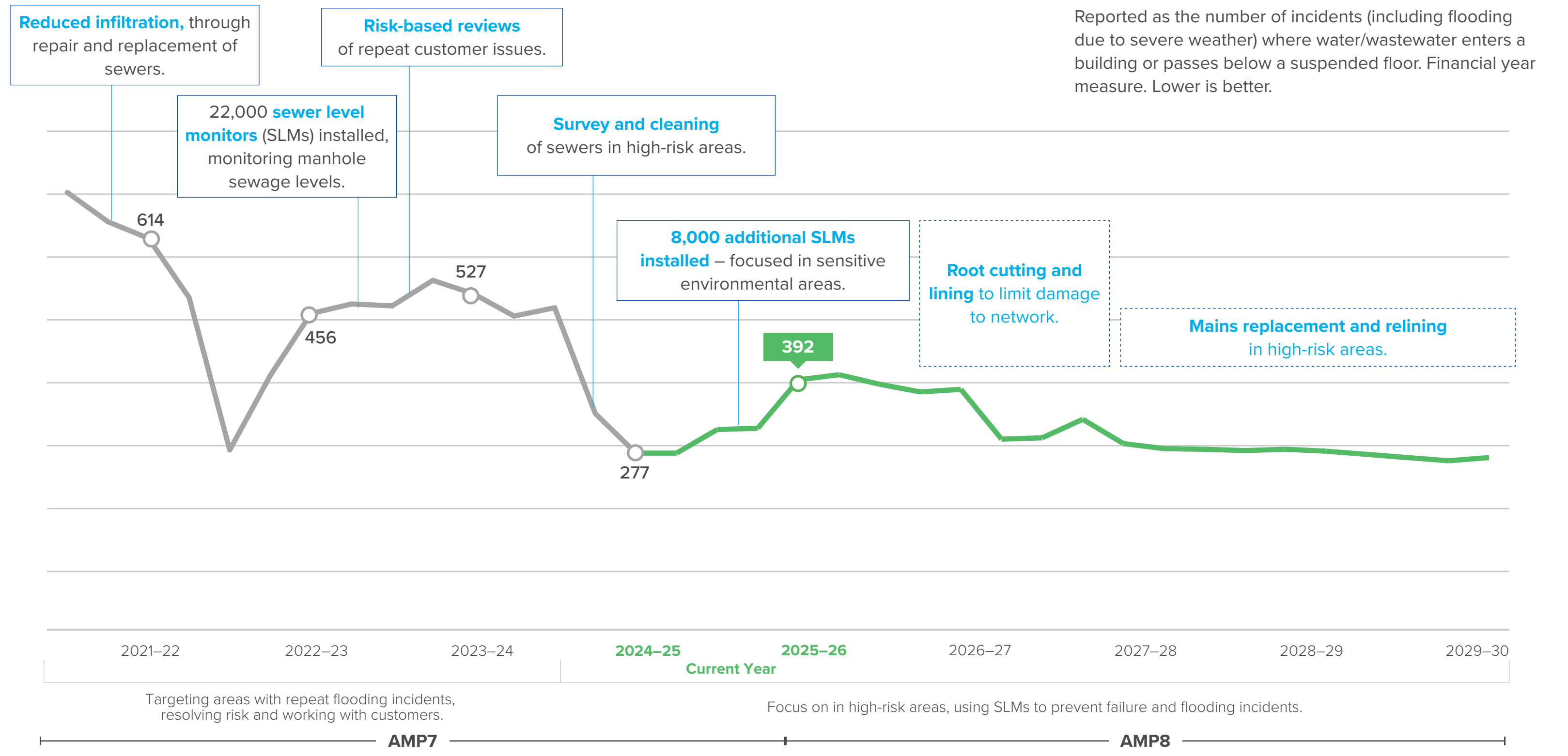
Improving our performance ctd

Protecting and improving the environment

Internal flooding

Not met

Reported as the number of incidents (including flooding due to severe weather) where water/wastewater enters a building or passes below a suspended floor. Financial year measure. Lower is better.



2025–26 achievements and challenges

- We reported a total of 392 incidents (2024–25: 277), which means we've exceeded the target set by Ofwat of 322.
- The number of these incidents is higher than we would have liked as we realise how distressing flooding of homes and businesses can be for customers.
- The main root cause of internal flooding continues to be blockages, with the majority of the remaining incidents being caused by hydraulic overload within our network, as result of heavy rainfall. We saw a peak in such incidents in both Kent and Sussex during July 2026.
- See case studies on pages 34 and 56 for more information about how our teams are helping to reduce internal flooding incidents.

Sewer level monitors can send data back to our Control Centre and can even predict where there may be blockages. The monitors work by tracking levels of wastewater.

Improving our performance ctd

Protecting and improving the environment

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External flooding

2025–26 achievements and challenges

- We've recorded 2,507 (2024–25: 3,047) external flooding incidents, outperforming the Ofwat target of 3,636.
- We now have a total of c.34,000 sewer level monitors installed on our network since 2023. These monitors have improved visibility of network issues enabling us to proactively manage maintenance and repair.

Case study

Preventing flooding with a blockage buster life-size model

"As part of providing information to customers about how to prevent blockages, we've developed an interactive life-size model of a manhole leading to a blocked pipe, which is linked to a toilet.

"We take the model to different events and places, such as Brighton beach, letting customers have a go at finding the blockage as fast as they can. They use a fibre optic camera to look down the manhole, while the toilet starts to fill up and then it overflows if they don't find the blockage fast enough.

"The model is helping us to talk about blockages in an interactive way, showing what happens if unflushable items such as wet wipes, vapes, concrete or FOG – fat, oil and grease – get stuck in pipes.

"The reactions from people trying out the blockage buster challenge have been great, and it's been such a good opportunity to engage positively with our customers while delivering important messages."

Matt Collins
FOG and Unflushables Manager

Links to values

Improving our performance ctd

Protecting and improving the environment

Put clean water back into rivers and seas

Storm overflows

2025–26 achievements and challenges

We've been working hard to reduce storm overflow releases, delivering projects across our region as part of a £1.5 billion Clean Rivers and Seas Plan. We're already seeing great results, with more than 700 releases prevented in the year.

Around £70 million has already been invested in nature-based solutions, infrastructure upgrades and smart systems, with interventions now in place at our most environmentally sensitive storm overflow locations.

- Overall we had 21.11 releases* on average in 2025 (2024: 36.91) against a target of 17.99. We measure the average number of times storm overflows have released in the year, including an adjustment for any overflow that has not had 100% real-time monitoring.
- Our performance for Event Duration Monitoring (EDM) was below target in 2025, however we now have a higher percentage of EDMs monitoring effectively.
- We've been separating surface water connections from combined sewers and reconnecting them to new surface water drains. Over 140,000m^2 of roofs, roads, pavements and car parks have been disconnected so far.

> **"Working closely with local authorities and community partners across the South East, we can deliver healthier waterways and coastal environments. This is what our customers expect and deserve. Preventing more than 700 storm overflow releases in the first year of delivery is a clear sign that our approach is working. We're now scaling up, accelerating projects and expanding our partnerships to go even further, faster."**
> Nick Mills, Director of Environment and Innovation

- We now have Memorandums of Understanding (MoU) with councils across our region to explore the use of sustainable drainage systems in communities to better manage rainwater runoff. We've also provided resources to help local authority plans get delivered.
- We've installed two smart sewer gates in Kent to manage flooding and reduce storm overflow releases.
- We've sealed 10km of public and private sewers in Sussex to keep groundwater out of our networks, and we used no-dig solutions to minimise disruption.
- We worked with the Wildheart Animal Sanctuary on the Isle of Wight to install the UK's first 'Sustainable Drainage (SuDs) Safari'. It can hold back 475,000 litres of rainwater a year from the sewers, reducing storm overflow releases and flooding. This project is a finalist for Sustainability Project of the Year in the Water Industry Awards 2026. The extra water captured is also being reused by the sanctuary. See page 46.

* This means if an overflow is unmonitored for a whole year, we allocate it with 100 spills, using the overflow availability percentage, so an overflow with 97% of data available will have three average spills added. This is a new metric for the 2025–30 investment period, but with historic data reported to Ofwat.

Bathing water quality

2025–26 achievements and challenges

- We met our target for bathing water quality, achieving 75.7 (2024–25: 72.6). Scores for this metric are weighted 100% for an excellent classification, 66% for good, 33% for sufficient and 0% for poor. An overall average score of 100 would mean that all bathing waters are excellent, whereas 0 would mean all bathing waters are poor.
- Twelve of our 87 bathing waters improved their classifications, with three dropping down a category. A total of 78 bathing waters were rated sufficient, good or excellent, using Ofwat's methodology.
- We've ramped up our community engagement activity by increasing the size of the Bathing Water team. We're now working with various groups to improve water quality, using local knowledge in the Folkestone and Hythe, Deal and Bexhill areas.

100%
Bathing waters classified as either 'Excellent' or 'Good' on the Isle of Wight. We'll be investing close to £100 million in further bathing water improvement schemes over the next four years.

- A new information flyer has been created for boating enthusiasts in and around Bognor, focusing on the safe disposal of blackwater – wastewater that contains sewage – and its environmental impact. Bognor has been chosen as the first area due to Aldwick's 'poor' rating and its strong boating and sailing community.
- Our Illegal Connections team has also doubled in size from six to 12. The team finds illegal and wrongly connected pipework that could cause pollution. A single misconnected toilet can release around 20,000 litres of sewage a year into the nearest watercourse, or even directly onto the beach. As part of this work, the team found a block of flats in Southampton was misconnected, pouring millions of litres of wastewater directly into the River Itchen, and in Worthing, West Sussex, a block of 16 flats was found to have eight homes discharging their waste straight into the sea.
- Working with users, relevant experts and the public, we're continuing to improve Rivers and Seas Watch, our online service that provides near real-time updates on storm overflow releases and their impact to bathing waters. See pages 11 and 40.

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Case study

Project White Hart – saving England's endangered chalk stream salmon

Project White Hart is an ambitious, coalition-driven mission to prevent the extinction of England's genetically unique chalk stream Atlantic salmon. Once returning to the Test and Itchen rivers in their thousands, these wild salmon are now counted in mere dozens, with just 187 adults estimated to have returned to the River Itchen in 2024 – only 20% of the minimum needed to sustain the population.

Their decline signals a wider ecological collapse across chalk streams, 85% of which are found in England and are globally renowned for their cold, clean, spring-fed waters.

Recognising this ecological emergency, the Wessex Rivers Trust, Test and Itchen Catchment Partnership, the Atlantic Salmon Trust and Southern Water have joined forces with national partners, local communities and high-profile environmental champions to launch Project White Hart.

Its Plan of Action includes a full catchment audit to diagnose pressures such as abstraction, pollution, geomorphological modification and invasive species. The project will then deliver a restoration programme focusing on improving water quality, reconnecting habitats, ensuring fish passage, enhancing in-river feeding, and establishing sanctuary zones.

Southern Water has committed funding for the initial catchment salmon audit and a further £1 million for restoration actions across 2025–30.

Links to values

Q&A with Phil Cresswell-Nash, Bathing Water Partnerships Manager

Q. What partnerships do we have?

A. We work closely with the Environment Agency, local authority councillors, Internal Drainage Boards and Highways teams. We also partner with community groups and organisations like the RNLI.

Q. How does working in partnership add value to what we do?

A. Partnerships bring together different skills, responsibilities and local knowledge. Together, we can solve issues more quickly, share accurate information and deliver projects that have a real impact. These relationships help us build trust and make sure our work supports both the environment and the needs of local communities.

Q. What's the most rewarding thing for you in partnership working?

A. It's important that our partners and communities feel heard, informed and involved. When joint working leads to better bathing water outcomes, clearer communication or stronger community relationships, it really shows how working together can make a genuine difference.

River water quality

As part of the Water Industry National Environment Programme (WINEP) for the period 2025–30, all water companies were set targets to reduce phosphorus levels in local rivers via partnership working schemes with farms, businesses and other key stakeholders. Although our schemes will officially start in the next investment period (2030–35), we're committed to improving river water quality, reducing the overall levels of phosphorus by over 70% from the 2020 baseline by 2030. Our target is currently 0 against this performance metric.

2025–26 achievements and challenges

- Our Farm Capital grants fund was increased to £15,000 per holding, per year, helping farmers protect and improve water quality, as well as giving them access to a network for free expert advice.
- We've been working with farmers and land managers to reduce sediment entering the Eastern Yar river on the Isle of Wight, improving water quality while maintaining land productivity. Using innovative modelling, covering soil type, river turbidity and aerial imagery, we can understand where sediment runoff risk is highest.
- A major milestone in the waters of the River Beult, Kent, was marked following the completion of 18 hectares of new wetland habitat. The connected network of ponds, scrapes and leaky woody dams create a nature-based solution to protecting water supplies while supporting local wildlife habitats – they are expected to store up to 250 million litres of water each year, which is enough to supply 4,500 customers.
- In the Western Rother catchment, we worked with the Western Sussex Rivers Trust, local agronomists and five farms, to test and deliver a pioneering approach to soil health monitoring. This collaborative effort created a robust framework for future soil health strategies.
- Our Soilsmart team ran a practical workshop at Brinsbury College in the Western Rother catchment, giving students an opportunity to take part and hear about inspiring sustainable farming practices.

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Case study

Groundwater stored in chalk provides an important base flow for rivers and streams, ensuring clear and clean water can support a rich and diverse ecosystem.

We're working with the Environment Agency, Natural England, landowners and other key stakeholders to understand the impact of abstraction (removal of water from the environment). If we're having a negative impact, we'll address this by changing our abstraction licences, reducing the amount of water we take from the environment and making more water available to protect river flows.

The Rivers Test and Itchen in west Hampshire are among the world's finest examples of chalk rivers. We work hard to balance the needs of our customers while making sure there's enough water left in the environment. More frequent droughts and a growing population make this balance harder to get right, placing strain on these important chalk rivers.

c.70%

of the water we supply comes from groundwater sources.

80%

of that comes from chalk aquifers.

Links to values

Case study

Supporting farmers applying for Farm Capital grants

"When an enquiry comes in about our Farm Capital Grant funding, we often carry out a site visit. The visit helps us to understand the farm's needs and means we can assess how water quality and overall environmental performance can be benefited by making the improvements proposed.

"I find it helpful to walk the farm together with the land manager, providing a chance to discuss the proposed application and offer guidance and advice more broadly where appropriate, as we go round. For example, we might talk about the existing infrastructure, or identify any runoff pathways, as well as considering fuel, slurry and manure storage arrangements. We'll also discuss soil health and any land management challenges. This means we can look at possible infrastructure or equipment improvements, to protect water quality and support sustainable farming practices.

"When you see the layout of the farm like that – first hand – you can give tailored advice that can help the farmer to shape the grant application. It means that we can support farmers in making informed decisions, ensuring that any capital investment contributes to both farm sustainability and water quality resilience."

Zoe Fothergill
Senior Catchment Management Officer

Links to values

20 sites

Across the Test, Dever, Dun, Bourne Rivulet and Meon restored in partnership with Wessex Rivers Trust as part of the 10-year FReSH (Flow Resilient Sustainable Habitat) Water Programme.

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Case study

Recycling biosolids for local farmers

"The raw sludge we produce at our wastewater treatment sites continues to be treated at our 15 anaerobic digestion plants, to create biosolids and generate energy. Our first advanced anaerobic digestion plant has now been helping us to produce high-quality biosolids for farmers to use on their land in Sussex for a full year. The biosolids products are recycled back to agriculture as an alternative to manufactured fertiliser; they supply a sustainable source of nutrients and organic matter to our farming customers at a time of uncertainty for them."

Daniel Munro
Bioresources Manager

Links to values

Case study

Protecting bathing waters by checking piers for leaks

"Every year our rolling programme of pier inspections sees us check for leaks in any private wastewater pipes coming from restaurants, bars and public toilets. The checks underneath our coastline's piers mean we can find any leaks before they affect our beaches or bathing waters.

"The inspection programme costs us around £5,000 per pier, per year. Discovering issues and working with the appropriate parties to get the problem fixed is a great example of working together to improve bathing water quality."

Rob Butson
Open Water Improvement Lead

Links to values

Generate value from safe treatment of waste products

Sludge disposal

2025–26 achievements and challenges

- 100% of our certified biosolids were recycled for agricultural use.
- Our Biosolids Assurance Scheme (BAS) certification was granted for a further 12-month period in July 2025. We have maintained 100% recycling of our BAS – certified biosolids to agriculture.

Be nature positive

Renewable energy

2025–26 achievements and challenges

- We generated 14.78% of our electricity needs from on-site renewable sources (2024–25: 14.79%), primarily from biogas CHP and solar PV, and while solar generation increased by ~300 MWh, electricity imports rose by over 10 GWh due to more energy-intensive treatment schemes and dry spring conditions in 2025, offset in part by a 3 GWh reduction in mobile generator fuel use, reflecting continued progress in wastewater resilience and reduced reliance on temporary power.
- We published our new energy policy, reaffirming our approach to making more and using less, and our commitment to maximising value through efficient operations and commercially intelligent decision making. The policy also establishes a clear principle that we will not go backwards on renewable energy: where renewable assets are displaced by capital schemes, we will relocate or replace them.
- To support delivery, we launched a dedicated Technical Energy function with a remit to drive opportunities from discovery through to delivery. Over the year, its primary focus has been optimisation of aeration systems and implementation of improved lighting solutions.
- We also completed procurement for Stage 1 of our CHP replacement programme, which aims to increase our energy-from-biogas output by 2030.

Improving our performance ctd

Protecting and improving the environment

Biodiversity

We've been delivering Biodiversity Net Gain (BNG) on our extensive Capital Delivery programme. For every development we're undertaking that requires planning approval, we'll achieve at least 10% biodiversity uplift to improve habitat quality above and beyond what was previously on site, as mandated (Environment Act 2021). Our approach has been to support the development of 'habitat banks' or habitat creation projects that secure BNG 'units' as close as possible to the development.

We're now working to develop a new strategic approach to the delivery of Biodiversity Net Gain, creating maximum value for our customers and nature. This will enable us to create regional opportunities to align where possible to Local Nature Recovery Strategies across our region. We'll also actively seek out partnership opportunities to co-deliver habitat creation and restoration through BNG and other policy drivers, such as Ofwat's Biodiversity Performance Commitment.

We're forecasting to outperform the biodiversity targets against this commitment for both 2028–29 and 2029–30. We're hoping to achieve this through working with a variety of third-party landowners, farmers and partners, as well as uplifting specific locations on our estate.

We've already recruited a specialist Biodiversity and Invasive Non-Native Species (INNS) team, to deliver the Biodiversity Performance Commitment, and other biodiversity-based programmes, such as those included in the Water Industry National Environment Programme (WINEP). The team has also completed baseline ecological surveys and identified opportunities for project delivery in both the current investment period and future price reviews.

This work compliments and builds the work of our Catchment teams, who have continued to develop water quality and biodiversity benefits.

We're also developing a targeted INNS programme as part of our WINEP commitment. This work looks at the impact of INNS on our assets as well as exploring impacts upstream and downstream in the wider catchments, to create opportunities to mitigate, control and manage INNS where possible.

Environmental disclosures

Increasing our focus on compliance

Our Environmental Management System (EMS) is a key tool for enhancing operational efficiency and driving continual improvement within the organisation. We were recertified to ISO14001:2015 standard in April 2026 by the British Standards Institute (BSI) for a further three years, demonstrating our commitment to environmental improvement and performance. We continue to have a programme of external surveillance audits conducted by BSI to ensure we maintain conformance with the standard across our operational sites and offices.

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

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

The Southern Water Environmental Champions Network (ECN) now has 89 active members (2024–25: 45), across all three counties representing office-based and operational colleagues.

During the year, the champions delivered five events hosting 557 people, covering a range of topics such as Earth Day, local mammals, air quality and waste disposal and recycling. The team also relaunched its internal website, including 24 updated sustainability activities, aligned to the company's environmental strategic goals.

To support ecological improvements, it funded biodiversity enhancement kits for 10 representatives working across Hampshire (including the Isle of Wight), Sussex and Kent. Across these sites, a total of 193 items were ordered, including: bird and bat boxes, dormouse boxes, bee/bug biomes, species and habitat signage, wildlife feed supplies and invasive non-native species response materials.

The Aquifer Project (TAP) made major progress in protecting Brighton and Hove groundwater quality, protecting residents' drinking water stored in the underground chalk aquifer.

TAP saw the Wild Park Rainscape completed, with early University of Brighton monitoring showing effective water treatment during high flows, while two forthcoming Local Nature Recovery Strategies recognised TAP for demonstrating best practice.

Farmer-led training supported reduced pesticide use, while multiple sustainable drainage (SuDs) schemes were put in place across the city, including at local schools.

Through the 'Our City Our World' programme, TAP engaged local schools with aquifer education and site visits, while numerous community events, talks and strong media coverage further raised awareness of groundwater protection in the Brighton and Hove City area and surrounding downland.

Improving our performance ctd

Protecting and improving the environment

Key
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A look ahead

Building on the reduction in sewer collapses over the past year we're:

- Expecting to complete about 9,000m of lining and replacement works along up to 12 rising mains within the coming year.
- Starting our planned rehabilitation programme, involving the repair or replacement of approximately 11km of sewers.
- Continuing to tackle root ingress in our network.
- Beginning our planned sewer survey programme – which will cover 58km of critical sewers across our network.

To reduce pollution incidents further, we're focused on:

- Reducing blockages through targeted activities and expanding customer education about sewer use.
- Improving the capacity of our sewer level monitors so that more high-quality data is fed into our teams.
- Strengthening rising main resilience.
- Improving early detection and response to keep any environmental impact to a minimum.

We'll continue investing to reduce storm overflow releases as part of our Clean Rivers and Seas Plan by:

- Looking for opportunities to improve our sites so they can hold and treat more stormwater, including setting up 'smart networks' that talk to each other to make the most of available space in the network.
- Sealing over 40km sewers to keep groundwater out, including over 16km in high groundwater villages like East Dean, West Dean, Charlton and Singleton.
- Separating a minimum of 350,000m² of urban area from the combined sewer system.
- Working with schools to manage their surface water runoff with educational and interactive sustainable drainage systems.
- Installing thousands of sustainable drainage systems (SuDS) like rain planters and slow-drain water butts on households and businesses to manage roof runoff.
- Working with councils across our patch to install roadside SuDS, reducing storm overflow releases and the harm caused by polluted runoff finding its way to nearby watercourses.
- Collaborating with community groups, businesses and other organisations to unlock a wider scope of improvements.

To continue to improve bathing water quality, we'll be:

- Working in 15 areas and focusing on the areas of Littlestone, Dymchurch, Bognor (Aldwick), Worthing Beach House and Southsea as a priority for the 2026 bathing season.
- Delivering a £1.5 million sewer rehabilitation programme with support from our service partners.
- Piloting making available a concise version of the Worthing Beach House improvement plan – and the actions to be taken – using the local authority's website and our own for the first time. It's one of 44 improvement plans for bathing waters in our region.
- Developing the industry-leading and expert-approved Rivers and Seas Watch service, to provide our community with a better understanding of storm overflow releases and their impact on water quality. We'll do this by improving the quality of the simulation we use, using real-time information of tides, wind and ultraviolet, while also analysing the cumulative impact of multiple storm overflow releases.

> **"These updates along with our ongoing work to improve Rivers and Seas Watch are part of our commitment to transparency. We want our customers to trust us to provide accurate and timely information on storm overflow releases so they can make informed decisions, and we'll continue to take on board your suggestions on how we can do this."**
> Luke Hyttner, Senior Product Owner of Rivers and Seas Watch

Case study

Eliminating waste with sustainable van graphics

We use recycled vinyl materials to brand our vans, eliminating more than 13 tonnes of waste over the past two years.

The designs on the Southern Water fleet focus on important water-saving messages for customers, including:

- Cutting a shower by one minute saves on your water and energy bills.
- Flushing wipes causes blockages and flooding.
- Save over 5,000 litres of water a year by turning off the tap when you brush your teeth.

Martin Lock, Fleet Manager at Southern Water said: "These bold visuals and clear messaging not only capture attention but also reflect our commitment to our sustainable operations. We have more than 1,100 vehicles in our fleet and the vans that showcase our water-saving messages all use recycled vinyl materials."

Links to values

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Case study

Thank you to volunteers who helped clean up the coastline

In late October/early November 2025, beads were accidentally released into the sea from our Eastbourne Wastewater Treatment Works. Many were washed ashore on Camber Sands, with beads also recovered along the coast, including at Rye Nature Reserve.

Working in partnership with Rother District Council, East Sussex County Council, Rother GLE, Adler and Allan, Natural England, the Environment Agency, the Maritime and Coastguard Agency, and coastal microplastic removal experts, Nurdle, as part of a multi-partner approach, we acted instantly to remove the beads from beaches. It was a huge effort, with hundreds of Southern Water colleagues and contractor staff supported by community volunteers, and we'd like to thank everyone for their support.

Timeline:

- On 28 October 2025, operators at Eastbourne saw that some bio-beads used in the wastewater treatment process had escaped from the containment equipment where the bio-beads are held into the works. They isolated the equipment and at this stage did not have any reason to consider that any bio-beads had escaped from the equipment into the wider environment.
- Late on 6 November, we received reports from various sources that beads were washing up at Camber Sands beach, so we started carrying out inspections at the site.
- On 9 November, we concluded that it was likely that the beads washing up had been accidentally released into the environment from the site.

Several months on, the investigation into the incident has found that around 4.6 tonnes of beads is likely to have entered the sea, much lower than original estimates reported. In addition, the clean-up work has also helped remove almost as much non-bio-bead plastics from the beach.

We have met the cost of the clean-up, including the specialist equipment and contractors that the council needed to use to remove beads from the beach and we continue to do so going forward. We want to assure customers that these costs will not negatively impact investment and services elsewhere.

In terms of making sure an incident like this doesn't happen again, we've put in place stronger and more resilient containment measures for the bio-beads at the Eastbourne Wastewater Treatment Works. This includes developing the use of cameras with AI capability to provide early warning of any unusual movement of bio-beads and installing emergency systems to speed up any shutdown if a problem occurs. In the case of any future failure of this equipment, these improvements are intended to help us act quickly and effectively to limit any potential environmental impact.

We will share any findings and recommendations from the independent investigation in due course.

Links to values

Improving our performance ctd

Ensuring a supply of high-quality water for the future

How we're doing things differently

To reduce overall leakage from the network, we completed a trial of advanced leak detection tools in Kent to pinpoint larger leaks. This is now being rolled out across our network. Our leakage teams are using innovative technology such as thermal imaging drones, to find leaks faster, and our contract has been renegotiated with longstanding partner, Clancy, reducing costs and speeding up repairs.

Helping keep our customers' taps flowing during major works is the goal of the newly digitalised Safe Control of Operations (SCO) process. A new Stopping Large Incidents programme has catalogued lessons learned enabling teams to refine structures, processes and use of technology, to speed up recovery from an incident and prevent impact to customers. If a major burst or leak happens, our enhanced telemetry is allowing us to see real-time network changes before customers are impacted. This proactive management of our assets is helping to prevent common failures.

We're upgrading our key water supply sites, while reviewing workforce management and introducing smart technology. New resourcing and asset management platforms are allowing us to better monitor site health, proactively repair assets and make sure we have the right people in place, with the right equipment to manage any water quality issues. This has meant rethinking our supply chain relationships and redesigning our operating model to work more closely with our partners.

In-year project delivery investment...

£36.7m	to upgrade our five strategic water supply sites.
£3.7m	to replace mains, reduce leakage and make our network more resilient to outages.
£33.3m	to improve supply interconnections this year.
£160.1m	in major projects to create new water sources and transfers.

Improving our performance ctd

Ensuring a supply of high-quality water for the future

Key

- **Working with care** to deliver our vision.
- **Doing the right thing** going beyond compliance.
- **Always improving** learning continuously as we deliver new projects.
- **Succeeding together** for customers and the environment.

Secure future water resources and protect river flows

We broke ground over the summer on the £100 million, 19km Southampton Link Main, which will improve the reliability of customer supplies in Hampshire by better connecting nearby water supply sites and reservoirs. This will allow us to move water to where it's needed the most, protecting customers and the environment during a drought.

Part of the flagship 'Water for Life – Hampshire' programme, the Southampton pipeline is the first of two planned which link up our key sites and allow additional transfers of water from neighbouring water companies.

By putting these new pipelines and recycling plants in place, we can reduce how much water we take from the River Test and the River Itchen protecting and enhancing the county's rare and sensitive chalk streams. The projects will also reduce the impact of any burst pipes, mechanical failures or sudden spikes in future demand.

The Southampton Link Main will complete in 2028, and is being delivered in partnership with MGjv, a joint venture between M Group Water and Galliford Try, working closely with landowners and local authorities to keep disruption to a minimum.

Read more about the Water for Life – Hampshire programme.

The boring machine 'Ancasta' used to dig the Southampton Link Main weighs 6,500kg, is 2.7 metres long and has created a 1.5-metre-wide tunnel.

Tunnel boring machines are given a female name to provide good luck for the projects, a custom followed around the world.

'Ancasta' was selected from dozens of suggestions put forward by children across our region for the huge drills. Ancasta was worshipped in Roman Britain and was associated with the nearby River Itchen.

Southampton Link Main stats:

We're digging three 1.5m tunnels:

- **456m** going under the M3 motorway;
- **232m** shaft two next to the M3 to the Intermediate shaft;
- **256m** intermediate shaft to our water supply works.

2,000m of 700mm pipework from the water supply works to the nearby reservoir has been excavated and laid.

2,000m of 900mm pipework from the reservoir towards our supply site has been excavated and laid.

Improving our performance ctd

Ensuring a supply of high-quality water for the future

Key

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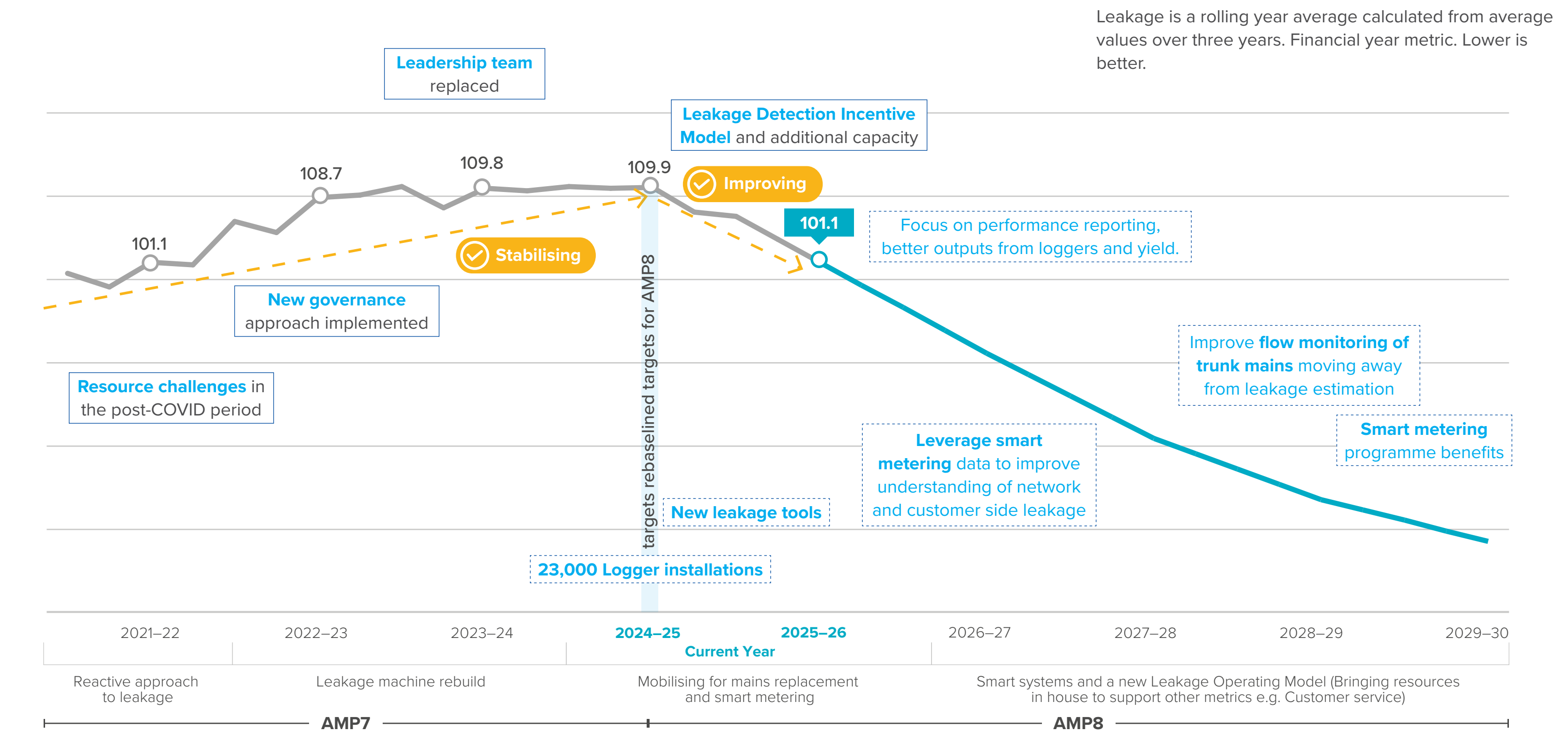
Reduce leakage

Leakage

Target met

Leakage is a rolling year average calculated from average values over three years. Financial year metric. Lower is better.



2025–26 achievements and challenges

- We have outperformed our leakage target of 102.2 Ml/d, recording 101.1 Ml/d as an average for the three financial years from 2023–26.
- In-year leakage also reduced for the third year in a row to 89.8 Ml/d (2024–25: 101.6 Ml/d).
- No-dig technology on communication pipes at customers' properties has allowed leaks to be fixed more quickly while a more permanent repair is planned.
- We're also now using a situational awareness tool which allows Control Centre teams to respond to alarm data indicating a leak on the network.
- Pressure management has helped us save another 12.5 Ml/d, with mitigation work carried out to manage short-term pressure spikes in the year.
- Step testing means we've found leaks that were previously hard to detect, while enhanced modelling and analytics have significantly improved targeting of larger leaks.
- New tools introduced also mean technicians have access to real-time data, speeding up detection and repairs.

"Our rapid response to bursts has been a major driver of improvement. When an increase in flow is identified on the network, we mobilise the right resources quickly, often locating and repairing bursts within 24 hours. This is just one part of a broader strategy."

Wayne Novelli, Leakage and Network Strategy Manager

Sniffer dogs have also proved to be extremely successful at locating leaks

With these trusty hounds achieving a 97% detection rate over the course of a year-long trial, we're now looking at extending and increasing our work with these furry water sleuths to help us find hard-to-spot leaks in more rural areas.

Links to values

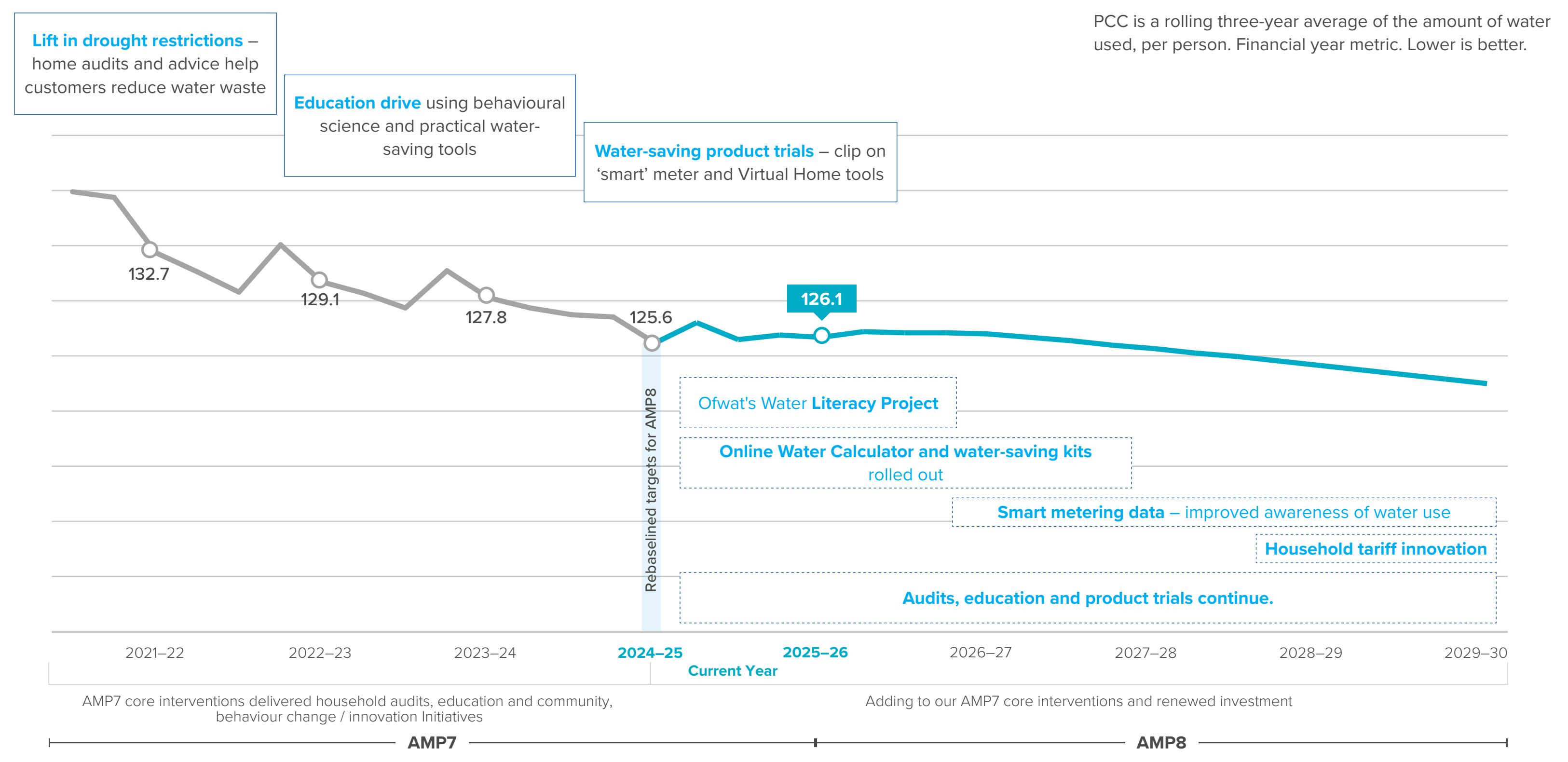
Improving our performance ctd

Ensuring a supply of high-quality water for the future

Reduce customer and business water use

Customer water use (per capita consumption)

Not met



2025–26 achievements and challenges

- The number of litres used daily by customers was 126.1 litres per person, per day (2024–25: 126.7), measured as a three-year average.
- Our teams continue to offer seasonal water-saving advice, through campaigns and audits, to household and commercial customers to reduce water use.
- To help customers estimate their water use and find ways to reduce it, we built our own online water calculator, with practical tips and ways for them to save water and money. See Q&A on page 46.
- We've been testing three types of water-saving kit. Each box has practical ways to reduce water use, from tap aerators to reward charts for children.
- We carried out 1,378 home audits and funded an additional 1,411 visits in Hampshire due to drought conditions.
- Over the summer months, as a precaution, we introduced a hosepipe ban for customers in Hampshire to help reduce pressure on the chalk streams of the Test and Itchen rivers. We would like to extend our sincere thanks to all our customers for their support during this time, helping to save millions of litres of water every day.
- We were runners up in two sustainability awards received from the Southern Sustainability Partnership, for our business water-saving audit programme and the Business Partnership Fund.

Reducing business water use

2025–26 achievements and challenges

- Non-household customers have used a three-year average of 104.9 Ml/d (2024–25: 105.3) against a target of 106.9 Ml/d.
- We carried out 1,273 business water-saving audits during the year, helping save 3.7 Ml of water by fixing simple leaks on taps, toilets and other areas.
- We continued to reward local businesses that approach us with water-saving ideas through our Business Partnership Fund. Twenty projects have so far received funding since the scheme was started in 2023.
- This year we helped Henfield Leisure Centre save 730,000 litres of water, Elm Grove Primary School in Brighton save 25,644 litres of water, and we helped to install a water-efficient pond for the bears at The Wildheart Animal Sanctuary, as part of a rainwater harvesting system.

Read more on **page 46**

Improving our performance ctd

Ensuring a supply of high-quality water for the future

Key

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Q&A with Kimberley Turnbull, Water Efficiency Programme Lead

Our new water-saving calculator offers practical tips about saving water, which can help customers save money.

Q. What is a water calculator?

A. A water calculator is a digital tool designed to capture information about a customer's household water use. It provides personalised feedback by comparing an individual's consumption with that of similar households and identifies practical opportunities to reduce water use and lower household bills.

Q. How did you develop the calculator?

A. The calculator was developed in collaboration with our Digital team and delivery partner, Mediaworks. We assessed water use across key areas of the home, including kitchens, bathrooms, gardens and ad hoc activities such as car and pressure washing. Behaviour change principles were embedded throughout the design to ensure customers receive practical, relevant and achievable guidance on reducing their water consumption.

Q. How does it work?

A. The calculator asks customers a series of simple questions about their behaviours. Based on their responses, it estimates water consumption levels and provides tailored insights and recommendations to support more efficient water use.

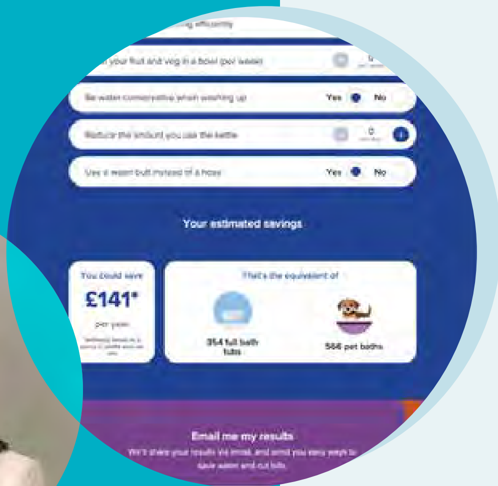
Q. What difference can the water calculator make?

A. Research and customer data show that many people are unaware of how much water they use and often underestimate their consumption. The water calculator addresses this gap by increasing awareness and providing clear, personalised information. This enables customers to make more informed decisions about how and where they use water.

Q. How does the water calculator fit within our water-saving work?

A. The calculator acts as a first point of engagement for customers. The information gathered enables us to better target follow-up communications and offer additional water efficiency support, such as home visits, tailored advice or water-saving devices.

Links to values



Bears at the Wildheart Animal Sanctuary, Isle of Wight in their pool, topped up by the rainwater harvesting system we installed.

Part of the sanctuary's new 'Sustainable Drainage (SuDs) Safari', the system captures 475,000 litres of rainwater a year, which can be reused.

The installation is helping to educate the public on water sustainability and biodiversity.

The project has been shortlisted at this year's Water Industry Awards.

Longdown Activity Farm is saving 787,739 litres of water a year following receipt of a Business Partnership Fund grant. Longdown co-founder Bryan Pass said, "Educating visitors about conserving water is vital, and this project is a big step towards our goal of cutting usage by 50%.

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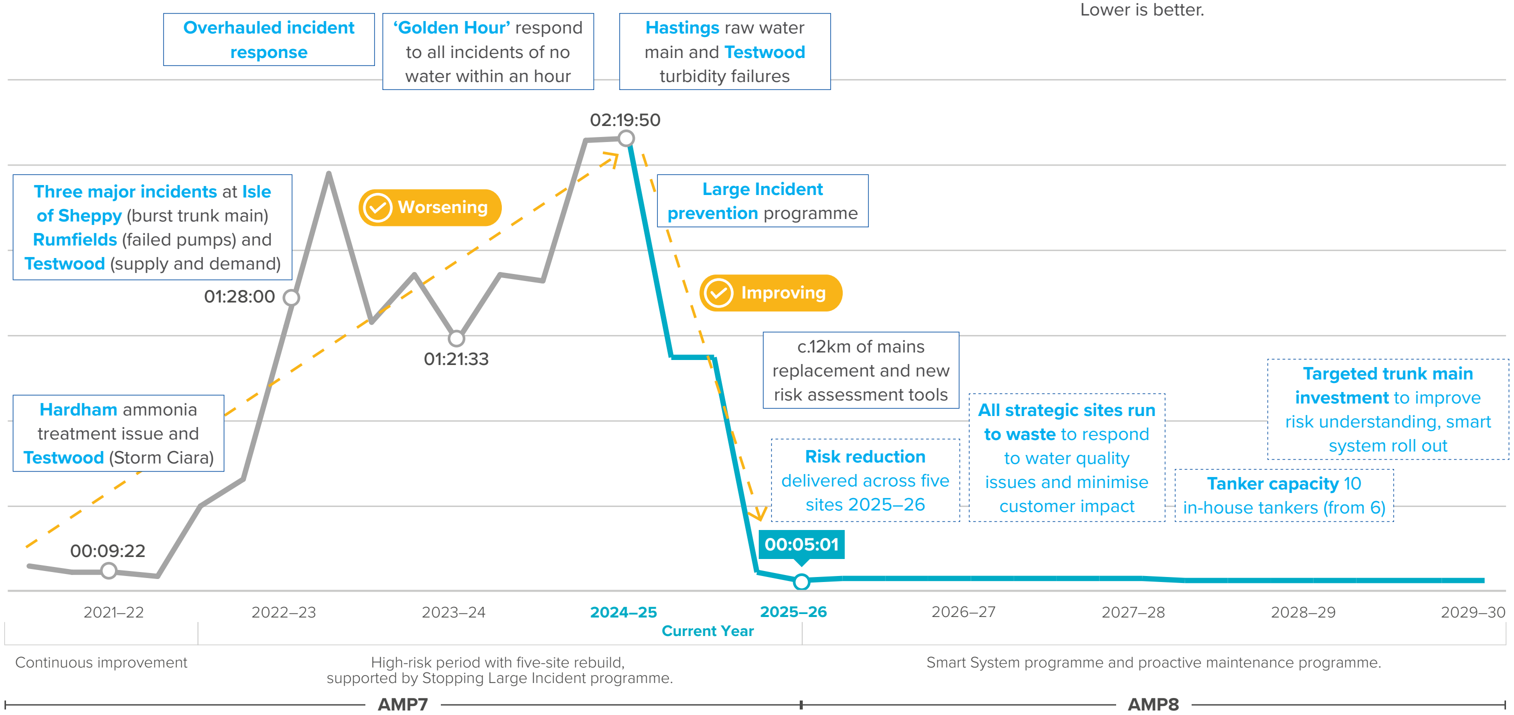
Provide a reliable water supply

Customer minutes lost

Target met

The average number of minutes of interrupted supply per customer (three hours or more). Financial year metric. Lower is better.



2025–26 achievements and challenges

- We've significantly reduced the average time that customers are without water during an incident, to 00:05:01 (2024–25: 02:21:50) coming in under our target* of 00:08:25. *Revised targets for water supply interruptions were included as part of the changes to Ofwat's Final Determination following our successful appeal to the Competition Markets Authority (CMA).
- New systems that locate leaks and bursts are helping our Control Centre team to prevent any loss of supply for customers. We're now able to proactively manage dips in pressure or carry out rezoning to maintain supply in a particular area.
- For every incident over three hours, we hold a follow-up meeting, inviting key stakeholders from our service partners. This increased collaboration improves everyone's understanding of processes and allows us to share lessons, identifying root causes and improving the experience for customers as much as we can.
- A new incident dashboard has given our Control Centre better visibility of root causes, such as issues with valves in the network, as well as identifying trends so we can better plan our proactive maintenance. The dashboard is also helping to prevent many smaller incidents from escalating.

> **Working closely with our service partners, we have introduced regular wash up sessions, following any interruption to supply. These sessions are driven by positive collaboration, to help us gain an in-depth understanding of the primary root cause of the loss of supply."**
>
> Carl Jukes, Performance Insight Manager

Case study

Improving our incident response

A new, simplified incident response structure was developed over the past year to streamline coordination, communications and decision-making. A key aspect of the review was to improve communications between Southern Water and local resilience forums and emergency services, with clearly defined roles responsible for providing updates which included testing in a simulated environment. It's now being rolled out to the wider business.

Links to values

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Case study

Keeping taps running in Hastings for the holidays

"In the week before Christmas, a pressure issue was found in the Petley Farm area of Battle, near Hastings. It's a major water main that feeds a production site called Beauport, one of the two sites that supplies water to Hastings. A team was immediately sent to check flow to the site, while emergency plans were put in place.

"They found no flow coming into Beauport, and storage reserves were beginning to reduce. Our priority was to locate the source, a possible burst, which meant searching along a pipe length of 11km. As it was a large area, we arranged for a drone to search from the air, which helped find it quickly.

"The problem was the location of the leak was very rural, with trees having to be felled, making access to the repair site very challenging. While the area was cleared, the team made sure everything needed to carry out the fix was on hand. At the same time, network rezoning helped to make sure that as many reservoirs as possible were being supplied from Brede, the other production site for the area. Tankers were also used to inject water in the areas most at risk of running low.

"The team managed to dig the trench and repair the main overnight on the 23rd. Getting the repair completed so quickly meant we managed to avoid losing supply to 45,000 customers on Christmas Eve. The swift repair work allowed the main to be recharged without any further problems, returning flow to Beauport and allowing the nearby reservoir levels to begin to recover.

"Just as things seemed to be holding in a stable position, Brede failed on Christmas Day, causing the reservoirs to drain again, reaching as low as 3%. Around 1,100 properties experienced pressure issues and some intermittent supply for a few hours, so a bottled water station was set up to make water available to these customers. Thankfully, Brede was restarted quickly, and tankers were able to provide support.

"This was an amazing team effort over the festive period and a massive thank you must be given to everyone involved."

Jonny Hutson
Operational Control Manager

Links to values

9km A three-year scheme to replace a 9km section of the water network in Hastings has already started. This work will prevent bursts and supply issues in the area and forms part of a multi-million programme of investment in the area to improve services.

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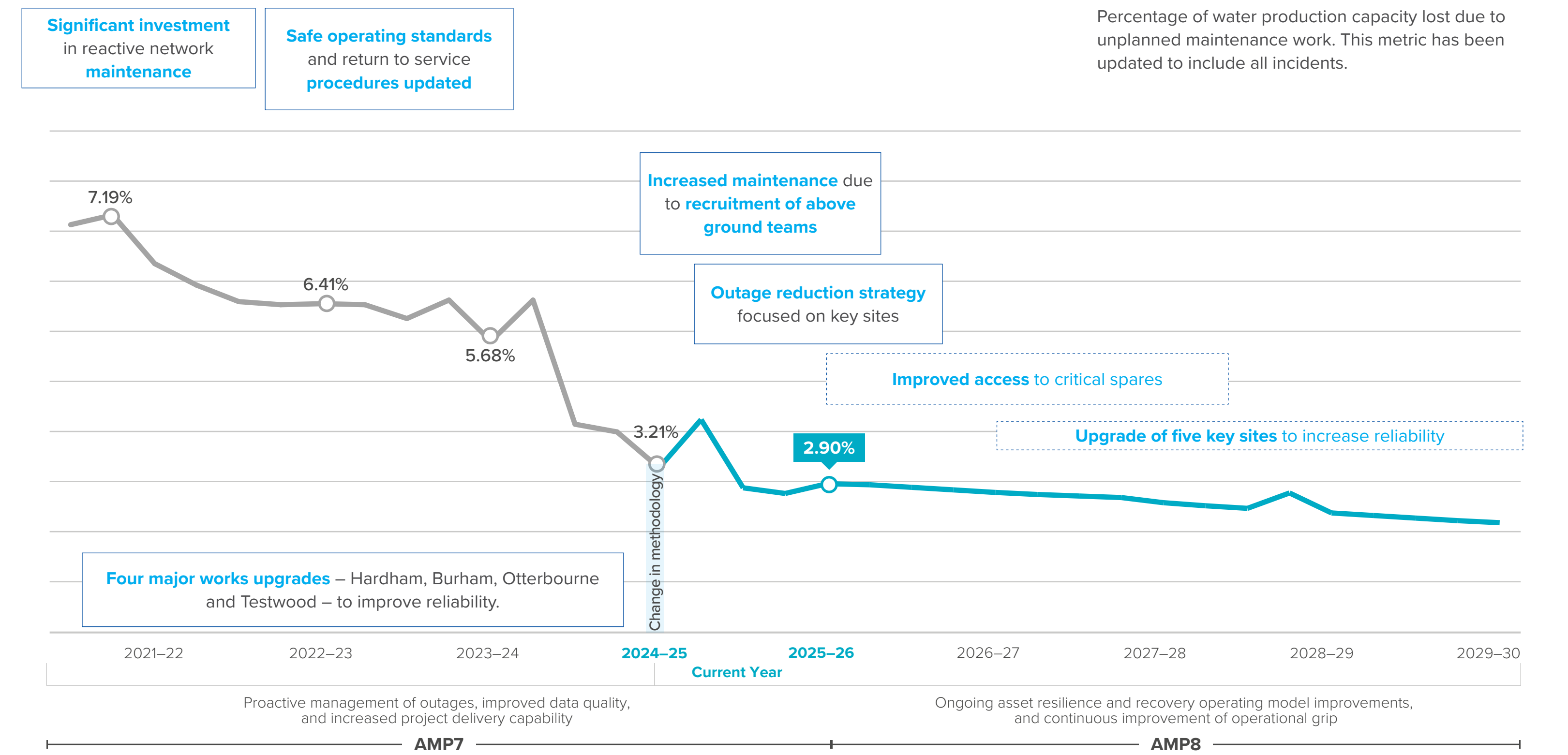
Unplanned outage

* For the 2025–30 investment period, Ofwat has removed all exclusions including severe weather from the metric. The removal of excluded outage from 2020–25 investment period reported outage is represented as shadow reporting as per our PR24 data tables.

Target met

Percentage of water production capacity lost due to unplanned maintenance work. This metric has been updated to include all incidents.



2025–26 achievements and challenges

- We outperformed our Ofwat target for unplanned outage of 2.93, with a score of 2.90 (2024–25: 5.49*).
- This improvement was the result of:
  - An increase in staffing at our larger water supply works
  - Monthly unplanned outage calls with area operations
  - Improved access to critical spare parts.

* Using the revised 2025–30 investment period methodology with weather-related events and other exclusions removed.

> **These operational improvements are driving better performance.”**
> Toby West, Operational Manager

We're putting in place a temporary high lift potable pumping station at our Testwood site to increase resilience and reduce the possibility of outage and interruptions to supply.

It enables us to adjust flow in line with ultraviolet disinfection treatment, so that we can maintain maximum site output to meet demand while maintaining water quality.

Links to values

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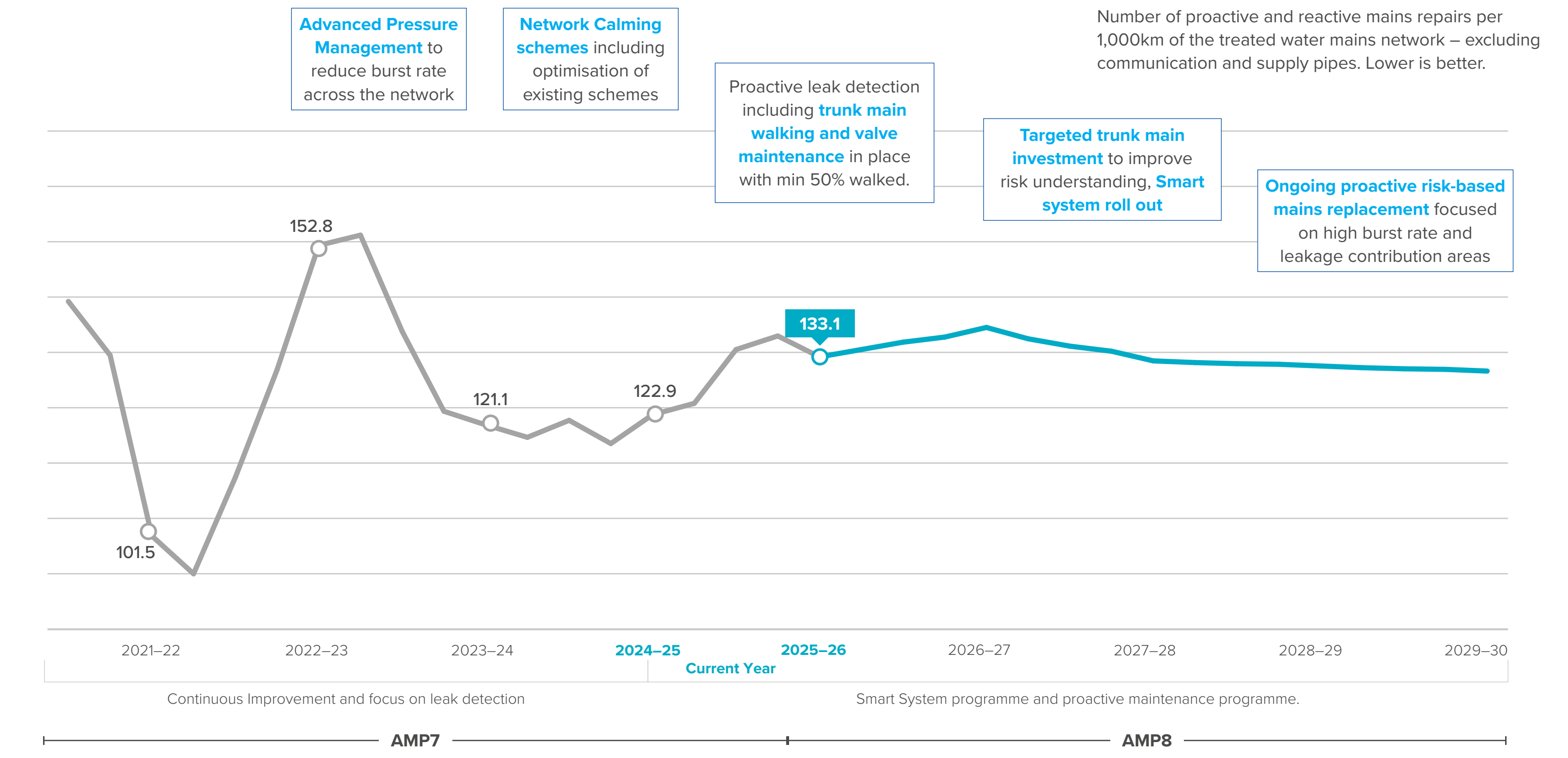
Mains repairs

Not met

Number of proactive and reactive mains repairs per 1,000km of the treated water mains network – excluding communication and supply pipes. Lower is better.



2025–26 achievements and challenges

- The total number of mains repairs was 1,868 which was equivalent to 133.1 per 1,000km.
- While we did not meet our Ofwat target of 125.6 mains repairs per 1,000km, we did remain under the penalty deadband set by Ofwat at 135.6.
- A large pressure management programme calmed the network down, so there were less visible leaks.
- As part of our Leakage Reduction programme we also located more invisible leaks, resulting in a slight increase in mains repairs from last year.
- We've been working more proactively, checking compliance from the start of the repair, rather than once it's completed. This along with further training of teams has resulted in better communication and increased collaboration, improving water quality compliance.

INNS zebra mussels work

"We developed a novel approach to stopping zebra mussels – an invasive non-native species (INNS) – being spread during the repair of a burst water main in Hastings.

"The drawdown water was passed through a carefully designed manifold, narrow-meshed sacks, and straw bales to capture any zebra mussels before the water was discharged to the environment.

"This method was developed collaboratively by our environment and aquatic specialists, Capital Delivery teams, delivery partners and the Environment Agency."

Sean Plenty
Principal Ecologist

Nick Gillot
Lead Environmental Adviser

Links to values

Improving our performance ctd

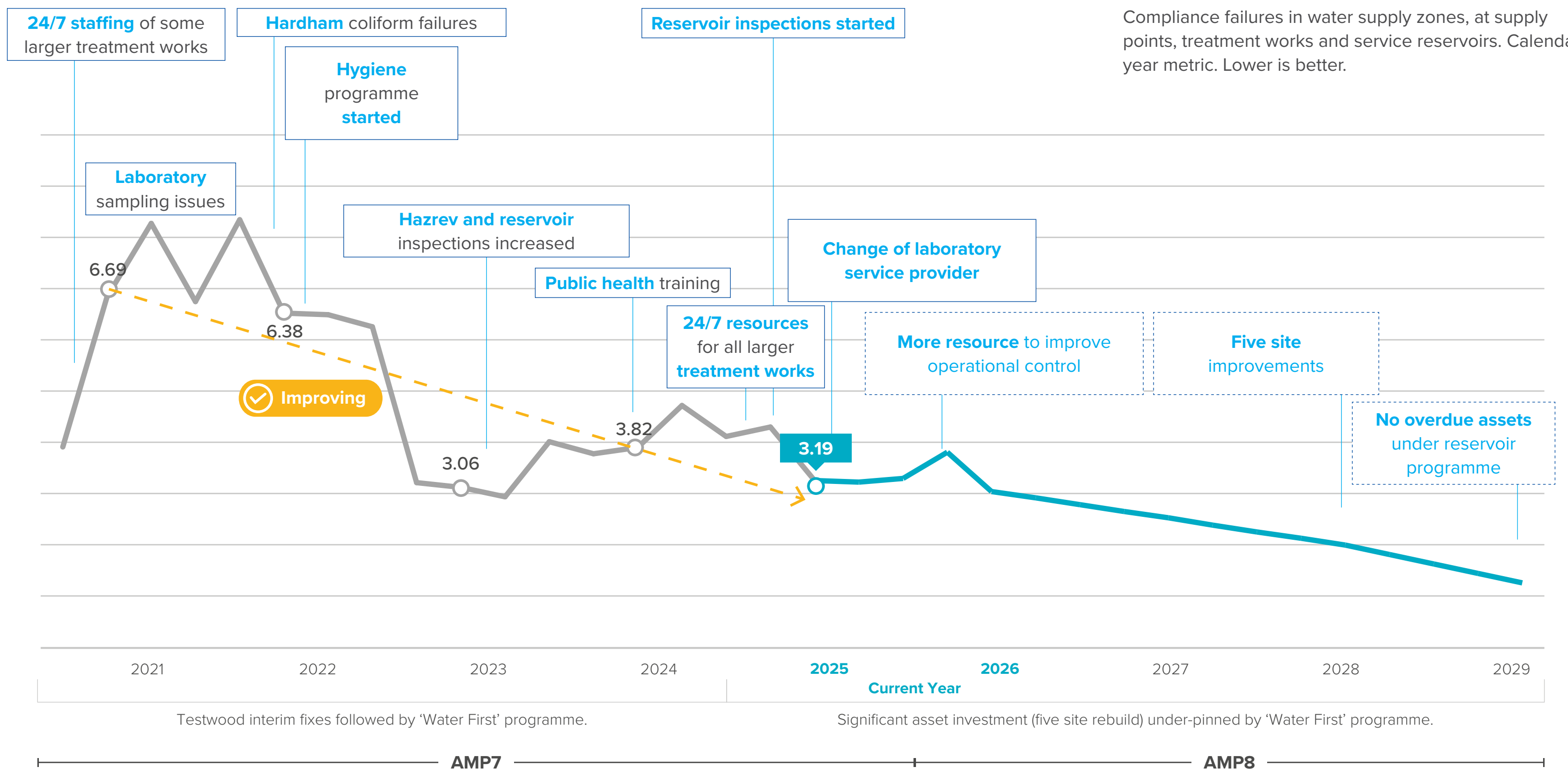
Ensuring a supply of high-quality water for the future

Safeguard high-quality drinking water

Water quality – Compliance Risk Index (CRI)

Not met

Compliance failures in water supply zones, at supply points, treatment works and service reservoirs. Calendar year metric. Lower is better.



2025–26 achievements and challenges

- We have some of the cleanest drinking water in the world. The Compliance Risk Index (CRI) measure is about risk to the quality of supply arising from treated water compliance failures. It aligns with the current risk-based approach to the regulation of water supplies used by the Drinking Water Inspectorate (DWI), which assesses and scores all compliance failures. Ofwat officially set a target of 0.
- Our water quality performance continues to show sustained improvement with our Compliance Risk Index (CRI) score at 3.19, a 16% improvement on the 2024 figure, although this is above the Ofwat target of 1.83.
- This improvement has been driven by site upgrades, increasing water quality and reliability. This includes completion of 91 of 120 planned audits of our water supply sites, as well as the cleaning and inspection of 80 service reservoir cells.
- Our Water First training programme has also continued.
- Nitrate removal plants are being delivered to reduce levels from groundwater sources, ensuring compliance with drinking water standards and protecting supply resilience. We also completed nitrate blending schemes at several sites, with works for a Final Enforcement Order also completed at two supply reservoirs, bringing reservoir maintenance and inspection into line with industry best practice.
- We've installed new clear water tanks at our Sandown supply site on the Isle of Wight, delivering a significant step change in water supply resilience and quality.
- Drinking water compliance is based on samples passing tight quality standards, and last year 99.98% of tests passed, meaning that there were 52 breaches out of a total of 225,207.

Q&A with Reece Simmons, Operational Manager

Q. How do we make sure that reservoirs are well maintained?

A. We run a risk-based programme where all 350+ assets are removed from service, every one, three or five years for inspection. Any defects are identified and fixed.

Q. Why is this work so important?

A. It's critical to maintaining the quality of our drinking water, between it leaving the water supply works and reaching customers' taps. By keeping everything in peak operating condition, we reduce the risk of any interruptions to customer supplies.

Q. What's great about your job?

A. The team that I manage – their determination helps us to improve and maintain all our reservoirs in a collaborative way across Kent, Sussex, Hampshire and the Isle of Wight.

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Drinking water taste and odour

2025–26 achievements and challenges

- We've reduced the number of times our customers have needed to contact us about the quality of their drinking water to 1.11 customers per 1,000 of the population (2024–25: 1.25). This represents a 10% improvement on 2024 contacts, although it was slightly above the Ofwat target of 1.09.
- This improvement was primarily driven by delivery of our proactive mains flushing programme, to remove the build-up of sediment, which can result in discoloured water. We've flushed over 1,200km of mains as part of this programme, taking away sediment. In our previously worst performing areas, this resulted in a 50% reduction in contacts.
- Further controls have also been introduced to ensure water quality checks are completed as part of planned and reactive work upon the network and our operatives have undergone training on how to minimise disturbance during any work.

Case study

Water quality training goes online

"Our new training programme helps colleagues understand the importance of water quality and our commitment to public health, raising awareness of their personal responsibilities and the impact actions can have on water quality.

"We built three visa levels within our awareness course – bronze, silver or gold – and these were determined based on job role and any interactions with potable water.

"For example, someone working in the water side of the business, in an office managing procurement, would need to be trained to bronze level. However, someone working on the ground, fixing water pipes or looking after the alarms would need to complete all the training courses to reach the gold visa level.

"We delivered face-to-face roadshows across our region over a period of 18 months. It was great to meet colleagues and discuss all the different aspects of water safety. Whether we were talking about the vital area of public health, or the legal aspects of our work, everyone was very engaged.

"To find an interesting way to engage people in it, we brought to life a real water quality case study as a video clip in the form of a news report, complete with newsreaders, journalists and eyewitness reports. We evolved the course so that it became a mandatory training module, which launched in December 2025, and it's now available on our learning management system.

"We made sure it was accessible and inclusive for everyone, and we're now able to share it with our contractors and suppliers, who continue to work closely with us.

"This training was a requirement under DWI notices, and forms part of our Transformation Plan. So far 995 colleagues have successfully completed their bronze, silver or gold visa."

Ruby Lambert and Alex Love
Water Improvement Team

Links to values

Improving our performance ctd

Ensuring a supply of high-quality water for the future

A look ahead

To get a real-time insight into water quality, we're introducing a rapid and highly sensitive method for counting micro-organisms in water called flow cytometry. It's going to be put in place this year, particularly on larger sites, to allow for early detection of changes in water quality. This will help to target interventions and improve treatment performance, reducing any risk of customer impact.

Our mains flushing programme will also continue, helping to maintain high standards of water quality.

At our Testwood site, in Hampshire, we're delivering a run-to-waste system, which allows for the fast removal of out-of-specification water from the process, and work is also underway to install a further UV treatment system.

To continue to reduce leakage:

- We're looking at a pilot that uses fibre optic cables to find leaks up to five metres away. This method could be especially effective in urban areas, helping us find leaks that were previously undetectable.
- We're starting to develop our Smart Networks strategy with our first phases going live over the coming year. This will include using an enhanced array of sensors to proactively identify leaks so we can target our repairs.
- We'll also be using meter data to differentiate between consumption and leakage, so we can better target our maintenance work.
- We're also continuing our network calming programme, increasing the resilience of our network.

The Water Supply Reservoir Maintenance team will be using 3D laser scanning technology to create a digital library of the inside of our reservoirs so we can monitor minor defects and proactively carry out remedial works when needed.

On the Isle of Wight, we've applied for planning permission to build a new water recycling plant at Sandown. It will act as a new water resource for the Island by turning treated wastewater into purified recycled water, which is then released into local rivers. Water taken downstream in the river will then be treated to full drinking water standards before being sent into supply. Currently one-third of the Island's water comes from the River Test on the mainland. Developing new water sources will make the Island more self-sufficient and reduce pressure on the River Test, a rare chalk stream, especially during a drought.

To connect our Winchester and Andover sites, we're planning to build a new 22.5km link main. So far, we've applied for planning permission. Once completed, it will transfer up to 15 million litres of water a day to where it's most needed.

In the area of water efficiency:

- Our Business Partnership Fund will offer a fourth round of grants, helping businesses to achieve their water-saving goals. Businesses will also continue to be offered water-saving audits.
- For household customers, we'll be looking at options to roll out our water-saving kits over the summer, for the garden and home. We'll also be launching our spring campaign along with the new water-saving calculator, and we're testing various behaviour change solutions, using our new smart metering data to identify potential leaks. We'll also continue to offer audits to customers with higher-than-average usage.

Burham Water Supply Works upgrade

We're upgrading Burham to improve the long-term reliability of water supply.

The work planned includes:

- Refurbishment of the low lift pumping station.
- Upgrading granular activated carbon (GAC) filters.
- Site-wide chemical dosing improvements.
- Measures to increase the resilience of the treatment process.
- Improvements to raw water storage and supply (e.g. lake capacity).

Improving our performance ctd

Understanding and supporting our customers and communities

How we're doing things differently

We began a major upgrade of customer water meters in the autumn of 2025, which will see us put one million in the ground before 2030. To date, we have installed more than 86,100 that will eventually feed information into our Smart Metering Operating Centre, which has also now been set up. These upgrades will improve the accuracy of customer bills, help people better track their water use and help to reduce leaks.

In-year investment and highlights...

£25.3m	to accelerate the metering programme.
86,100	smart meters in the ground since November 2025.
193,252	customers supported with our Essentials social tariff and WaterSure scheme
625	customers supported by the Hardship Fund
1m+	customers engaged in our bill increase awareness campaign
122,168	young people were engaged in our New Wave education programmes.

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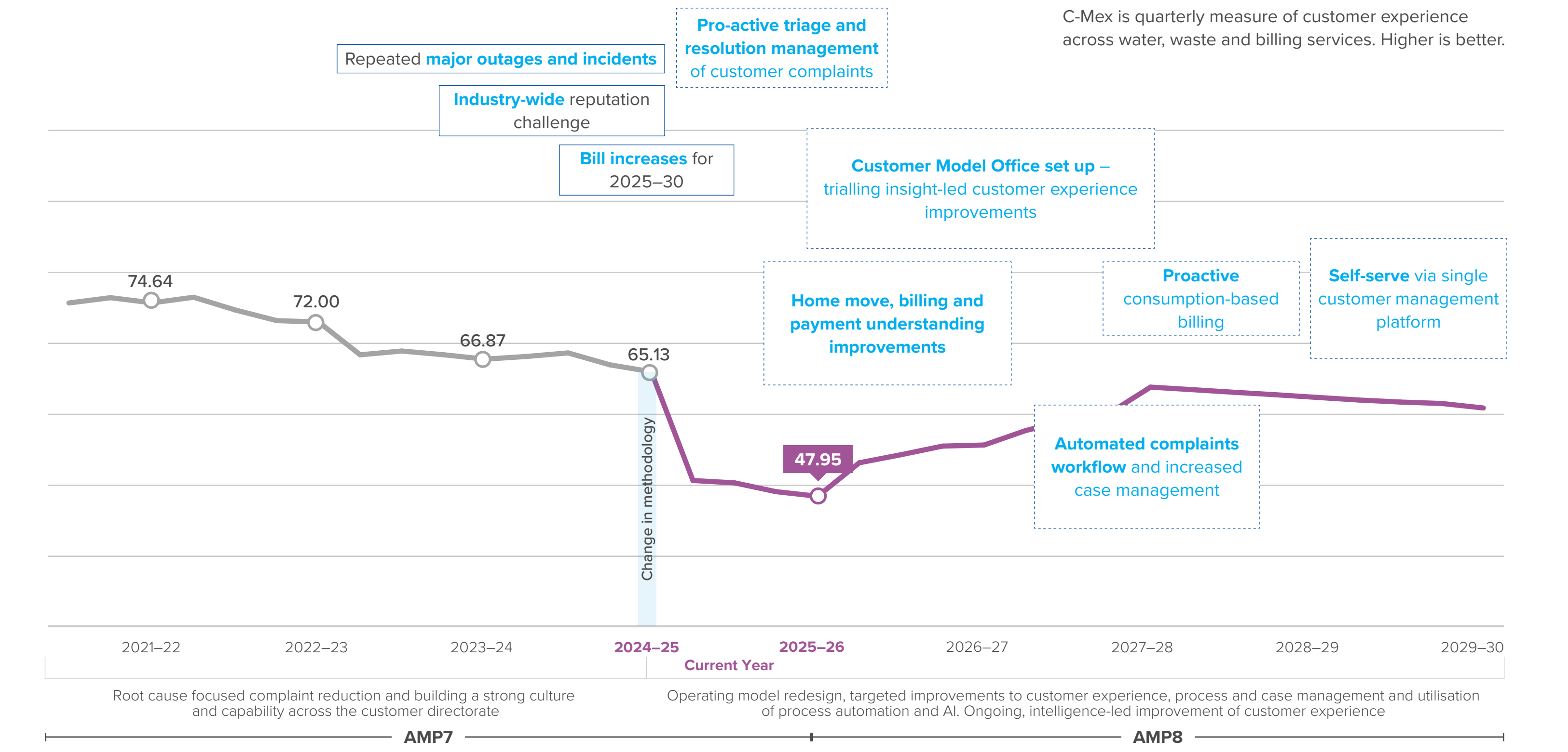
Improve customer experience and our reputation

Customer satisfaction (C-MeX)

Not met



We continued our programme of Your Water Matters events during the year, allowing us to speak to our customers about any issues specific to their community. Members of our Executive and teams from across the business attend these events to provide updates, support for customers struggling to pay, or talk about water saving or blockage prevention. A total of six events were hosted this year, like this one in Margate, across the South East.

Links to values

2025–26 achievements and challenges

- We're currently 17th out of 17 companies (2024–25: 16th) in Ofwat's customer satisfaction (C-MeX) table. Root causes remain high bill contact and complaints due to bill increases, and issues with water-related call-outs and repairs.
- We work with Capita, who run our call centres. As part of our service recovery, during 2025–26 we moved several teams to South Africa to increase the number of agents available to answer calls and improve waiting times. This coincided with a significant increase in contact because of bill increases and the added scrutiny of the industry this caused. This high volume of contact while new agents and processes were being set up placed a strain on the operation, driving up call waiting times and making it more difficult to quickly resolve customer queries.
- We have fully retrained all our customer agents and have made sure they have access to the right information to support customers. The focus is now to quickly resolve issues first time and reduce the backlog of complaints. We know how frustrating this has been for customers, so we've increased the number of agents available to handle more calls and simplified processes.
- Lessons learned from the operational transformation programme are now being applied to customer service processes, systems and training programmes. This includes stripping out unnecessary steps both for agents and customers, digitalising and automating them wherever we can to speed up resolution of queries. We're also making better use of data and learning tools.
- To make it quicker and easier for customers to pay their bills, we introduced ApplePay and GooglePay this year. Following the roll-out, ApplePay is already being used for a quarter of online payments.
- We engaged over a million customers through our bill increase campaign via targeted email, radio and digital campaigns. We're committed to keeping customers updated about any changes to their bill, while also explaining how their money is spent.

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Case study

Working with customers to find blockages before the pipes burst

"We've adopted a proactive approach to stop floods happening at customer properties.

"When there are problems in the pipes of a property, they may make gurgling sounds or show signs in a garden that wastewater is backing up through a manhole. This is when we get a call from a customer, and we give advice or assistance – sometimes it's as easy as talking about what blocks pipes, to resolve an issue.

"While any internal flooding is dealt with immediately, smaller issues could become bigger problems later. So for the past year, if the same customer has contacted us three times in six months about an issue, our Customer Contact Centre alerts our team. We then contact the customer to talk about how to get the problem resolved, keeping them updated on progress throughout.

"We work with all the relevant experts to find the root cause of the issue. This could mean carrying out an investigation at the property, seeing if programmed work can be brought forward or asking our FOG team to offer educational advice. Over the past year, we've contacted 337 customers in this way, sorting out issues before they become a more serious problem.

"As well as preventing the inconvenience and distress of a flood, this approach avoids customer complaints too, because we know that repeat issues are most often the source of these."

Victoria Glaysher
Operations Customer Experience Manager

Links to values

Satisfaction with developer services (D-MeX)

2025–26 achievements and challenges

We recognise how important new development is for the economic growth of our region. Our teams work with developers of all sizes to ensure that connections are completed correctly and cause the least impact possible to the environment.

- We forecast to have dropped to 16th place (2024–25: 14th) out of the 17 water and wastewater companies for developer satisfaction in Ofwat's table.
- The way that D-MeX is measured changed for the current investment period, with surveys completed quarterly instead of monthly. Questions in the survey were changed and the whole process was moved online (previously by phone).

Satisfaction with business retail services (BR-MeX)

2025–26 achievements and challenges

- BR-MeX is a new performance metric, measuring business satisfaction with our services, which we started reporting on in April 2026.
- Retailers scored Southern Water sixth out of 15 water and wastewater sector companies in R-MeX, with the first half of the year (quarters 1 and 2) showing our best score to date (fifth). Southern Water adheres to SLA's approximately 92.58% of the time, also ranking sixth.
- Business customer satisfaction (B-MeX) with our water and wastewater services is ranked 11th. While this is higher than our C-MeX results for the same processes, this remains lower than we would like. The key driver of dissatisfaction relates to incomplete updates from operational teams and insufficient visibility of job status, making it harder to track the progress of issues.

The new Market Performance Framework went live on 1 December 2025

It was a big change to the business retail market and ensures that wholesalers, like us, and retailers that we work with are delivering the best outcomes for business customers. It set service standards for meter readings and performance and included actions to be taken if service standards aren't met. It replaced a complicated framework and was been created with industry regulators, including the Consumer Council for Water (CCW). Changes include tighter monitoring of monthly meter readings; a focus on the quality of data; fewer KPIs (just eight vs 30); stronger incentives, such as fines for overdue charges; regular reviews of performance standards and additional insight metrics. The new framework applied from April 2026.

Improving our performance ctd

Understanding and supporting our customers and communities

Supporting customers who need it most

Number of customers on the Priority Services Register

2025–26 achievements and challenges

- We measure the number of households that the company supplies with water and/or wastewater services that are on our Priority Services Register. A total of 359,733 customers were registered for priority support as of March 2026.
- We know that some customers have experienced substantial increases to bills this year, so to make sure that they feel supported we've made it easier than ever to access our social tariff 'Essentials', which offers customers 45% to a 90% discount on payments. We're now supporting over 177,800 customers, nearly a 90% increase from 2020 when we supported 93,000 customers.
- Following the reopening of our customer acceptability testing, we were able to secure 60% support to increase social tariff cross subsidy to 4% of the average value. This ensures support grows alongside bill values and allows us to increase the number of customers offered support in our latest business plan from 182,000 to 204,000.
- Further data partnerships have been put in place with local councils to enable us to reach more customers in need of support. Since we started working with them, we've been able to automatically enrol more than 20,000 customers via the partnerships, with over 10,000 more customers anticipated during 2026.
- Our Hardship Fund has also increased, with £1.25 million allocated to support those experiencing exceptional circumstances. The fund supports customers by providing essential home and white goods and debt write-off, where appropriate.
- As part of the government's 'breathing space' scheme, customers have a 60-day window before we contact them about their bill to offer financial assistance, and we've been able to enhance this scheme using our Hardship Fund to ensure a customer's debt does not increase while they are seeking debt respite.
- In total over £1,025,000 has been committed to providing debt write-off for over 625 customers, that's an average of £1,660 per customer. Alongside this we've provided over 350 white goods or essential food vouchers to those in urgent need.
- Defra introduced a new set of Core Services in October 2025. These included core priority services, such as priority bottled water delivery if you lose water supply. Bills in an alternative format were also included, with braille, audio or large print as examples. For customers with a power of attorney in place, the guaranteed standards of service mean we must deliver to those customers. The Core Services provide clarity about what customers might be entitled to, and the timeframes they can expect us to deliver these services in.

Customers supported by our Hardship Fund said...

> **"Thank you so much for sorting this and keeping me posted. Fantastic."**
> Chris – received a fridge freezer.

> **"I give you 10/10 thank you so much."**
> Anonymous – received a cooker.

> **"I was very impressed with the whole process."**
> Tracey – received a washing machine.

- A new tool has been added to our online financial assistance application form, which allows people to complete a benefits maximisation journey, designed to show people if they're missing out on any benefits that they could be entitled to. This also allows customers applying for support through other utility providers using the tool, to identify if they are eligible for our support and complete a 'one stop' application.
- We celebrated our third year of partnering with Home and Well, run by Citizens Advice Hampshire – supporting people coming out of hospital – alongside the fifth anniversary of the scheme itself. We're looking forward to welcoming new partnerships to our community to help increase our reach to vulnerable customers.

Improving our performance ctd

Understanding and supporting our customers and communities

Q&A with Archie, Lee and Courtney, Vulnerability Officers

Q. What does a typical day look like for you?

A. A typical day is spent either out in the field – visiting job centres, food banks and community groups – or in the office managing stakeholder referrals. No two days are the same, and most days involve a mix of both community engagement and administrative work.

Archie, Sussex

Q. What does a good day look like?

A. A good day is when I'm able to connect with customers who are eligible for our schemes and tariffs, helping them get back on track with their water account. Even better, is when we're able to offer additional support such as white goods or discounted tariffs – things that genuinely make a difference in someone's life.

Lee, Hampshire

Q. Does it feel like we're making an impact?

A. Even small things, like signing someone up to the Priority Services Register, can have a meaningful impact. I believe that having a physical presence in the community is essential – it means people not only receive help but feel genuinely seen, heard and supported.

Courtney, Kent

Key

Working with care to deliver our vision.

Doing the right thing going beyond compliance.

Always improving learning continuously as we deliver new projects.

Succeeding together for customers and the environment.

Case study

We're here to help customers who are worried about the increase to their water bills

"In February 2025, we adjusted our bills, increasing them by as much as 46% for some customers. We know that the changes we've made have been worrying, which is why we've made it a priority to offer support to anyone who feels they're struggling or feels they might not be able to make a payment.

"We have a dedicated support team in place who are there to talk customers through the different payment options on offer. Whether that's a discounted scheme or some debt support, we work with each customer to find out what suits their circumstances.

"Over the year, our team has spoken to hundreds of customers, and we're now offering tailored financial support to 193,252 customers, or 10% of our entire customer base.

"And we're not stopping there. We've committed a further £235 million support package for customers before 2030, which includes increasing our Essentials social tariff support, with each customer receiving a minimum discount of 45% and up to 90%. Alongside this, we also have our £1.25 million Hardship Fund to help with bill reductions and grants towards home appliances along with further schemes for debt write-offs and the capping of water bills."

Nicky Chitty
Affordability and Vulnerability Lead

Links to values

Improving our performance ctd

Understanding and supporting our customers and communities

Working with our communities

2025–26 achievements and challenges

- This year we engaged with 16,762 adults across our region, with talks and site tours, grant programmes and colleague volunteering. Our New Wave education programme reached over 122,168 young people in lessons, assemblies, workshops, site tours and outdoor learning events.
- Following the success of our Beyond the Drain site tours at Peacehaven, East Sussex, we opened two more wastewater treatment tours in Hastings, East Sussex and Budds Farm, Hampshire. The tours give schools and community groups insights into the water cycle and how our wastewater is treated. Over the past year, we've hosted over 733 adults, students, colleagues and their families.
- In Hastings and St Leonards, our £400,000 community grants programme continued, with additional support for local pupils through careers events, free swimming lessons for families during the summer holidays, and opportunities for mentoring and roundtable discussions with our Executive team. This was part of the £1 million goodwill fund established following the 2024 incidents
- In December we launched our next round of community centre grants, focusing on Eastbourne, Bognor Regis, Southampton, Chatham and Folkestone. We contributed to the running costs of local food banks, youth clubs, creative centres and health sessions and continued to provide resources about financial support and Priority Services.

> **The Southern Water grant is very welcome at this time, to take some of that burden away and ease the pressure on our funds for essential tasks that enable the centre to continue as a much loved and valuable facility at the heart of our community."**
> Barry Wake, Woolston Community Centre – received a community grant of £2,143.

- During the festive period, over 50 colleagues volunteered to organise delivery to local charities of over 200 gifts donated by colleagues.
- Our colleagues provided online reading support to 35 young learners and mentoring support to 45 students, across three secondary schools through our volunteering partners Chapter One and Dare to Dream over the past two years.
- We continued to support the 'Our River Our Water' programme, run in partnership with, and delivered on our behalf by, the Southeast Rivers Trust, the Wessex Rivers Trust and the White Cliffs Countryside Partnership. It hosts indoor and outdoor discovery sessions, teaching primary age children about their local river and environment, reaching over 7,000 young people across 70 schools.
- Two new education modules were launched. FOG Defenders for secondary schools and colleges, focuses on supporting food technology lessons by raising awareness of how to dispose of Fats, Oils and Grease safely in the kitchen. While the second module, aimed at primary schools, was created in partnership with the RNLI and focuses on water quality and safety.
- Each year, we host two live primary school webinars to celebrate World Toilet Day in November and World Water Day in March focusing on what not to flush and water-saving tips. This year, the webinars reached over 1,700 pupils across 26 schools, hosted by Budds Farm Wastewater Treatment Works and The Wildheart Animal Sanctuary on the Isle of Wight.

This year, we created our own water cycle storybook in digital and print: 'Hattie's Water Adventure'. It launched in March, for all Chapter One schools across the country and for schools we engage with through our education programme.

	2025–26	2024–25
Community donations[1]	£98,318	£434,421
Colleague hours volunteered	5,221 hours	3,370 hours
Education programme – number of students engaged	122,168	98,609
Education programme – number of youth and school engagements	1077[2]	810
Proportion of schools engaged that are state schools	94%	Not available
Social value generated[3]	£4,830,148.50	Not available

1 Figure includes in-kind donations. 2024–25 included our goodwill fund for Hastings and St Leonards. The figures do not include our support to customers in vulnerable circumstances.

2 Of these engagements, 873 were with schools, of which 324 were with unique schools, with over half (56%) of these 324 schools engaging with more than one of our programmes, demonstrating a growth in the depth of engagement with us.

3 This year, for the first time, we calculated the social value of our community-related activities, using the Impact Evaluation Standard (IES) methodology. The IES framework aligns directly with the UK Government's Social Value Model (PPN 06/20 and PPN 002). The framework applies a financial value to non-financial impacts and, for us, includes the community and education programmes described above, other education and outreach events, apprenticeships and our Mental Health First Aider programme.

Improving our performance ctd

Understanding and supporting our customers and communities

A look ahead

Over the coming year, we're overhauling our Customer Service processes, systems and channels. This will include:

- A review of customer journeys and systems and technology used to support them.
- Focus on cost-to-serve each customer, by removing unnecessary steps and procedures to enable self-serve or faster resolution of queries.
- Using learning from customer experience improvements in wastewater operations, to improve customer satisfaction scores for water journeys.
- Introducing better ways to keep customers informed about what's happening in their area.
- A review of how we communicate with customers, particularly those in vulnerable circumstances who may need extra support during water supply incidents.
- Exploring new partnerships to raise awareness of financial assistance schemes and Priority Services.
- Reviewing our Priority Services standards.
- Introducing a video relay service to enable British Sign Language to be used by customers.
- Improving the way we keep our customers informed about Developer Services, making applications easier and offering greater levels of support.

In terms of our community work, we'll be strengthening and harnessing partnerships with local interest groups:

- Ensuring our Beyond the Drain site tours are accessible to all – we're working to achieve the National Autistic Society Neuroinclusive Access Award.
- Creating and delivering a GCSE Science module connecting classroom learning on soil science with the work done by our Catchment team.
- Developing educational content outlining future water resilience challenges and opportunities.
- Expanding the Our River Our Water programme to secondary schools across Hampshire, with the aim to expand across our region over time.

We're recruiting Coastal Rangers with RNLI

As part of a new partnership with the RNLI, our teams are hosting workshops with primary school children, teaching them all about keeping their local beaches clean. Find out more about our Education programme and how you can get involved.

> **"The trip to Peacehaven Water Treatment Centre is an invaluable STEM experience that perfectly bridges the gap between the classroom and the professional world of work. Our Year 9 pupils were fully immersed in the scientific process of water treatment through a fabulous, high-access tour of the plant, seeing every stage of the process in action. The presentation on careers within Southern Water was fantastic, helping pupils to visualise potential future education and employment. I cannot recommend this visit highly enough for any school looking to bring STEM careers to life."**
> Cristy Holbrook, Careers Lead, The Cavendish School, March 2026.

Improving our performance ctd

Enabling our people to drive change and performance

We want to make sure our colleagues are well supported so they can bring their best selves to work and go home safe and well.

How we're doing things differently

Following the successful delivery of our Health, Safety, Security and Wellbeing Transformation Plan during the last investment period, we launched a new Safe and Well Everyday Plan in April 2026. With an enhanced focus on wellbeing, it includes 25 key actions, including a dedicated Mental Health First Aider support platform, a new occupational health provider and stress risk assessments for operational teams.

As we begin to deliver our largest construction programme ever, our focus on health and safety is paramount. Over the past year we've launched two new courses: working at height and the new IOSH working safely course. Both equip our colleagues with the necessary skills and knowledge to identify workplace hazards, undertake risk assessments and put in place control measures.

From a security perspective, we've focused on improving electronic security systems at key sites, particularly those that are considered critical national infrastructure. Specialist training for teams, including live exercises, have been run at these sites, alongside detailed risk assessments that have been used to create action plans.

2025–26 achievements and challenges

- The Safe and Well Everyday Plan that we put in place in April 2025, has been a driver for a reduction in our lost time injury frequency rate outperforming our target of 0.20 with a rate of 0.11.
- We provided a new practical course for toxic gas awareness, alongside the introduction of new procedures.
- Customer abuse training has been introduced to give our front-line teams more confidence when dealing with confrontation.
- Stop Think Safe, our safety leadership training day, has been extended into 2027–28.
- A refreshed suite of Construction Delivery Management (CDM) procedures has been introduced to support our delivery teams.
- We've reconfigured our safety reporting system – EcoOnline – and developed new dashboards to give Field Performance Managers better visibility of risks raised on their sites.
- Upgraded security measures have been put in place, in line with the Water Industry Act 1991, to meet our regulatory obligations around physical and personal security.
- An independent electrical safety review was completed in December 2025.
- Work is continuing to upgrade digital security systems at our key office sites and storage reservoirs.
- The first year of our wellbeing strategy has been put in place, which includes new policies and procedures, line manager training and new KPIs.
- We upgraded the workplace occupational health provision to include neurodiversity and mental health support.
- Our Mental Health First Aider network has expanded from a total of 54 to 156 over the year.
- Recognising wellbeing challenges, we launched new content in our Licence to Lead Line Manager training and performance management programme (IMPACT), with all colleagues now asked to set a wellbeing objective.
- We've completed the health risk profile, to understand occupational hygiene risks for operational workers.
- Our first psychological safety training session was held with the senior leadership team.
- We put in place post-incident on-site counselling services and organised the provision of mental health support through the colleague relations process.

Highlights:

0.11	lost time injury rate
156	Mental Health First Aiders

Improving our performance ctd

Enabling our people to drive change and performance

Support a proud, thriving and safe team

Colleague engagement

Supporting a proud, thriving and safe team is one of our key objectives for the current investment period, and to make sure that we capture colleague comments and views on what makes Southern Water a great place to work, we run an engagement survey twice a year. It helps us highlight what we need to do differently and is vital to our continuing improvement.

Participation was excellent for the December 'Pulse' survey with 2,585 filling it in, that's 80% of our workforce. The overall engagement score was 62% which was a 3% increase on the June survey and represents a significant move when compared to the UK-wide data, which shows falling engagement.

Key action points from surveys conducted in 2025–26 included:

- Introducing IMPACT – a new colleague performance programme, giving clearer objectives and stronger connections between roles and company goals.

- Making wellbeing and psychological safety part of how we work every day.
- Building greater pride in Southern Water by celebrating the difference everyone makes.
- Tackling workload challenges with real insight into day-to-day pressures.
- Increasing leadership visibility, with more opportunities to connect and be transparent.
- Strengthening people management through clearer standards and leadership development.

Equity, diversity and inclusion

Our people are our strongest asset, and we want to continue to ensure we create an inclusive culture for everyone, regardless of role and location. One of the ways in which we do this is through our Employee Resource Groups (ERGs). They are volunteer-led groups, which enable a collective voice to connect and inspire people as well as help influence business change, such as the creation of new policies and improving how people work.

In 2025, our ERGs supported and ran several activities and initiatives.

- The Women's Network collaborated with Health and Safety colleagues on a new range of fully inclusive PPE. This work has been nominated for a Women's Utility Network (WUN) award. See case study on page 63.
- The Menopause Network has been collaborating with the people team to develop a new company-wide policy, which we will launch in 2026.
- The Christian Fellowship supported Mental Health Awareness week in May 2025 by providing a meditative prayer event called 'The Examen', enabling people to reflect on lived experience and encourage people to grow in thankfulness and positivity.
- The Working Parents Network and Carers Network continue to hold regular sessions for both parents and carers alike, to connect and share best practice.
- The LGBTQIA+ Network (BeYou) has successfully established a safe space and continues to meet regularly as a network.
- The Men Allies Network (M.A.N) in its first year of formation has delivered guest speaker sessions along with fund-raising activity, such as the three peaks challenge, raising money for Andy's Man Club and working across the water industry to raise over £30,000 in the Movember challenge.
- The Neurodiversity Network collaborated with the business to support the design of better workspaces, training sessions, meeting formats and communications to be more inclusive of neurodivergent people's needs.'

Celebrating commitment to our Armed Forces

The newly created Veterans' Network supported the organisation in signing the Armed Forces Covenant on 10 March 2026. The partnership demonstrates our commitment to supporting serving personnel, veterans, reservists and military families, aligning with our values and objectives.

Improving our performance ctd

Enabling our people to drive change and performance

Key

Working with care to deliver our vision.

Doing the right thing going beyond compliance.

Always improving learning continuously as we deliver new projects.

Succeeding together for customers and the environment.

Case study

Women's Network improves working conditions in operations

Our Women's Network has been nominated for an award for its initiatives towards creating a workplace where women feel represented, supported and empowered to thrive.

As part of its work to improve the physical working conditions for women in operational roles, the network has partnered with colleagues in Health and Safety and Procurement, as well as leading suppliers including ARCO, to deliver a new and comprehensive range of inclusive PPE.

The new PPE includes:

- **Better fitting trousers and tops** – accommodating women's hips and bust without compromising safety.
- **Safety boots and safety glasses** – designed for smaller, more varied fits.
- **Modesty garments** – aligned with personal comfort and cultural needs.
- **Maternity PPE** – ensuring pregnant colleagues can continue working safely and with dignity.
- **A broader selection of practical clothing** – comfortable and breathable clothes, suited to women's bodies and work patterns.

It's a project that has not only provided physical comfort and safety, it shows the importance placed on making sure women feel comfortable, safe and welcome. And to make sure every colleague feels confident choosing the right PPE, hands-on workshops were organised across Kent, Hampshire and Sussex, giving colleagues an opportunity to try items on, explore the range and ask any questions.

The network has led a series of cross-functional initiatives over the past year. These have been designed to improve safety, dignity and inclusion for women working across our treatment works, pumping stations and customer-facing environments. Initiatives include providing free sanitary products in all women's bathrooms and introducing 'Service with respect', to reinforce the safety and respectful treatment of colleagues in every public interaction.

By creating a safe and trusted space for women to share experiences and shape solutions, the network has made sure women's voices have been able to directly influence policy and investment decisions.

Links to values

Q&A on our Neurodiversity Network with Josie Ashton

Q. What's your role in the group?

A. I'm the co-chair – working with my colleague Rich, we run the group to provide support for colleagues and work with the company as a whole, to make sure that neurodiversity is recognised in the workplace.

Q. Why was it set up?

A. I co-founded the network with Rich a few years ago and membership has increased over the past year to over 150 colleagues. We're very well supported by our Board sponsor, and we've had some very positive outcomes, including providing standard management guidance for managing neurodiverse colleagues and working with recruitment colleagues to make sure our job offerings are attractive to neurodiverse colleagues.

Q. How does the group work?

A. We hold two separate monthly meetings: the formal meeting focuses on how policy and business culture affect neurodiverse people; and a drop-in session held remotely, enabling colleagues to connect with others and get peer-to-peer support in an empathetic and positive safe space.

Q. What plans do you have for the coming year?

A. Our activities this year will continue to highlight neurodivergence and increase support for colleagues. We're organising some 30-minute lunchtime sessions where anyone can join to hear one of our group members talk about a special interest and we're working with our colleagues from Learning and Development and Wellbeing, developing training for management, to improve understanding of how neurodivergent colleagues work best.

Improving our performance ctd

Enabling our people to drive change and performance

Gender pay gap

Our 2025 pay gap reporting demonstrates a continuing decreasing trend in the mean or average pay gap from 0.01% in 2024 to -2.6% in 2025. This means the average pay gap has reversed, with the pay gap being more favourable to women.

The mean bonus gap has improved significantly from 56.4% in 2024 to 25.7% in 2025. The 2025 figure was materially affected by the application of the PRPP Rule (Ofwat's Performance Related Pay Prohibition Rule) to executive directors and represents a more normalised bonus cycle. The median bonus gap of –1.7% indicates that at the mid-point of the organisation, bonus outcomes are broadly equivalent between men and women.

In terms of the gender distribution in our company, our headcount has increased by 15% in 2025, 19% of who were women, and we're also seeing an increase in the number of women in the upper quartile. Our executive team is now made up of eight men and two women, one less than in 2024.

We recognise that we have more to do to ensure we move to a more representative and gender balanced workforce. We continue to build our internal talent pipeline, through managed development programmes, as well as attracting the best and more capable talent, externally. We also continue to review and update our processes to ensure fair recruitment practice.

Working with our suppliers

Our supply chain partners are vital to the successful delivery of our plans, so we're always looking for ways to improve supplier relationships.

We've now aligned our supplier relationship management (SRM) approach with our plans for capital delivery under the current Business Plan 2025–30. The approach has three areas: the introduction of more formalised engagement, with Lawrence Gosden, CEO, much more visible as a key sponsor; greater cross-party open collaboration forums, to better identify common themes and encourage collaboration; and Delivery Boards aligned to strategic delivery programmes.

Over the past year we have continued to strengthen and mature our SRM approach across our capital delivery partnerships. We have significantly deepened our engagement with partners – working side by side with them to co-agree work allocation and improve delivery collaboration.

Although last year's British Water survey saw Southern Water rise from 10th to seventh – our largest improvement in recent years – this year's results show a decline in our overall position. We're responding to this openly and constructively, co-developing a new set of interventions directly with our partners. A central element of this is the introduction of a jointly designed Partner Engagement Survey, which will allow us to measure relationship trust and traction in a more structured and diagnostic way. This richer insight will enable us to track progress over time and ensure accountability for improvement.

We remain committed to building an environment where delivery is collaborative, decisions are transparent, and the supply chain has the clarity, trust and support needed to perform at its best.

Start your story

Our graduate campaign invited people from all backgrounds to join our programme.

It was promoted through targeted local advertising and social media, driving prospective candidates to our careers portal.

Current Southern Water graduates explained how new applicants could help us deliver schemes in water and wastewater as well as digital, engineering, environment and capital delivery, having a positive impact on local communities.

Improving our performance ctd

Enabling our people to drive change and performance

Key

Working with care to deliver our vision.

Doing the right thing going beyond compliance.

Always improving learning continuously as we deliver new projects.

Succeeding together for customers and the environment.

Creating a workforce of the future

Graduate recruitment and graduate programme

- A total of 11 graduates were recruited to the programme in September 2025.
- We worked alongside the Strategic Workforce Planning team to determine the record numbers needed for the 2026–27 cohort – a total of 46 graduates are anticipated for the 2026 intake.
- A total of 15 graduates are currently on the programme (years one and two) – 55% male/45% female.

Apprenticeship schemes

- 60 individuals started apprenticeship programmes within Southern Water.
- 26 of these (43%) were externally recruited as apprentices and 34 (57%) undertook apprenticeships as an internal development option.
- Of the 26 apprentices recruited externally, 21 (81%) were male, while five (19%) were female.
- 26 apprenticeships are due to complete in the above period.

> **From designing programmes to mentoring and supporting our graduates and apprentices day to day, this work has made Southern Water a finalist at the British Training Awards 2026 in the Early Careers Initiative of the Year category.”**
> Richard Griffiths, People Development Manager

> **Our Licence to Lead three-day programme enables our people managers to use new tools and techniques with their teams to enhance engagement and performance.”**
> Natacha Palmer, Development Specialist (Leadership).

Talent and development

A total of 520 people went through our leadership programme last year, delivered through 45 workshops including sessions at Testwood, Chatham, Peacehaven, Durrington, Falmer and the Isle of Wight.

In October 2025, we launched Licence to Lead, our three-day management development programme. Fully integrated into the programme, is a new set of leadership standards which encourage all managers to:

- Drive and own results.
- Forward plan and anticipate risks.
- Take care of self and others.
- Learn from failure.
- Grow and support diverse talent.

The leadership standards also play a prominent role in our new performance management approach, IMPACT, setting clear expectations for behaviours across the organisation.

The IMPACT performance model centres on the introduction of a minimum performance standard and a simplified four-point scale for rating colleague contributions throughout the year, encouraging richer and more impactful conversations.

Case study

‘It motivates me to work in a company that's protecting the environment’

Chris is currently on a Level 3 Maintenance (Electromechanical) apprenticeship

“Southern Water plays a vital role in the community that my family and I live in, and I feel that doing an apprenticeship here is a great way to learn real engineering skills while having a role that matters.

“It’s not just theory but working on real mechanical and electrical systems in real-world scenarios that have an impact.

“Every day is fun and different which is great – it keeps you motivated and driven to succeed.

“I’ve learnt so much and studied different disciplines including mechanical maintenance, where we disassembled and reassembled a car engine and gear box, and electronics which involved soldering components and creating circuit boards to power motors.

“Mine is a step-by-step journey growing from a simple interest in electrics into a full mechanical and electrical engineering apprenticeship, supported by structured training and onsite experience.

“It really motivates me to work in a company that’s investing heavily in upgrading their sites, improving reliability and protecting the environment.”

Christopher Taylor
Southern Water Apprentice

Links to values

Improving our performance ctd

Enabling our people to drive change and performance

A look ahead

Over the next year we want to ensure we create an inclusive and thriving workplace. We've recently put in place an Equity, Diversity and Inclusion lead to support the business in this mission, and the ERGs will work in collaboration to make sure that we continue to make a positive impact for all our people and also the communities we serve.

In 2026, we plan to welcome up to an additional 60 graduates and over 30 apprentices, with a clear focus on increasing the proportion of women within these early career pathways. By actively widening our outreach, refining our selection processes, and partnering with teams across the business, we remain committed to building a more balanced talent pipeline and ensuring that more women join and thrive within our organisation.

In the area of wellbeing, we're supporting our colleagues by:

- Expanding mental health support through the Employee Assistance Programme (EAP), enabling people with complex needs to access specialist support.
- Strengthening manager and leadership role modelling through training and continuing the psychological safety learning for leaders and managers.
- Using ROI (return on investment) to pinpoint gaps and find opportunities for continuous improvement areas in wellbeing.

We'll continue to measure and take action to increase engagement analysing the results of the last full engagement survey completed in May 2026.

In Talent, Leadership and Capability we'll carry on supporting our organisation and our colleagues by:

- Broadening the depth of our succession planning.
- Focusing on key areas of capability risk across the organisation and creating targeted learning pathways to address skills gaps.
- Offering an extended suite of leadership development tools including the launch of our Aspiring Managers programme.
- Ensuring fair and inclusive selection methodology to ensure that we recruit the best talent for our organisation.

Improving our performance ctd

Climate-related financial disclosures

These climate-related financial disclosures fully comply with the requirements of the Companies Act 2006 sections 414C, 414CA and 414CB. We've considered climate change matters in the preparation of our financial statements on page 208.

To support readers, the table indicates the locations of disclosures in this report, and sources that provide more information.

Read more about Board oversight of climate-related initiatives on **pages 137 to 185**

Index table for Companies Act disclosures (disclosure level: full compliance)

Companies Act disclosure	Pages in this report	Reference to other information sources
Governance		
(a) a description of the company's governance arrangements in relation to assessing and managing climate-related risks and opportunities.	Strategic Report • CFD: Governance 68 • Delivering value to our stakeholders 12 to 23 Financial performance • Risk oversight and governance 110 • Principal risks and uncertainties 112 Corporate governance • Board of directors 133 • Remuneration policy applicable in year (unaudited) 168	On our website: • Board of directors and the Terms of Reference of its committees
Risk management		
(b) a description of how the company identifies, assesses and manages climate-related risks and opportunities.	Strategic Report • CFD: Risk management 71 • Risk management approach 107	On our website: • Business Plan 2025–30: SRN02 Long-Term Delivery Strategy; SRN05 Wholesale Water; SRN06 Wholesale Wastewater; SRN36 Bioresources Strategy • Final Draft Water Resources Management Plan • Drainage and Wastewater Management Plan • Climate Change Adaptation Report 2024.
(c) a description of how processes for identifying, assessing and managing risks are integrated into the company's overall risk management process.		
Strategy		
(d) a description of the principal climate-related risks and opportunities arising in connection with the company's operations, and the time periods to which those risks and opportunities are addressed.	Strategic Report • CFD: Strategy 70	On our website: • Business Plan 2025–30: SRN02 Long-Term Delivery Strategy; SRN05 Wholesale Water; SRN06 Wholesale Wastewater; SRN36 Bioresources Strategy • Final Draft Water Resources Management Plan • Drainage and Wastewater Management Plan • Climate Change Adaptation Report 2024.
(e) a description of the actual and potential impacts of the principal climate-related risks and opportunities on the company's business model and strategy.	Financial performance • Notes to financial statements: Note 2 Climate change 209	
(f) an analysis of the resilience of the company's business model and strategy, taking into consideration different climate-related scenarios.		
Metrics and targets		
(g) a description of the targets used to manage climate-related risks; how to realise climate-related opportunities; and of performance against those targets.	Strategic Report • CFD: Metrics and targets 79 • Streamlined Energy and Carbon Report (SECR) 84 • Our performance 24 to 66	On our website: • Annual Performance Report 2026 • Business Plan 2025–30: SRN46 Net Zero Carbon.
(h) a description of the key performance indicators used by the company to manage climate-related risks; how to realise climate-related opportunities; and of the calculations on which those KPIs are based.		

Improving our performance ctd

Climate-related governance

Board oversight

Our Board has oversight of climate-related risks and opportunities. It also scrutinises leadership's identification, assessment and management of these risks and opportunities. The Board continues to monitor performance of the company's objectives and long-term plans, receiving and reviewing updates from the Executive for discussion on topics such as risk and programme delivery.

This year the Board discussed climate-related matters on 13 occasions; covering aspects including strategic water resource management plans, drought risks and our Net Zero Plan.

Climate change is one of 14 principal risks, part of our Enterprise Risk Management Framework, and the Board receives and considers updates on risk profiles and emerging risks. Our CEO is responsible for managing the business and the implementation of its plans and policies, and is accountable to the Board for climate-related matters.

Specific matters brought to the Board by the Executive to support decision-making processes included: a water resources update, solar power purchase agreement (PPA) and an update on matters related to the Water Resources Management Plan (WRMP).

The Board is supported by the Audit Committee, which has oversight of reporting, internal controls and management arrangements and compliance. It considered climate change-related issues concerning assurance of a major strategic resource project, annual disclosure requirements, and risk assessment and control processes. It receives and considers updates on risk, which includes climate-related matters, at each of its meetings.

Executive management

The Executive has day-to-day accountability for climate-related issues, and the Executive Committee meets monthly to review performance, plans and compliance. This year the committee discussed our strategic water resource plans, Drought Plan, Net Zero Plan and development of the Environment Strategy. It also approved solar energy plans and our Energy Policy.

The Executive sponsors, and is supported by, several committees, steering groups and Senior Leadership team-delegated groups. The Business Deep Dive meets for detailed review and management of business-critical topics. Together, meetings this year discussed risk management, our Pollution Incident Reduction Plan, environmental performance, the meter upgrade programme and major strategic resource projects.

The Environment Steering Group meets monthly to make sure that our environment strategy is delivered. This year it received and discussed our Net Zero Plan, Drought Plan, our Drainage and Wastewater Management Plans, Water Resource Management Plan and bioresources programme.

Senior management and all colleagues

Senior management and colleagues are incentivised to deliver on our ambitions in relation to climate-related issues. Objectives and key results apply to all colleagues, including executive management, and are based on a range of targets, with performance-related remuneration measures focused on climate-related matters including leakage, flooding, pollution incidents and self-generated energy from biogas.

Stakeholder scrutiny

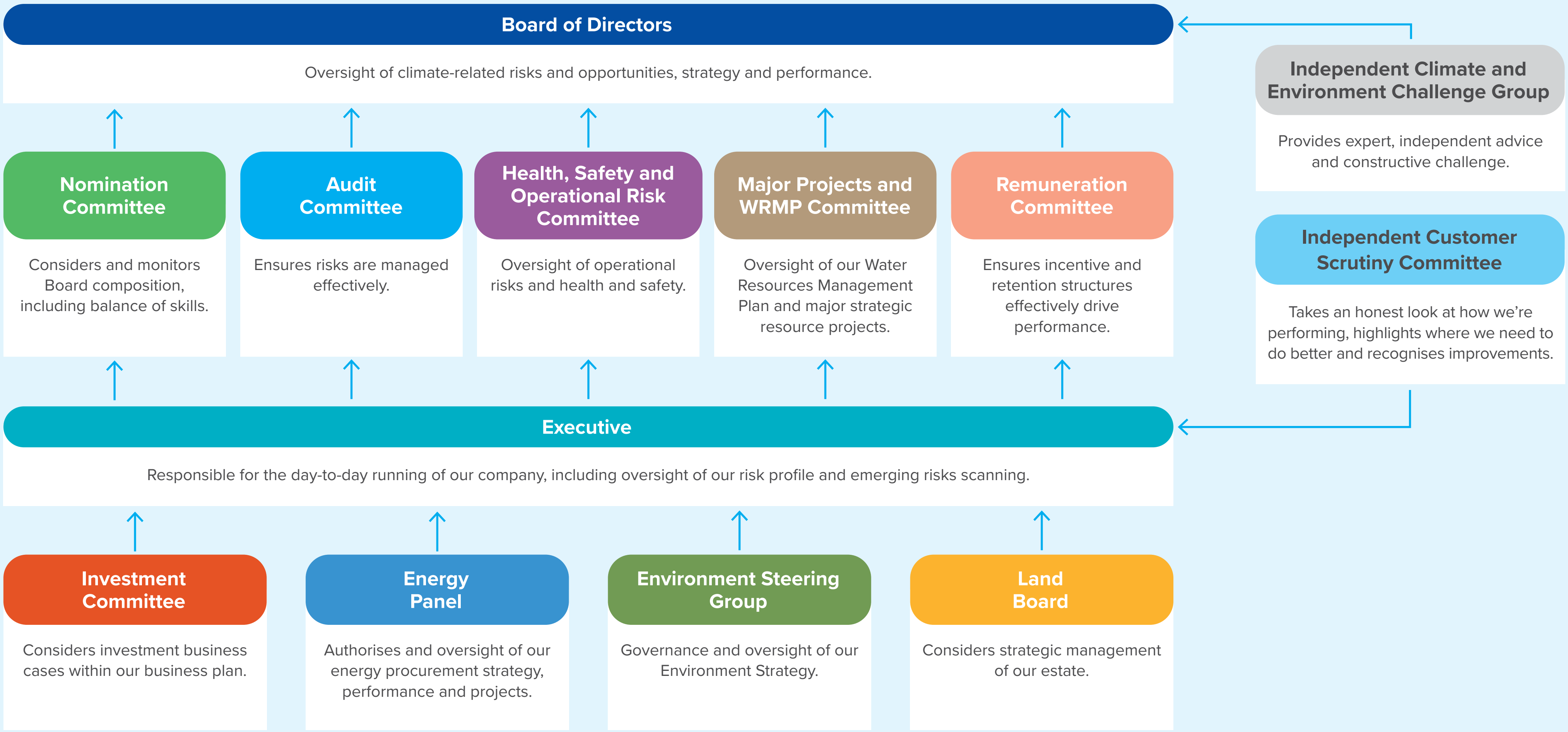
We engage with stakeholders to understand their expectations on climate-related issues. This includes our Independent Climate and Environment Challenge Group and our Independent Customer Scrutiny Committee. These groups are attended by members of the Executive and senior managers. The former received briefings and discussed our Environment Strategy, drought risk and plans, the biodiversity performance commitment and our Net Zero Plan. The latter discussed sustainable drainage and urbanisation, water efficiency, education and environmental performance including pollutions. It held the CEO to account on questions around company performance and scrutinised the Board on its commitment to improve services for customers and the environment. In April and June 2026 committee sessions scrutinised the Executive team on wastewater, pollutions and building trust with our customers.

Read more about how our plans undergo Independent Review on **page 23**

Improving our performance ctd

Climate-related governance ctd

How information flows



Improving our performance ctd

Climate-related strategy

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

Climate change is one of our principal risks, reflecting the scale, persistence and materiality of its impacts on our ability to deliver resilient services for customers and protect the environment, now and into the long term. We're already experiencing the effects of a changing climate, and these impacts are expected to increase in frequency and severity. As a result, climate change considerations are embedded within our strategic decision making, business planning and asset management processes.

Our approach focuses on both adaptation to, and mitigation of, climate change. We identify, assess and manage climate-related physical and transition risks and opportunities to ensure the ongoing resilience of our services, infrastructure and ecosystems.

The most significant climate-related risks and opportunities for our business relate to:

- Water resources and supply – our ability to provide customers with a secure, reliable and high-quality supply of water.
- Wastewater services – our ability to make sure that wastewater infrastructure has sufficient capacity and resilience to collect, treat and effectively remove wastewater under changing climate conditions.

In addition to service resilience, climate change has important implications for our ability to protect and enhance natural capital across the region. Our strategy recognises the interdependencies between climate risks, ecosystems and service delivery, and seeks to deliver outcomes that support biodiversity, catchment resilience and ecosystem services.

Climate change also presents strategic opportunities, such as through the delivery of our Bioresources Strategy and the application of circular economy principles. These include recovering value from wastewater, reducing emissions, minimising waste and making more efficient use of energy, materials and nutrients. By doing so, we can help mitigate climate impacts while generating environmental and societal benefits.

Our business planning reflects the fact that climate change already affects our assets, operations and customers, and that these impacts will intensify. Climate risks and opportunities are considered across a suite of long-term plans. These plans strengthen our long-term delivery strategy and our ability to respond flexibly to future climate uncertainty.

Our strategies and plans that consider climate change resilience:

Our Business Plan 2025–30 was informed by:

- Water Resources Management Plan
- Drainage and Wastewater Management Plans
- Drought Plan
- Bioresources Strategy
- Pollution Incident Reduction Plans
- Climate Change Adaptation Report 2024.

Other plans, existing or in development are our Environment Strategy, Biodiversity Net Gain Strategy and Energy Policy.

Case study

Bioresources Strategy – opportunities

As part of our Bioresources Strategy, we've planned to install the Ephyra process at our largest sludge treatment centre in Havant, Hampshire, with operations starting in 2028.

Ephyra improves sludge treatment performance and cuts carbon emissions. It breaks down around 20% more organic material than conventional anaerobic digestion and produces about 15–20% more biogas. Its high-rate plug-flow design drives this improvement by increasing how quickly and effectively the digestion process works.

By generating more biogas, we can produce more renewable energy on site. This reduces our reliance on fossil fuels and lowers overall emissions. The process also uses less energy and fewer chemicals, which further reduces the carbon impact of our operation.

Ephyra produces a more stable digestate (treated sludge). This matters because untreated or poorly treated sludge can continue to release methane during storage or land application. By improving stability, we cut the risk of these emissions. This is important because methane is a powerful greenhouse gas.

The process also delivers slightly drier sludge, improving dryness by around 1–3%. This reduces the need for chemical conditioning after digestion, particularly lime. Because lime production is energy-intensive and carbon-heavy, using less of it lowers indirect emissions.

By introducing Ephyra at Havant, we will recover more energy, reduce chemical use, and cut emissions across the sludge treatment process. This investment supports a lower-carbon, more efficient bioresources service.

Links to values

Improving our performance ctd

Climate-related risks and opportunities

As one of our principal risks, we apply an ongoing, iterative process to assess and manage the range of risks and opportunities presented by climate change. These are typically considered as part of a broader range of factors, to understand how they interconnect and impact our business. Its impacts also have the potential to impact several other risks. These are summarised below:

Acute and chronic physical risks and opportunities	**Water** Our ability to provide customers with access to a supply of high-quality drinking water now and in the future. **Link to principal risks:** 1 2 5	**Wastewater** Our ability to ensure the capacity and resilience of our wastewater assets to effectively remove and treat wastewater. **Link to principal risks:** 1 2 4	**Natural capital** Our ability to protect and enhance natural capital across our region. **Link to principal risks:** 2 4 5
Transition risks	Our ability to improve our resilience to climate change including changes in policy, regulation and markets, and in support of our relationships and reputation with our customers and stakeholders.		**Link to principal risks:** 6 8 11 12
Transition opportunities	Our ability to achieve benefits from the transition to a low-carbon economy.		**Link to principal risks:** 7 8 14

The following pages set out our short-, medium- and long-term climate-related risks and opportunities, identified through our enterprise risk management processes and business planning. The tables reference published documents that provide further detail on our climate risk management processes and plans.

Acute and chronic physical risks and opportunities

Key risks and opportunities	Drivers and timeframe	Potential business impacts	Mitigating risks
WATER: Our ability to provide customers with access to a supply of high-quality water now and in the future.			
Reduced water availability and higher demand.	Chronic higher temperatures, with drier and hotter summers, and an increased frequency of drought. Short term / Medium term / Long term	Accelerated asset deterioration. Further investment in infrastructure and incident management. Supply of water fails to meet demand – service disruption, with the potential to lead to customer payments and/or penalties. Additional treatment costs required to maintain water quality. Financial penalty and reward position. Elevated risk to health, safety and wellbeing of colleagues and the public due to elevated pressures to respond, and increased use of watercourses to cool off. Potential for health and safety penalties and reputational damage.	• Comprehensive modelling for five-year business plans and capital investment programme. • Water Resources Management Plan (WRMP). • Operational resilience framework. • Drought Plan. • Major strategic resource projects. • Working with neighbouring water companies. • Health, safety, security, and wellbeing strategy. • Incident preparedness and management planning. • Water-saving customer engagement programme. • Community engagement programme raising awareness of water saving. • Partnerships with farmers, landowners and environmental groups to protect water sources from over-abstraction and pollution.
Impacts on infrastructure and increased risks of contamination.	Increase in number and severity of storms and floods e.g. runoff polluting water sources, greater agricultural land runoff. Short term / Medium term / Long term		
	Sea level rise. Long term		
Reduced water quality.	Higher temperatures increasing growth of harmful algae and bacteria. Short term / Medium term / Long term		

Key

1 Asset and Infrastructure Resilience
2 Climate Change
3 Drinking Water Quality
4 Environment and Public Health
5 Water Resources and Drought
6 Delivery
7 Transformation
8 Financial resilience and funding
9 Digital and cyber resilience
10 Digital and cyber resilience
11 Legal Compliance
12 People
13 Regulatory environment reform
14 Reputation and Transparency

Improving our performance ctd

Climate-related risks and opportunities ctd

Key

Short term (Now to 5 years) Medium term (5-10 years) Long term (10+ years)

Key risks and opportunities	Drivers and timeframe	Potential business impacts	Mitigating risks
WASTEWATER: Our ability to ensure the capacity and resilience of our wastewater assets to effectively remove and treat wastewater.			
Increase in volumes of water entering the system.	Increased intensity and frequency of storms. Short term, Medium term, Long term	Service disruption. Accelerated asset deterioration. Additional processes, resources and storage for sludge treatment and storage. Financial penalty and reward position. Further investment in infrastructure and incident management. Pollution event fines or other penalties.	• Drainage and Wastewater Management Plans. • Operational resilience planning. • Pollution Incident Reduction Plans. • Clean Rivers and Seas Task Force. • Sewer level monitor installation. • Asset maintenance including condition surveys. • Energy strategy and power and heat resilience schemes. • Incident preparedness and management planning. • Fat, Oil, Grease (FOG) and Unflushables team raising awareness.
Blockages, internal and external flooding and subsidence.	Drought/reduction in rainfall and temperature increases. Medium term, Long term		
Power outages affecting the functioning of wastewater treatment facilities.	National Grid power outages. Short term, Medium term, Long term		
Flooding of assets.	Sea level rise and river flooding. Long term		
Bioresources risks including increased sludge volumes, more concentrated sludge, and accelerated biological activity at treatment sites.	Increased rainfall and temperature increases. Long term		
Loss of landbank for sludge application.	Seasonal changes altering consumer product preferences and therefore crop selection and land use. Medium term, Long term	Increased operational and disposal costs. Compliance risks. Increase in GHG emissions due to alternative disposal arrangements. Reputational risks.	• Bioresources Strategy. • Energy Strategy. • Policy Advisory Group monitoring policy. • Engagement with regulators, farmers and industry bodies.
NATURAL CAPITAL: Our ability to protect and enhance natural capital across our region.			
Increase in pollution of rivers and seas, soil erosion and degradation.	Increased run-off and higher volumes of water. Medium term, Long term	Pollution event fines or other penalties. Financial penalty and reward position. Unmet stakeholder expectations. Increased investment inc. in new infrastructure.	• Catchment resilience activities with farmers. • Biodiversity Net Gain Strategy. • Final Draft Water Resources Management Plan. • Major strategic resource projects. • Water Industry National Environment Programme (WINEP) plans.
Impacts on ecosystems, habitats and species.	Drought/reductions in water, changes in water cycles and temperature patterns. Medium term, Long term		
Tightening requirements in abstraction licences and discharge permits.	Protection of the environment. Short term, Medium term, Long term		

Improving our performance ctd

Climate-related risks and opportunities ctd

Key
Short term (Now to 5 years) Medium term (5-10 years) Long term (10+ years)

Transition risks

Key risks and opportunities	Drivers and timeframe	Potential business impacts	Mitigating risks
Our ability to improve our resilience to climate change including changes in policy, regulation and markets, and in support of our relationships and reputation with our customers and stakeholders.			
Operational risks and opportunities include changes to skills and requirements. Example: a shift to hydrogen production via hydrolysis creates additional demand.	Emerging technologies. Medium term Long term	Investment in new and emerging technologies, skills development and new ways of working. Examples include technologies to support the reduction of process GHG emissions.	• Research and innovation teams. • Supplier relationship management. • Partnerships and stakeholder management. • Horizon scanning with industry networks.
Cost increases, additional taxation, decarbonisation of fuel sources (market risks). Example: increasing reliance on grid increases intermittency leading to lower plant resilience, growth and price volatility risks.	Changes in energy and smart buildings markets and management. Medium term	Increased costs inc. investment in new infrastructure. Increased focus on self-generation and energy independence. Examples include investment to move from gas to electric-sourced building heating.	• Energy Strategy. • Supplier relationship management. • Energy procurement Risk Management Strategy.
Changes including decarbonisation of fuel and development of no, and low, carbon fuel infrastructure. Example: diesel ban from 2035.	Changes in transport market and management. Medium term	Investment in new, low and no carbon fleet. Investments and operational adjustments considering alternative fueling/charging infrastructure.	• Fleet Replacement Strategy.
Widespread delays and disruption to services related to services or materials provided by others.	Neighbouring infrastructure: other cascading failures including risks to bridges, roads, pipelines. Medium term	Customer payments and/or penalty costs.	• Partnerships with suppliers and other sectors.

Improving our performance ctd
Climate-related risks and opportunities ctd

Key
Short term (Now to 5 years) Medium term (5-10 years) Long term (10+ years)

Transition opportunities

Key risks and opportunities	Drivers and timeframe	Potential business impacts	Mitigating risks
Our ability to achieve benefits from the transition to a low-carbon economy.			
Appliance water-efficiency changes driving changes in demand for services.	Policy changes. Medium term Long term	Reduction in per capital consumption.	• Forecasts modelled into our business plan. • Sector engagement e.g. Water Resources South East.
Alternative markets for sludge, beyond agriculture.	Policy changes. Consumer preferences. Medium term Long term	New markets for sludge (or its by-products e.g. ash, char). Increased resilience of sludge management. Potential cost stability and value recovery.	• Engagement with regulators, technology providers and market partners. • Inclusion of alternative sludge pathways in business plan.
Reduction in GHG emissions from fugitive wastewater emissions.	Regulatory change – Industrial Emissions Directive. Short term Medium term	Prevention of further increases in Scope 1 GHG emissions. Reduction in fugitive emissions. Financial penalty and reward position.	• Asset improvements included in business plan. • Net Zero Plan.
Renewable and no/low carbon energy generation. Example: ammonia recovery from wastewater sludge.	Policy changes. Net zero policy. Short term Medium term Long term	Energy security. Potential cost stability and value recovery. GHG emission reductions.	• Energy Strategy. • Net Zero Plan.

Improving our performance ctd

Climate-related risks and opportunities ctd

Financial impact and planning

Note 2 of the Notes to Financial Statements includes critical accounting judgments related to climate change in the context of the assessments described here. See page 208.

Our Net Zero Transition Plan

This year we published our updated Net Zero Plan. The commitments in this plan are an integral part of our Business Plan 2025–30. We've committed to achieve and maintain net zero carbon by 2050, with an interim target of a 35% reduction in Scope 1 and 2 GHG emissions by 2030.

Our strategy is to continually improve our understanding of where emissions come from and how this is likely to change; remaining adaptable to evolving regulation, policy and macroeconomic shifts; and finally identifying and establishing activities to speed up the journey to net zero through the carbon reduction hierarchy. However, we continue to believe best value to our customers will not be served by purchasing external offsets for residual emissions. Our plan comprises six focus areas and three enabling pillars.

Our carbon reduction hierarchy

Reduce and avoid
Through efficiency savings

↓

Replace
Use alternative solutions that are lower carbon

↓

Remove
Through sequestration on our estate

↓

Offset
Use responsible carbon offsetting for any residual emissions

How we'll get there

Renewable energy
Increase electricity self-generation to 25% of consumption by 2030 by upgrading our CHP engines and developing our solar photovoltaic (PV) portfolio.

Operational efficiency
Reduce leakage and water demand in line with our Business Plan 2025–30.
Optimise chemical use, modernise assets and improve our energy efficiency, targeting 12 GWh of annual savings.

Process emissions monitoring and bioresources strategy
Invest in process emissions monitoring (e.g. nitrous oxide trials) and advanced sludge treatment to reduce fugitive emissions from sludge treatment.

Transport
Transition at least 40% of our fleet to electric vehicles by 2030.

Capital carbon
Apply publicly available specification (PAS) 2080 principles to limit whole-life carbon impact, supported by better data, supply chain collaboration and governance.

Residual emissions
Enhance natural sequestration through nature-based solutions and explore credible offset options.

Our enabling pillars

Tools and processes
The right tools and processes to understand the challenge and support robust decision making.

People and culture
Leveraging our people's skills and embedding a strong carbon-conscious culture.

Collaboration and innovation
Working across teams and with partners to tackle complex, hard-to-abate emissions where new solutions are needed.

Improving our performance ctd
Climate-related risks and opportunities ctd

Energy
Emissions from energy include the impact of burning fossil fuels for heat or electricity generation (Scope 1), the consumption of electricity from the national grid (Scope 2) and the associated losses from these activities (Scope 3). To reduce these emissions, we're taking a two-pronged approach; both increasing our generation of renewable energy and reducing our use. Our approach to energy management is embodied in our 'Energy for Water' campaign, built around four strategic pillars: make more, use less, reduce costs and foster a culture of shared responsibility.

We also consider the decarbonisation of the UK grid – this will have a positive effect on any electricity we use but will reduce the carbon benefit of renewable generation and energy-saving actions.

Renewable generation
Increasing our supply of self-generated electricity will reduce emissions, save costs and reduce our exposure to fluctuating energy prices. We've a target to increase self-generation from 12.5% (2022) to 25% (2030). To achieve this, we're investing in two separate areas: new combined heat and power (CHP) engines to generate more clean energy from the waste that we process; and increasing our solar photovoltaic (PV) capacity from 2 MW across three sites to 6.7 MW across six sites by 2027.

Saving energy
We continue to look for energy saving opportunities and we put them into action by the following: Elimination of Waste project to identify waste and inefficiency across our sites, networks and operations, and taking part in the mandatory Energy Savings Opportunity Scheme (ESOS) to identify cost-effective measures to save energy.

Reducing our use of fossil fuels
We use natural gas to heat our facilities. We also use gas in our wastewater treatment works to provide additional heat for digestion, above what can be supplied by our own supply of biogas. We plan to continue to reduce our reliance on fossil fuels by changing out our gas boilers for heat pumps, and through additional heat and energy generation through our bioresource strategy. However, we understand that we may still need to burn fossil fuels for use in back-up generators and for residual heat demand in our bioresource plants. As such, our Energy team continues to review options for low-carbon fuels, such as hydrogen. However, these have so far been ruled out on a cost-benefit basis.

Water treatment and supply
We use chemicals to treat drinking water to ensure it is safe for consumption. Our recent study on chemicals highlighted how leakage reduction will mitigate any increase in chemical emissions associated with water treatment and supply.

We forecast that emissions from chemical use in water treatment will reduce by 2030; a benefit of the delivery of our plans to reduce leakage and consumption. Our research indicates that the emissions factors of chemicals for water may decrease as national and international grids decarbonise and production becomes less emissions intensive.

We will apply the study results to optimise chemical dosing at our largest sites and at new schemes as they are delivered through the business plan period.

Wastewater treatment
Emissions from the treatment of wastewater and the processing of associated sludge products are, and will continue to be, the largest source from operations. A significant portion of these emissions come from gases released during biological treatment and they have a higher global warming potential than carbon dioxide. This makes them particularly harmful for the environment.

In 2023, we commissioned a detailed study to identify process emission 'hotspots' and develop actions to reduce them. Since then, we have begun trials with nitrous dioxide sensors at selected sites to build a baseline and develop machine-learning models to optimise treatment processes and reduce emissions, without compromising water quality.

Treating wastewater typically uses significant amounts of electricity for aeration, pumping and powering other supporting activities. As part of our energy strategy, we've identified equipment at our wastewater treatment facilities that require upgrading or replacement, offering energy savings. This has been done through our Elimination of Waste programme, and we expect the upgrades to significantly contribute towards our 2030 energy saving target. We expect the emissions from chemicals used in wastewater treatment to increase as tighter nutrient removal standards come into effect. To reduce this risk, we plan to target our highest-impact sites, reviewing both chemical dosing and chemical usage alternatives.

Improving our performance ctd

Climate-related risks and opportunities ctd

Bioresources Strategy

When we treat and dispose of sludge – a byproduct of the water treatment process – emissions are created. However, we also generate renewable heat and power from processing this sludge, which is used to power our treatment processes. This means our Bioresources Strategy plays a significant role in reducing our overall emissions.

We currently operate 15 sludge treatment centres (STCs), using conventional mesophilic anaerobic digestion (MAD). Over the coming investment periods, we plan to consolidate these into potentially seven larger sites with advanced anaerobic digestion (AAD) processes. AAD releases around half the emissions of MAD under standard accounting methods, produces more biogas, and reduces final sludge volumes, helping to cut our Scope 1 emissions by 16% annually, once fully delivered.

Transport

Emissions from transport supporting the day-to-day operational activity of our sites primarily come from tankering waste products, business travel by colleagues and contractors. We're taking action to address all sources by upgrading our fleet to low-emission vehicles and working with our suppliers to make sure they're doing the same.

Embedded emissions

Emissions from our construction schemes are a significant part of our overall carbon footprint and are expected to continue as we deliver new infrastructure to meet regulatory requirements and improve services for our customers. We're taking key steps to limit this impact through our PAS 2080 Action Plan. Our plan covers five key themes for improvement that will make sure that we're aligned with the PAS 2080 standard by the beginning of the next five-year investment period in 2030.

Residual emissions

We know that our current actions and transition of the wider economy towards net zero could be insufficient to reach and maintain a net balance of emissions that reaches zero. Therefore, we recognise and continue to explore the role of natural sequestration and responsibly sourced carbon offsets to reach our 2050 target.

The resilience of our strategy, considering different climate-related scenarios

We remain committed to providing a safe and secure water supply for customers and protecting the environment, recognising that resilient water and wastewater services are critical to addressing increasing pressures and long-term sector challenges. Our Business Plan 2025–30 focuses on delivering cost effective, quick win solutions to address the most pressing impacts on customers and the environment. The submitted plan emphasises strengthening operational resilience through programmes that improve asset resistance, introduce redundancy and enhance service reliability.

Adaptive planning has been applied across our long-term business plans, including the Long-Term Delivery Strategy (LTDS), DWMP and WRMP, with consideration of climate change scenarios. Operational resilience assessments incorporated scenario analysis using RCP8.5 as an adverse scenario for subsidence, saline intrusion and heat stress, and RCP2.6 as a benign scenario for coastal flooding. The selection of climate change scenarios to be modelled was aligned with regulatory guidance. Sites were categorised according to whether resilience enhancements or further investigation were required, or whether further action was needed. As a result, 75 priority sites and assets were identified for inclusion in our resilience improvement programme. These assessments and scenario analyses are reviewed as required by regulators and aligned with our five-year business planning cycle.

In preparing the financial statements, the directors considered the impacts of climate change in the context of identified risks and concluded there was no material effect on financial reporting judgments or estimates. Any impacts identified through business planning are expected to arise over a longer period rather than within a single year, with no impact identified in the current reporting period.

Further information on climate-related financial considerations is provided on page 208 of the financial statements, and our approach to identifying and managing risks is set out on pages 107 to 111.

Improving our performance ctd
Climate-related risks and opportunities ctd

Identifying climate-related risks

Our approach to identifying and assessing climate-related risks is integrated within existing risk management processes, as outlined below and described in further detail on pages 107 to 111. Climate-related risks and opportunities are also embedded within our business planning processes, including the development of our five-year business plan and associated management plans, many of which are regulatory in nature. These include the Water Resources Management Plan (WRMP), Drainage and Wastewater Management Plans (DWMP), Drought Plan, Climate Change Adaptation Report, and operational resilience plans, all of which are reviewed and approved at Board level.

A range of time horizons is considered as part of our climate-related risk assessment processes, which broadly align with our established planning horizons. The risk assessment process and results reported in this Strategic Report is undertaken annually.

Short term: Now to five years	Medium term: 5-10 years	Long term: 10 years +
Business strategy approach		
Imminent risks requiring a tactical response.	Our five-year business planning cycle.	Risks related to our long-term priorities and strategy.
Our key climate-related plans and processes		
• Risk profile reviews. • Pollution Incident Reduction Plans. • Incident management plans.	• 2025–30 Business Plan. • Drought Plan: five years. • Emerging risks profile. • Climate Change Adaptation Report: five years. • Clean Rivers and Seas Plan. • Bioresources Strategy.	• DWMP: 25+ years. • WRMP: 50 years. • Major strategic resource projects.

Managing climate-related risks

Our approach to managing climate-related risks is embedded within our company-wide risk management framework. The process covers risk identification and ownership, assessment, response, and ongoing monitoring, reporting and escalation for all types and sources of climate-related risks and opportunities. Risks are owned by the relevant risk owners, reviewed by the Enterprise Risk team and moderated by the Executive Committee. Risk responses consider our ability to mitigate, transfer, accept or control risks and, where possible, to capitalise on opportunities, with responses proportionate to the type and complexity of risk across different time horizons, reflecting long-term uncertainty and risk characteristics.

Our risk appetite defines the level of risk and opportunity we are willing to accept, aligned with our 14 principal risks. Climate change is treated as a principal risk, which has a 'moderate' risk appetite. Climate change also has the potential to affect other key risks, most notably our ability to provide customers with access to high-quality drinking water, both now and in the future, and the capacity and resilience of wastewater assets to remove and treat wastewater effectively. Principal risks are monitored by the Executive Committee, reported to the Audit Committee, and ultimately overseen by the Board.

We also assess new, changing and emerging risks that may affect the achievement of our long-term objectives. These are considered using a PESTLE framework across short-, medium- and long-term time horizons, with consideration of the speed of onset.

Further detail on emerging risks is provided on page 111. Engagement with customers and other stakeholders forms an important part of climate-related risk management, supporting the development of plans including the WRMP.

We recognise the importance of supply chain partners in delivering our plans and our reliance on them. We're a member of the Supply Chain Sustainability School, and during the year implemented sustainability expectations and requirements within significant frameworks supporting delivery of our Business Plan 2025–30. This includes support for our decarbonisation and natural capital activities.

Integrating climate-related risk into overall risk strategy

We operate a risk management process that forms a core part of our governance and internal control framework and supports improved decision making through a clearer understanding of risks across the business, including climate-related risks. The process identifies significant business risks and classifies them using an impact scale ranging from low to major. Risks are assessed against defined criteria covering business disruption and customer experience; brand, reputation, legal and regulatory considerations; people, health, safety, environmental and security impacts; and financial impacts, both within the year and over the asset or risk lifetime.

Improving our performance ctd

Climate-related metrics and targets

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

A range of metrics support us in monitoring and managing our climate-related risks, and other risks such as population growth. We also report on our carbon emissions and progress on our decarbonisation targets, in alignment with regulatory requirements. The following table summarises the key metrics we use. Further information on our performance can be found in earlier sections of this report and in our Annual Performance Report.

			Performance summary		
Identified risks and opportunities	2025–26 Target	Metrics	2024–25	2025–26	
Physical risks and opportunities – water Our ability to provide customers with access to a supply of high-quality drinking water now and in the future.	Leakage: 102.2	Megalitres per day (Ml/d)	109.9	**101.1**	Read more on **page 44**
	Per capita consumption (three-year rolling average): 125.9	Litres per person, per day (l/p/d)	126.7	**126.1**	Read more on **page 45**
	Business demand (water delivered): 106.9	Megalitres per day (Ml/d)	105.3	**104.9**	Read more on **page 45**
	Operational GHG emissions (water): 51,737	* Tonnes of greenhouse gas emissions, carbon dioxide equivalent (CO_2e)	50,833	**60,067**	Read more in our Annual Performance Report 2026
Physical risks and opportunities – wastewater Our ability to ensure the capacity and resilience of our wastewater assets to effectively remove and treat wastewater.	Internal sewer flooding: 1.54	Number of flooding incidents per 10,000 connections	1.34	**1.88**	Read more on **page 33**
	External sewer flooding: 17.37	Number of flooding incidents per 10,000 connections	14.73	**12.04**	Read more on **page 34**
	Pollution incidents: 25.02	Number of category 1-3 pollution incidents per 10,000km of sewers categorised 1-3	67.71	**63.93**	Read more on **page 31**
	Storm overflows: 17.99	Average number of times storm overflows have spilled in the year	36.91	**21.11**	Read more on **page 35**
	Operational GHG emissions (wastewater): 175,142	* Tonnes of greenhouse gas emissions, carbon dioxide equivalent (CO_2e)	200,566	**175,620**	Read more in our Annual Performance Report 2026

* Per Ofwat definition.

Improving our performance ctd

Climate-related metrics and targets ctd

Identified risks and opportunities	2025–26 Target	Metrics	Performance summary 2024–25	Performance summary 2025–26	
Physical risks – natural capital Our ability to protect and enhance natural capital across our region.	Biodiversity: 0.00	Biodiversity units	0.00	**0**	Read more on **page 39**
Transition risks and opportunities Our ability to improve our resilience to climate change including changes in policy, regulation and markets, and in support of our relationships and reputation with our customers and stakeholders. And to achieve benefits from the transition to a low-carbon economy.	Net Zero Transition Plan: Scope 1 and 2 greenhouse gas emissions: 35% reduction on 2022–23 baseline (152,364.06)	Tonnes of Scopes 1 and 2 greenhouse gas emissions, carbon dioxide equivalent (CO_2e) – location-based emissions	152,320.04	**290,159.74**	Read more on **page 81**
	2050 net zero emissions	Tonnes of Scopes 1,2 and 3 greenhouse gas emissions, carbon dioxide equivalent (CO_2e) – location-based emissions	494,700	**643,948.27**	Read more on **page 81**
	Increase energy generated from wastewater by 2030: 116	Gigawatts per year (GWh/yr)	72.4	**69.1**	Read more on **page 84**
	Increase electricity self-generation: 25% from year baseline	%	14.8%	**14.9%**	Read more on **page 84**
	N/A	Remuneration: Proportion of executive management remuneration linked to climate considerations	We report on remuneration in the Directors' Remuneration Report. The following 2025–26 metrics are key to our climate change resilience and are measures included in our Annual Bonus Plan (for our executive and all colleagues): drinking water quality, Environmental Performance Assessment, energy generation, and internal sewer flooding incidents.		Read more on **page 168**

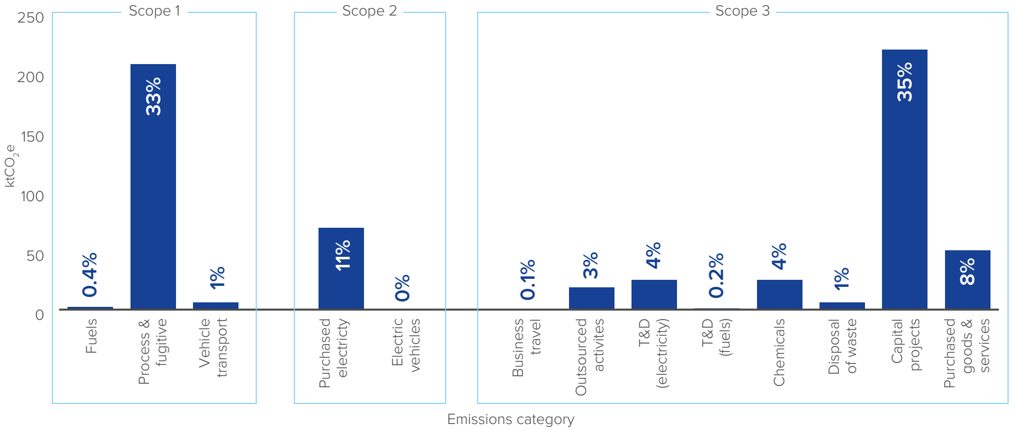
Improving our performance ctd

Climate-related metrics and targets ctd

Delivering our Net Zero Plan

Read more about out Net Zero Plan.

The previous table presents two sets of targets: our water and wastewater greenhouse gas emission targets set by our regulator, Ofwat, and our Net Zero Plan targets. The Ofwat targets are limited to operational emissions from water and wastewater. Our net zero 2050 commitment includes additional sources of emissions including operational and embedded emissions from capital projects and purchased goods and services. The below diagram presents the 2025–26 emissions, indicating sources within our Ofwat target and net zero target. The latter is presented using the categories of Scopes 1, 2 and 3 as this aligns with our Streamlined Energy and Carbon Report (SECR) on page 84. This year's reported emissions are significantly impacted by a sector update to carbon emission factors; the impacts of this on our target baseline will be reviewed this year.



Note: The chart above shows gross emissions by source in the year 2025–26, calculated using a location-based approach. T&D is transmission and distribution losses. For more on the methodologies used to calculate these emissions, see our SECR report on pages 84 to 85.

We monitor our emissions performance against our interim carbon reduction target to reduce Scope 1 and 2 emissions by 35% by 2030. Our gross Scope 1 and 2 emissions have increased 91% against the baseline year 2022–23. This is primarily due to an increase in Scope 1 emissions of 240%, compared to the baseline, resulting from an update to two emission factors in the water sector's Carbon Accounting Workbook: N20 and nitrogen load. The sector update was to align the factors with the 2019 Refinement to the 2006 Intergovernmental Panel on Climate Change (IPCC) Guidelines for National Greenhouse Gas Inventories. If the factors had not been updated, Scope 1 emissions increased by 1.5%. Scope 2 emissions decreased by 17% compared to our baseline year.

Performance against interim carbon reduction target

	tCO_2e FY 2022–23 (baseline year)	tCO_2e FY 2024–25	tCO_2e FY 2025–26	% change against baseline	% change year on year
Scope 1 emissions	62,593.15	68,424.22	**216,846.87**	239.95	216.92
Scope 2 emissions	89,770.91	83,895.82	**73,312.88**	-17.05	-12.61
Total Scopes 1 and 2 emissions	**152,364.06**	**152,320.04**	**290,159.74**	**90.68**	**90.49**

Our total emissions, our gross Scopes 1, 2 and 3 emissions, have increased by 60% compared to our baseline year 2022–23. This is largely attributed to a significant increase in Scope 1 emissions, resulting from changes in two carbon emission factors, and from greater use of chemicals in response to increased demands for water and wastewater treatment. This year we will review our targets in light of the impact of the changed carbon emission factors.

For more on our GHG emissions, see our Annual Performance Report or read the Streamlined Energy and Carbon Report on **pages 84 to 85**

Our Net Zero Plan presents the programmes for reaching our net zero commitments. The following is the progress being made.

Energy

Most of our energy is electricity, and we also use gas for heating, diesel for generation and gas and oil to support heating our anaerobic digesters. In 2025–26 we used 502,584 MWh of energy, an increase on last year. Wastewater is the largest use of energy, accounting for 67% of consumption. Most of this energy is used to power pumps and blowers.

During the year, we strengthened our approach to energy efficiency through governance, capability and targeted investment. We published an energy policy that reaffirms our commitment to 'making more and using less', maximising value through efficient operations and commercially intelligent decision making. To support delivery, we launched a dedicated Technical Energy function with a focused remit to drive opportunities from discovery through to implementation. Its initial focus was on optimisation of aeration systems and improved lighting solutions. The first tranche of projects developed through this approach has been approved, committing £350k of capital investment to deliver energy savings of 0.5 GWh per year with a return on investment of less than four years. In parallel, we delivered a targeted reduction in energy consumption at two major wastewater treatment works, achieving savings of 200 MWh per month through asset optimisation and streamlined process control, with a further three sites shortlisted representing a combined opportunity of approximately 500 MWh per month in 2026–27.

Improving our performance ctd

Climate-related metrics and targets ctd

We continued to invest in systems and data capabilities to improve energy management across our portfolio. Procurement commenced for a state of the art Energy Management and Optimisation System, which will provide comprehensive real-time monitoring, optimisation and portfolio management tools and act as a critical enabler of the transition to SMART waste and water networks through dynamic control and automation. We replaced a further 500 fiscal electricity meters –over 10% of our entire portfolio – to ensure data quality standards are met in advance of Ofgem's P478 half-hourly settlement arrangements, and increased electricity sub-metering coverage to more than 30% of total demand. Additional investment was made in power quality monitoring, both behind the meter to improve the efficiency and performance of pumps and rotating equipment, and in front of the meter to enhance resilience and energy security within the local supply network. Temperature monitoring devices were also deployed to support the development of sewage heat recovery opportunities in key catchments.

We continued to progress initiatives that support renewable energy generation and reduce reliance on fossil fuels. Procurement was completed for the first phase of our biogas-fired combined heat and power (CHP) replacement programme. When complete, this project seeks to increase electricity self-generation from 70 GWh to 110 GWh per year, equivalent to approximately 30% of annual electricity demand. Our energy policy reinforces this direction by committing to the retention, relocation or replacement of renewable assets where they may be displaced by other capital schemes. In addition, we collaborated with other water companies to explore how national water resource strategy projects, such as new reservoirs and link mains, could be made more sustainable through the integration of battery and solar technologies.

Water treatment and supply

We use chemicals to treat drinking water to ensure it is safe for consumption. Our completed study highlighted reductions in leakage will mitigate any increases in chemical emissions associated with water treatment and supply. Delivery of our business plans to reduce leakage and consumption are forecast to reduce chemical-related emissions. Our research concluded that the emissions factors of chemicals for water may decrease as national and international energy grids decarbonise and production becomes less emissions intensive. We will use the results of our research to further optimise the dosing of chemicals at our largest sites and on new schemes.

Case study

Understanding our process emissions

Process emissions are an important component of our GHG emissions, particularly where biological processes generate nitrous oxide (N_2O). Improving the measurement and validation of these emissions is critical to ensuring accurate emissions reporting, strengthening data quality, and informing future mitigation and emissions factor development.

During the reporting year, we continued to progress our Process Emissions (N_2O) Measurement and Validation project within wastewater treatment operations, with the objective of improving the robustness and reliability of emissions data. Continuous sensor-based monitoring remained active across three sites, forming the primary data source for N_2O measurement and quantification. To ensure the integrity of the dataset, the monitoring campaign was extended following data quality issues identified late in the previous year, enabling the collection of a full annual period of consistent, high-quality emissions data.

The project brought together several different parts that worked alongside each other. These included installing sensors to measure and analyse emissions, using data and AI tools to suggest process improvements, testing those suggestions to reduce issues using a real-time control system, and checking the results against what was happening in the air using atmospheric scans. The first drone-based atmospheric scan was completed during the year to support verification of ground-based sensor measurements, with a second validation scan scheduled for spring 2026. This combined approach is intended to strengthen confidence in measured emissions and improve understanding of process-related N_2O dynamics at asset level.

Ongoing work is focused on maintaining uninterrupted monitoring across all active sites and preparing for the second atmospheric validation scan. Project outputs are also being consolidated to inform our evolving approach to the emissions factor methodology, supporting a transition towards more contextual, asset-specific emission factors and contributing to wider industry understanding of wastewater process emissions.

Links to values

Improving our performance ctd

Climate-related metrics and targets ctd

Wastewater treatment

We produce biogas as a waste product from the treatment of wastewater sludge. This biogas is then converted in our CHP engines to produce clean heat and electricity which can be used on our sites or sent to the national electricity grid. In 2025–26 we generated 70.4 GWh of electricity. Of the generated electricity we consumed 60.87 GWh of this at our sites and exported the remaining 9.53 GWh back to the national grid. This is electricity that we would have otherwise needed to source from the UK grid, and heat that we would otherwise produce from burning natural gas.

On some of our sludge treatment centres, we currently produce more biogas than we have the capacity to process and as such are missing out on potential renewable energy and heat generation. By 2030, we're investing in new CHP engines to increase our capacity to process biogas, generate more clean energy, and reduce our emissions and exposure to the national grid. Design is underway and we have started the tender process for most of our sites. We estimate that this could avoid a significant amount in grid electricity each year and reduce our use of natural gas for sludge heating. In addition, it will future proof our operation as we transition our sludge treatment sites from conventional digestion to advanced digestion and produce greater volumes of biogas in the process.

We currently operate 15 sludge treatment centres (STCs) using conventional mesophilic anaerobic digestion (MAD). We plan to consolidate these into seven larger sites with advanced anaerobic digestion processes over the coming investment periods. Once complete, these new treatment centres will process 90% of our sludge throughput, while the remainder of our sludge will continue to be processed by existing conventional digesters. Advanced digestion releases almost half as few emissions (under standard accounting methodologies) as MAD and produces more biogas per tonne of sludge throughput. Additionally, it produces an enhanced sludge product and lower volumes to be put to land. This should lead to reduction in our Scope 1 emissions by 16% annually, once the full plan is realised. Furthermore, it opens the potential to upgrade biogas to biomethane for injection into the natural gas grid, displacing carbon-intensive fossil fuel gas. By 2030, our focus is on the Kent area and we are looking at converting seven existing sites into three large AAD hubs. Design is being progressed for the three hubs and we are aiming to start the tender process for a potential design-build-finance-operate and maintain contract at the end of 2026.

Under the Industrial Emissions Directive (IED) – administered by the Environment Agency (EA) – Water & Sewerage Companies (WASCs) are required to limit fugitive emissions from their operations. Through our 2025–30 investment programme we are making significant investments to cover on-site sources of fugitive emissions (e.g. uncovered sludge tanks), significantly reducing fugitive methane gases. Design is currently being progressed and so is engagement with our delivery partner to ensure an efficient overall IED delivery across our 15 sludge treatment centres.

Transport

This year, we took delivery of our first 35 fully electric vehicles and commenced an operational pilot to support the transition of our fleet. Supporting infrastructure was also developed, with electric vehicle chargers installed across 19 sites, comprising 27 chargers. These actions represent an important step in enabling the electrification of fleet operations and reducing reliance on conventional fuels.

Further measures were implemented to reduce emissions and improve resource efficiency across the commercial fleet. Solar panels installed on fleet vehicles generated 14,000 kWh of energy during the year, contributing to an estimated 77 tonnes of CO_2 savings through reduced idling time. In addition, all new vehicle livery is now 100% recyclable. Our plan is to migrate 200 company cars to ultra-low emission vehicles by the end of 2026–27.

Embedded emissions

Our Carbon Management Improvement Action Plan sets out a structured programme to strengthen whole life carbon management during the current business plan period, and to build full readiness for the Business Plan 2030–35. The plan is informed by a 2024 PAS 2080 gap assessment, which identified five key improvement themes – requirements, alignment, tools and data, governance and processes, and culture and capability. We are implementing the plan through carbon pilots.

The pilot programme aims to embed whole life carbon management into project delivery so that by the business plan for 2030–35 this is business as usual. The pilots test tools, responsibilities, training and carbon requirements with delivery teams, helping them identify and implement low-carbon solutions across both capital and operational emissions. This approach supports refinement of current carbon management processes, improves clarity for project teams, and generates lessons that can be scaled across programmes. The pilots follow structured steps – baseline setting, reduction workshops, option assessment, quantification and tracking – aligning with investment planning requirements that promote lower-carbon alternatives throughout the project lifecycle. Five high-priority scheme pilots within WINEP have been selected based on carbon impact and spend, and early engagement has identified specific candidate projects for investigation. Insights from our major strategic resource project options highlight the importance of ranking opportunities, quantifying reductions, and iterating carbon assessments as design detail improves. Ultimately, the pilots are designed to accelerate our transition toward comprehensive whole life carbon management.

Streamlined Energy and Carbon Report (SECR)

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

Targets

To mitigate the company's climate impact, it is committed to delivering net zero by 2050 and to reduce Scope 1 and 2 emissions by 35% by 2030, compared to 2022–23 emissions. This interim target accounts for forecast emissions and our planned investments in assets.

Energy efficiency in action

Our use of energy continues to be a significant source of our GHG emissions. Areas we have invested in energy efficiency this year include the following:

- Renewable energy and self-generation:
  - Completed procurement for the first phase of a biogas-fired combined heat and power (CHP) replacement programme, forecast to support around 30% of annual demand.
  - Collaborated with other water companies to explore integrating battery and solar into national water resources infrastructure.
- Energy efficiency and optimisation:
  - First project for aeration optimisation and lighting improvements approved with a sub-four-year payback period.
  - Delivered 200 MWh/month energy reductions at two major wastewater treatment sites through asset optimisation and improved process control. A further three sites shortlisted.
  - Deployed temperature monitoring devices to support development of sewage heat recovery opportunities in priority catchments.
- Energy monitoring, data and digital systems:
  - Began procurement of a state-of-the-art Energy Management and Optimisation System (EMOS).
  - Replaced 500+ fiscal electricity meters (>10% of the portfolio) to ensure data quality.
  - Increased electricity submetering coverage to >30% of total demand.

Quantification and reporting methodology

Operational greenhouse gas emissions for water and wastewater services are calculated in line with the GHG Protocol – Corporate Standard. The sector uses a bespoke Carbon Accounting Workbook, updated annually with the latest UK GHG Conversion Factors. GHG estimates for this report were prepared using Version 20 – V01.9 of the workbook (May 2026).

Embedded emissions are not included in the Carbon Accounting Workbook. Instead, we calculate them using internal estimating tools within our Capital Carbon Management Framework, which is aligned with the principles of PAS 2080:2023 on Carbon Management in Infrastructure and the Built Environment.

Operational boundary

The reporting boundary includes all operational services and aligns fully with our financial reporting boundary.

Assurance statement

Greenhouse gas and energy data are internally checked through our governance framework and independently assured in line with ISO 14064-1:2018 Greenhouse gases, as part of our annual regulatory reporting process.

Energy use

Area	2025–26 kWh	2024–25 kWh
Electricity	**483,200,072**	476,489,228
Imported	**414,110,666**	404,080,075
Self-generated	**69,089,405**	72,400,153
Gas	**1,834,445**	2,435,223
Business transport*	**17,549,585**	17,339,891
Total inc. self-generation	**502,584,102**	**496,255,342**
Total exc. self-generation	**433,494,696**	**423,855,189**

* Note: Business travel energy use is from employee purchased fuel and claimed mileage for business use.

Read more on our carbon reduction activities on **pages 75 to 77**

Streamlined Energy and Carbon Report (SECR) ctd

Greenhouse gas emissions

Scope	Description	Included in scope	2025–26 $ktCO_2e$	2024–25 $ktCO_2e$***
1	Direct emissions from activities that the company owns or controls including combustion of fuel	Gas oil use, process emissions, company transport	**216.8********	68.4
2	Indirect emissions from purchase of electricity (location-based)	Grid electricity	**73.3**	83.9
	Indirect emissions from purchase of electricity (market-based)	Grid electricity	**157.4**	92.3
3	Other indirect emissions	Business travel on public transport/ private vehicles.	**0.4**	0.3
		Outsourced activities, grid electricity transmission and distribution, purchased chemicals, waste disposal, purchased fuels: extraction, production, transmission and distribution, embedded emissions, and purchased goods and services.	**353.3**	342.07***
Total gross emissions (Scopes 1 and 2)		**Location-based approach***	**290.2**	152.3
		Market-based approach**	**374.2**	160.7
Total gross emissions (Scopes 1, 2 and 3)		**Location-based approach***	**643.9**	494.7
		Market-based approach**	**728**	503.1

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

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

*** Emissions have been restated from last year to reflect an update to Scope 3 waste emissions, following correction of data by a third-party contractor, resulting in an overall adjustment of location-based and market-based emissions of 9.88% and 8.11% respectively.

**** This year's significant increase in Scope 1 emissions is primarily due to sector-wide updates to two carbon emission factors within the Ofwat Carbon Accounting Workbook.

Energy intensity

Energy	Unit of measurement	2025–26	2024–25
All company total energy – including self-generation	kWh/ £100,000 turnover	**34,824**	51,468
All company total energy – excluding self-generation	kWh/ £100,000 turnover	**30,037**	43,959
Water services electricity – including self-generation	kWh/Ml	**781**	716
Water services electricity – excluding self-generation	kWh/Ml	**752**	692
Water services total energy – including self-generation	kWh/Ml	**819**	754
Water services total energy – excluding self-generation	kWh/Ml	**789**	730
Wastewater services electricity – including self-generation	kWh/Ml	**689**	579
Wastewater services electricity – excluding self-generation	kWh/Ml	**555**	460
Wastewater services total energy – including self-generation	kWh/Ml	**714**	600
Wastewater services total energy – excluding self-generation	kWh/Ml	**580**	481

Greenhouse gas emissions intensity

Energy	Unity of measurement	2025–26	2024–25
All company (location-based approach)	Tonnes of CO_2e from Scope 1 and 2 gross emissions per £100,000 turnover	**20.1**	15.8
All company (market-based approach)	Tonnes of CO_2e from Scope 1 and 2 gross emissions per £100,000 turnover	**25.9**	16.7
Water services	$kgCO_2e$ per megalitre (Ml) of water treated (location-based approach)	**268**	257
Water services	$kgCO_2e$ per megalitre (Ml) of water treated (market-based approach)	**444**	287
Wastewater services	$kgCO_2e$ per megalitre (Ml) of water treated (location-based approach)	**672**	362
Wastewater services	$kgCO_2e$ per megalitre (Ml) of water treated (market-based approach)	**774**	366

* Figures have been restated from last year to reflect an update to Scope 3 waste emissions, following correction of data by a third-party contractor.

Note: Turnover 2025–26 reported as £ 1,443,200 million for use in intensity metrics.

s172 statement

Effective stakeholder engagement

We engage with a variety of stakeholders through membership of panels and regular meetings, as well as simply speaking to people and visiting operational sites to make sure that the matters set out in section 172 are addressed, which are now enshrined in our Articles of Association.

Customer and communities

Our Business Plan 2025–30 is informed by customers' priorities. The Board continues to consider the impact of bill increases on customers and the affordability support offered. In addition to regular reports from management regarding customer service performance, the Board received specific updates following operational failures.

In the event of any significant loss of supply incident we speak with approximately 150 affected customers to understand our performance across four broad themes – communications during the incident, the provision of bottled water, supporting customers on the Priority Services Register (PSR) and the overall handling of the incident. The final investigation, lessons learned and recommendations following the loss of supply incident in Hampshire (Testwood WSW) were presented to the Board.

Recognising that customer and stakeholder views differ, the Board considered areas of focus that matter most to customers across our region.

Impact on the environment

The Board regularly considers environmental matters, including legislation and regulatory changes, the steps being taken to conserve and enhance biodiversity, environmental performance, compliance against the Environment Agency's (EA) Environmental Performance Assessment (EPA), water quality and environmental compliance and our Net Zero Plan.

The Board supported our annual Pollution Incident Reduction Plan (PIRP) for publication. While the Water (Special Measures) Act introduced a requirement on water companies to publish a PIRP annually, this is the seventh annual PIRP that we've published. The activity in the PIRP reflects the priority of our customers, engagement with regulators, and with operational leaders across the business, and the impact of pollution in sensitive areas like bathing waters, chalk streams and National Parks.

The EA has made a significant change to its EPA. Reporting from management ensures that the Board is able to track performance against both the new measures and on a like for like basis.

Independent challenge

The chairs of our independent challenge groups, Independent Climate and Environment Challenge Group (ICECG) and the newly formed Independent Customer Scrutiny Committee report directly to the Board. The Board heard from the chair of the committee on its work and operation.

Members of the Board and Executive have attended the committee, facing questions on environmental performance, customer service, financial resilience and governance.

Engagement with regulators

Regular meetings have continued between senior representatives of our key regulators – Ofwat, the Environment Agency and the Drinking Water Inspectorate – our senior executives and chair, and members of our Board. In the year the chair and CEO of Ofwat met with the Board and visited our work at the River Anton. The chair of the Environment Agency attended a Board meeting and visited the company's Control Centre. The Chief Inspector of the Drinking Water Inspectorate met with the Board and undertook a tour of the company's Falmer works. This direct communication enables the Board to further demonstrate the company's commitment to transparency and openness while creating an invaluable opportunity for an exchange of views on important matters that affect the sector, the environment and customers.

The Minister for Water attended a Board meeting, affording an opportunity to discuss the outcome of the Independent Water Commission and the recently enacted Water (Special Measures) Act as well as seeing first hand the work of the company at the River Anton.

Hearing from our colleagues

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

The results of the most recent engagement survey were shared with the Board. Members of the Board have continued to attend our externally led behavioural safety training. Neil Corrigall, a non-executive director, has the remit of engaging with our workforce – see page 149.

The CEO and Executive team hold regular 'Company Conversations' with colleagues which include updates on company performance and a variety of topics. These events are held at our operational sites and provide an opportunity for colleagues to express their views and ask questions. In addition, quarterly face-to-face sessions are held with all leaders and managers across the business to discuss performance and other key topics.

All senior leaders across the organisation are required to undertake visits to our operational sites, engaging in quality conversations on a range of subjects, including safety and wellbeing.

Our shareholders

Since the shareholder investment, led by Macquarie Asset Management, in the company the shareholder-nominated directors ensure that the views of the company's shareholders are communicated to the Board. In addition, the Board and executive has engaged extensively with our investors, including through various 'deep-dives' into aspects of the company and in terms of developing the company's strategy.

s172 statement ctd

Hearing from our stakeholders

In addition to Board engagement with regulators and government and engaging with the Independent Customer Scrutiny Committee on outcomes that matter to customers and communities, the Board continued to oversee the reputation strategy which seeks to improve customer and stakeholder experience.

Considering stakeholders in decision making

In setting the company's wholesale and retail charges for 2026–27, the Board considered our customers' preference for bill stability in the remainder of the AMP and the steps taken to mitigate the impact on household customers from bill increases. The Board considered the support provisions for customers including an increase to the company's Hardship Fund and the Watersure tariff. The Board also acknowledged the critical importance of publicising support and payment schemes available to help vulnerable customers.

Recognising the impact of the bill increase in 2025–26 the company undertook independent customer acceptance testing on an increase to the social tariff subsidy to enable more customers to be supported. The Board noted the outcome of the customer acceptance testing and the views of CCW when approving the charges for 2026–27.

The Board was appraised of the latest customer and stakeholder insight, segmented into geographical regions, highlighting the differing views of in-land and coastal communities.

In approving further funding for the Clean River and Seas programme, in addition to regulatory obligations, the Board noted the blend of interventions, including nature-based solutions. These green solutions involve partnership working within communities whose views help inform our approach.

Non-financial and sustainability information statement

The following statement is created to give our stakeholders a quick view of our position on key non-financial matters. It complies with the non-financial reporting requirements (NFR), contained in sections 414CA and 414CB of the Companies Act 2006.

We've used cross referencing, as appropriate, to deliver clear, concise and transparent information.

Non-financial information	Pages
Business model	15 to 18
Regional context and challenges	11
Operational performance	24 to 83
Principal risks	112 to 122

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

Our people

Our people help the company to succeed, driving the right outcomes for our customers and the environment. We value the unique skills each person brings to Southern Water, and we seek to benefit from the experiences and backgrounds of every colleague. We're committed to maintaining a safe and inclusive environment, and we strive to attract and retain diverse talent, so we remain representative of our communities. Our policies support our people and are available on our company intranet – The Hub – with key policies also available on our website.

Additional information	Pages
Business model	15 to 18
Enabling our people to drive change and performance	61 to 66
Gender pay	185
Operational performance	24 to 83
Diversity of the Board	154

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

The environment

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

Additional information	Pages
Business model	15 to 18
Operational performance	24 to 83

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

Non-financial and sustainability information statement ctd

Climate-related financial disclosures

The impacts of population growth and a changing climate create huge challenges for water companies, particularly in the South East. Improving our resilience to climate change impacts is critical for us to continue to deliver services to customers and protect the environment. We must understand the risks, so we can adapt our services. As a result, responding to climate-related issues is embedded in our planning, including our current Business Plan 2025–30, Water Resources Management Plan and Drainage and Wastewater Management Plans.

Additional information	Pages
Climate-related financial disclosures	67 to 83
Streamlined Energy and Carbon Report (SECR)	84 to 85
Protecting and improving the environment	27 to 41
Principal risks	112 to 121

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

Human rights

We promote human rights through our employment policies and practices and through our supply chain, operating in accordance with the United Nations' guiding principles on business and human rights. We have policies and processes in place that ensure we're compliant with these requirements, and they're enforced throughout our business.

Additional information	Pages
Enabling our people to drive change and performance	61 to 66

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

Social impact

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

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

Additional information	Pages
Understanding and supporting our customers and communities	54 to 60
Enabling our people to drive change and performance	61 to 66

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

Anti-corruption and anti-bribery

We will not tolerate acts of fraud, dishonesty, bribery, corruption or theft of assets or data and we promote a culture of honesty and integrity. We have policies in place to support our Code of Ethics. These are available on our intranet – The Hub. We also have a confidential 24-hour anonymous Speak Up hotline. This is an independent whistleblowing service for colleagues to raise concerns.

Additional information	Page
Our values	3

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

Chief Financial Officer's review

"We receive continued support from shareholders who injected £0.9 billion through additional equity in 2025–26. For the ninth year in succession they did not receive a dividend, as we prioritised investment for the benefit of our customers and the environment."

Stuart Ledger
Chief Financial Officer

Record capital investment and continued support from shareholders to deliver our Business Plan 2025–30.

This year marked the start of the delivery of our £8.9 billion (in 2022–23 prices) business plan to March 2030. It includes more than £6 billion of capital investment in our assets to improve environmental performance, protect and develop water resources for the future and maintain our existing assets.

During the year, we invested over £1.1 billion in our assets. Our environmental improvement programmes in wastewater, which included nutrient removal schemes, amounted to £241 million while our water programme to protect resources, reduce leakage and develop new resources totalled £158 million.

Within the environment programme there are schemes to manage the issue of surface water drainage. We're investing in sustainable solutions to manage flows and, in total during the year, we spent £75.3 million on these schemes, of which £17.5 million related to operating cost initiatives. As a result of the increase in the scale of our plans for this regulatory period, our revenues grew by over 45% to £1.4 billion this year.

We acknowledge that any increase in bills is difficult in the current economic climate so we have expanded our financial assistance packages for customers to address this. Nevertheless, we've seen an increase in the provision made for bad debt, and this added £40.6 million to our costs for the year, in part reflecting a judgment for the impact of the cost of living on our customers from the global unrest. Initiatives are underway to improve our collection performance and reduce this charge for future years.

Other increases to operating costs arose from the delivery of our enhancement programme and the operation of new assets as well as a continuation of additional asset maintenance to help improve operational performance.

Sadly, we don't always get things right and a major incident at our Eastbourne Wastewater Treatment Works resulted in a spill of plastic bio-beads affecting the area around Camber Sands in East Sussex. Clean-up, compensation and investigation costs for this incident were £5.6 million in the year.

Funding investment requires access to significant levels of liquidity from both shareholders and external borrowings. We continue to be supported by our majority shareholder, with an injection of £0.9 billion, through equity, received during 2025–26 and a binding commitment, alongside new investor Asterion Industrial Partners, to inject a further £300 million by 31 March 2027. This will increase the funds received by the group to over £2.8 billion since September 2021.

Alongside receipt of this equity, we accessed the capital markets, raising £1.9 billion of debt financing during 2025–26 to deliver our plans, support the capital investment programme and refinance existing borrowings. As a result, we are in a strong liquidity position at 31 March 2026, with cash and deposits of almost £1.3 billion, as set out in our going concern statement.

The additional equity and debt financing has improved our financial resilience, and has enabled us to remove the material uncertainty from our going concern assessment. It also resulted in S&P removing its CreditWatch from our credit rating in November 2025. We are hopeful that, following publication of the Final Determination by the Competition and Markets Authority (CMA) of our business plan for the period to 2030, and our results for 2025–26, will mean that further positive movements in our ratings will be made. The determination increased our cost allowances by £304 million and Weighted Average Cost of Capital to 4.20%.

At March 2026, we remain in a credit rating Trigger Event. As a condition to the provision of new equity, we secured the removal of the credit rating downgrade event of default which, prior to this, would have occurred if at least two of Moody's, Fitch and S&P had downgraded the rating of our Class A Debt to below investment grade.

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

Stuart Ledger
Chief Financial Officer

15 July 2026

Chief Financial Officer's review
ctd

The financial results have been prepared in accordance with FRS 101 and the material accounting policies of the company, as set out in note 1 to the financial statements. See page 195.

	Years ended 31 March	
Income statement	**2026 £m**	**2025 £m**
Total revenue	**1,443.2**	992.7
Other operating income	**1.6**	1.6
Operating costs before charge for bad and doubtful debts	**(679.0)**	(618.5)
Charge for bad and doubtful debts	**(65.3)**	(24.7)
Depreciation and amortisation	**(396.3)**	(368.5)
Operating profit/(loss)	**304.2**	(17.4)
Profit on disposal of fixed assets and other income	**1.7**	0.8
Profit/(loss) before interest and tax	**305.9**	(16.6)
Net finance costs	**(306.9)**	(243.5)
Fair value (loss)/gains on derivative financial instruments	**(138.4)**	170.7
Loss before taxation	**(139.4)**	(89.4)
Taxation	**11.1**	(9.6)
Loss for the financial year	**(128.3)**	(99.0)

Revenue

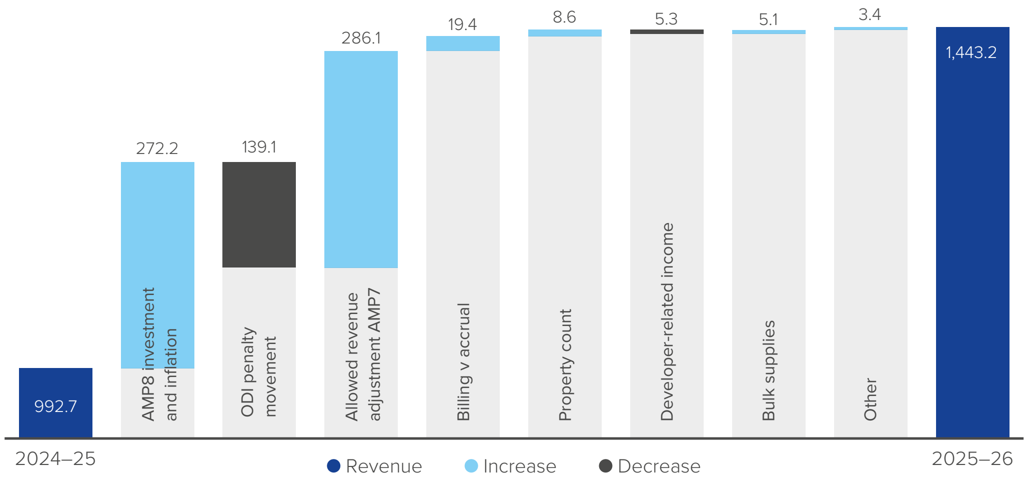
Revenue increased to £1,443.2 million (2025: £992.7 million). This is principally due to the application of regulatory mechanisms for the close out of the period 2020–25 (AMP7) and for the delivery of our investment programme for the period 2025–30 (AMP8) as set out in our PR24 Final Determination and described below:

- The increase in our allowed revenue, to commence delivery of the AMP8 investment programme, including CPIH of 3.5% was £272.2 million.
- Regulatory adjustments to reflect financial performance during AMP7 increased revenues in 2025–26 by £286.1 million.
- In 2025–26 ODI penalties, relating to performance in AMP7 of £47.5 million and £119.0 million for the non-delivery of long-term supply demand schemes, were applied to our water and wastewater revenue (2025: penalties of £27.4 million). These higher penalties meant that revenue decreased by £139.1 million.
- The removal of rebates included in our AMP7 revenues, based on our regulatory settlement with Ofwat, added £28.5 million to our billed revenues and was offset by a corresponding decrease in the provision made for these and released to revenue in the prior year.
- Properties billed – due to work undertaken to identify occupiers within properties, and reduce the number of gap sites, we saw an increase in revenue of £8.6 million.
- Revenue estimation – most of our customers are billed based on metered water usage. At each period-end we make an estimate for water used but not yet billed. In 2025–26, we billed £9.2 million more than we accrued in relation to consumption to March 2025 (2025: £10.2 million lower), resulting in a movement of £19.4 million in revenues in the year.
- Developer-related income – we receive income from developers for new connections, infrastructure charges, requisitions, diversions and adoptions. The revenue recorded for these activities depends on the scale and level of developer activity. In 2025–26 these revenues decreased by £5.3 million, mainly as a result of fewer asset adoptions.
- Bulk supplies – revenue from bulk supplies of water increased by £5.1 million, largely due to the impact of tariff increases as mentioned above.

Read more about analysis of revenue in note 5 to the financial statements on **page 209**

Chief Financial Officer's review
ctd

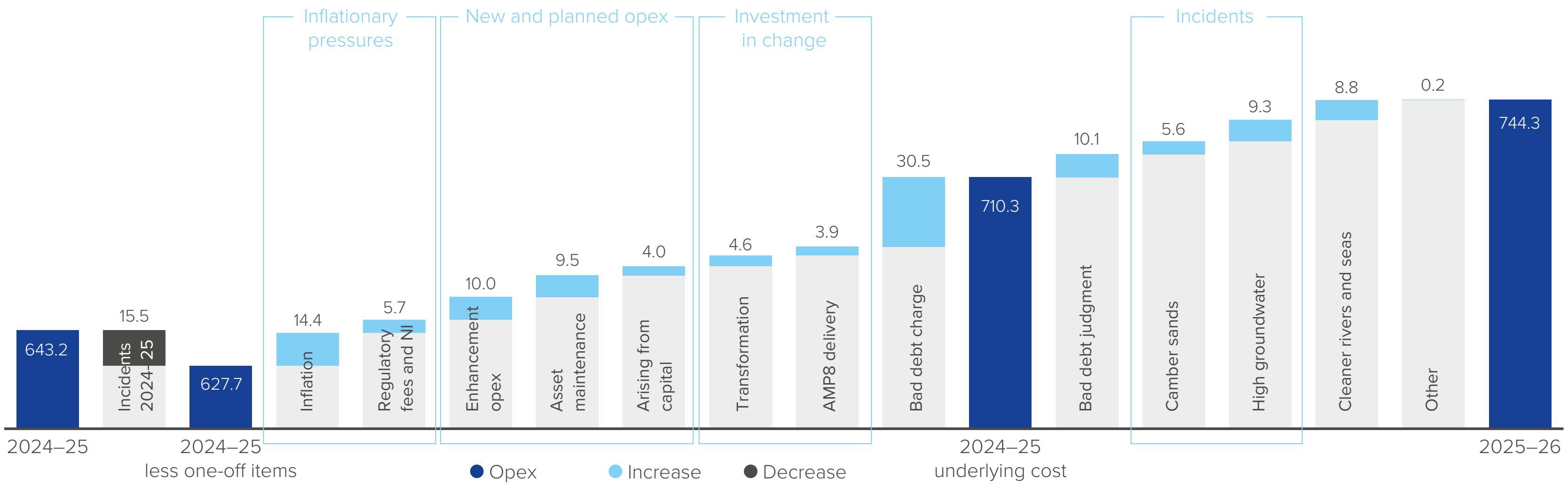
Movement in revenue £ million



An analysis of revenue is provided in note 5 to the financial statements.

Operating costs and charge for bad and doubtful debts

Operating costs, including the charge for bad and doubtful debts, for the year increased by £101.1 million from £643.2 million to £744.3 million. This increase is explained in the following chart:



Financial performance

Over the course of the year the most significant cost movements were:

- **One-off items from 2024–25** – we experienced two significant water incidents in Hastings and Hampshire. The removal of the costs of responding to these, including the provision of bottled water and compensation for affected customers, reduced the underlying operating cost for the prior year to £627.7 million.
- **Inflationary pressures** – general inflation continued to add a significant amount to our underlying costs £14.4 million, plus a further £3.8 million relating to Environment Agency discharge fees and Ofwat fees, and a £1.9 million operating cost increase for the changes to National Insurance contributions.
- **New and planned opex**
  - **Enhancement opex** – within our business plan there are schemes to deliver enhancements to our service levels that do not result in the construction of assets, and these added £10.0 million to our operating costs in the year.
  - **Asset maintenance** – we've undertaken additional asset maintenance across our operational assets to reduce water leakage, improve compliance and resilience and help reduce pollution incidents.
  - **Arising from capital** – we've incurred additional chemical costs following the completion of schemes in the prior year to reduce phosphorus levels from the environment and IT costs for the sewer level monitors installed to reduce pollutions.
- **Investment in change**
  - **Transformation and AMP8 delivery**– we've been preparing for the next investment period during the year, undertaking transformation activities to make sure that we're ready to deliver the business plan to 2030. These activities include additional headcount and improvements and changes to our billing and collection processes. These added £8.5 million to our operating costs. Over the investment period we expect to make £244 million of net savings in operating costs.
- **Bad debt charge** – the significant increase in revenue has proportionately increased the provision charge for bad debt by £11 million. We also experienced some reductions and delays in cash collection from customers following the increase in bills. Collections improved in the second half of the year and continue to improve in 2026–27. Overall, the underlying bad debt charge increased by £30.5 million in the year.

As a result of these increases our underlying operating costs increased to £710.3 million.

- **Bad debt judgment** – The bad debt provision includes elements of judgment, with increased rates applied for the bill impact in the year adding £7.1 million to the charge and the potential impact of the current global economic pressures on collections for which we have included an additional £3.0 million.

In total, including these judgments, our bad debt charge increased by £40.6 million to £65.3 million (2025: £24.7 million). We continue to work hard to support those struggling to pay, as set out on pages 57 to 58.

- **Incidents**
  - **Camber Sands** – in November 2025, bio-beads from our Eastbourne Wastewater Treatment Works washed up at Camber Sands in East Sussex. We have incurred £5.6 million as part of the clean-up, investigation and compensation for this incident.
  - **High groundwater** – over the winter we experienced a prolonged period of wet weather and incurred additional costs dealing with the impact of high groundwater to prevent pollutions and flooding.
- **Clean rivers and seas** – Our Clean Rivers and Seas Task Force is undertaking a series of projects, funded by Ofwat through our capex enhancement plan, to aid the reduction of storm overflows. These projects include initiatives to slow the flow of rainwater into our network. As we are favouring nature-based solutions, some of the initiatives do not result in assets that we own and are expensed, incurring £17.5 million of additional operating costs during the year (2025: £8.7 million).

Read more about the release of bio-beads from our Eastbourne works on **page 41**

Financial performance
ctd

Depreciation and amortisation

Depreciation and amortisation increased to £396.3 million (2025: £368.5 million) following the completion and commissioning of capital investment schemes delivering compliance and operational performance improvements to our water and wastewater assets.

Operating profit

As a result of the increase in revenue, we incurred an operating profit of £304.2 million (2025: £17.4 million loss).

Financing costs and profit before tax

Net finance costs increased by £63.4 million to £306.9 million (2025: £243.5 million). This increase is largely driven by higher interest payable on new loans of £78.4 million and indexation on our index-linked debt of £9.2 million due to inflation; offset by increased interest receivable on cash deposits of £6.6 million and increased capitalised interest of £22.7 million.

The fair value loss on our derivative financial instruments amounted to £138.4 million (2025: gain £170.7 million). The primary driver for changes in the valuation is the fluctuation in UK Government bond yields, which are used to discount the future cash flows and inflation. This increases the liability associated with our index-linked instruments. As government gilt yields are constantly moving the valuation of our derivative instruments is volatile. The balance sheet value represents the present value of future cash flows, using financial market forecasts for inflation and interest rates. This balance sheet value does not, however, reflect the expected impact of inflation on future revenues and future Regulatory Capital Value (RCV), which is expected to more than offset the reported balance sheet value.

The loss before tax for the year amounted to £139.4 million (2025: £89.4 million loss).

Taxation

We've recognised a total tax credit to the income statement of £11.1 million (2025: £9.6 million tax charge). This differs from the credit that may be expected of £34.9 million, based on the loss before tax of £139.4 million and the current period tax rate of 25%, as described in note 10. See page 212.

Read more about taxation in note 10 to the financial statements on **page 212**

Financial performance
ctd

Cash flow statement

Overall, cash and cash equivalents increased in 2025–26 by £601.8 million (2025: £143.5 million increase) and details of the principal movements in the cash flow are provided in the table below.

Read more about borrowings in note 20 to the financial statements on **page 218**

	Years ended 31 March			
	2026 £m	**2025 £m**	**Movement £m**	**Explanation**
Cash from operations	**590.0**	271.0	319.0	Largely driven by the cash flow associated with our improved operational performance, as described above.
Investment in assets	**(1,105.5)**	(803.8)	(301.7)	Driven by our capital investment programme to make improvements to our assets and operational performance. The increase reflects the first year of the 2025–30 investment period, over which we will be delivering our largest ever programme.
Net proceeds from share issues	**824.7**	–	824.7	During 2025–26, as part of a group restructuring process as described on page 103, funds managed by Macquarie Asset Management increased their investment in the group by £900.0 million. This was received in SWS as £888.8 million of equity less issue costs paid to date of £64.1 million and settlement of inter-company debtors within cash from operations of £11.2 million.
Net interest-related transactions	**(777.6)**	(158.3)	(619.3)	In total, the net cash outflow in relation to interest increased by £619.3 million. The principal reasons were: The net settlement of derivatives as part of refinancing our debt £461.0 million outflow (2025: £89.8 million inflow). Additional interest paid of £75.3 million predominantly due to first-time interest payments on new loans. Increased interest received of £35.8 million (2025: £29.1 million) due to the increase in cash held. No payments were made for preference share dividends during the year (2025: £nil).
Net increase on borrowings	**1,201.1**	739.7	461.4	During the year, proceeds from new loans totalled £1,916.7 million (2025: £761.0 million). This was offset by repayments of £715.5 million (2025: £21.3 million).
Movements in short-term investment	**(125.0)**	100.0	(225.0)	Following the equity receipt and new loans, cash totalling £125.0 million was held on deposit as a short-term investment as at 31 March 2026 (2025: £nil) resulting in a cash outflow in the current year in the cash flow statement.
Other	**(5.9)**	(5.1)	(0.8)	
	601.8	143.5	458.3	

Note – an element of our annual interest charge is capitalised and is included in the net interest related cash above.

Financial performance
ctd

Statement of financial position

	31 March 2026 £m	31 March 2025 £m
Non-current assets	**9,247.1**	8,442.8
Current assets (excluding cash)	**701.4**	441.9
Cash and cash equivalents	**1,158.8**	557.0
Total assets	**11,107.3**	9,441.7
Current liabilities	**(1,022.8)**	(1,146.1)
Non-current liabilities	**(8,474.7)**	(7,424.2)
Total liabilities	**(9,497.5)**	(8,570.3)
Total net assets	**1,609.8**	871.4
Total equity	**1,609.8**	871.4

At the end of the year to 31 March 2026, we had non-current assets of £9,247.1 million (2025: £8,442.8 million), an increase of £804.3 million from March 2025. This increase largely results from our ongoing capital investment programme, which – after depreciation – increased the value of property, plant and equipment and intangible assets by £770.7 million.

Overall, during 2025–26 our capital investment in property, plant and equipment was a record £1,155.6 million (2025: £961.9 million). This step-up in expenditure reflects the impact of our AMP8 capital programme, which is driven by environmental compliance schemes as part of the Water Industry National Environment Programme (WINEP), schemes to improve water resources resilience and investment to improve asset performance and compliance, for example reducing storm overflows and pollutions.

In addition, we experienced an increase in the value of our non-current financial derivative assets of £4.4 million and in our long-term prepayments in relation to the Havant Thicket reservoir and IT contracts of £21.8 million as well as recording an asset of £7.4 million in relation to our defined benefit pension scheme.

Current assets increased to £701.4 million (2025: £441.9 million). This increase is mainly driven by four factors:

- An increase in cash classified as short-term investments to £125.0 million (2025: £nil) due to timing of the maturity dates of cash on deposit.
- An increase in main trade debtors and accruals of £45.6 million, largely due to the impact of inflation on our revenues.
- Payments of £21.4 million into a Reservoir Trust, in lieu of pension deficit contributions, while the current triennial valuation and revised deficit recovery plan is being assessed.
- An increase in the inter-company debtor with SW (Finance) I plc of £50.0 million. This cash paid the interest on our loans.

The decrease in current liabilities to £1,022.8 million (2025: £1,146.1 million) largely resulted from:

- Lower opex and capital creditors, £21.5 million and £37.3 million respectively, resulting from the timing of payments over the March 2025 year-end period.
- A higher interest payable accrual of £61.4 million largely due to timing of interest payments on our new loans and preference share dividends.
- A reduction in short-term borrowings of £48.1 million largely due to a smaller loan becoming repayable in the coming year rather than in the prior year.
- None of the derivative liability has been classified as current in 2025–26. In the prior year £84.8 million was reported as current due to break payments due in November 2025.

At 31 March 2026, non-current liabilities totalled £8,474.7 million (2025: £7,424.2 million). This increase of £1,050.5 million was principally the result of the following:

- An increase in borrowings of £1,312.3 million, mainly from the issuance of new loans totalling £1,916.6 million and indexation on our inflation-linked bonds of £55.8 million. This is offset by the reclassification of a loan of £299.0 million as short term and the repayment of a capex facility of £350.0 million.
- A decrease in the non-current derivative financial instrument liability of £233.4 million.
- An increase in the deferred tax liability of £3.6 million.
- A decrease in retirement benefit obligations of £48.9 million due to the impact of movements in market conditions at 31 March 2026.

Overall, net assets increased from £871.4 million to £1,609.8 million.

Dividend policy

To enable the successful delivery of our plan for 2025–30 and beyond, all stakeholders must share in success. Customers benefit through environmental and water resilience improvements and better services, and shareholders earn a fair return on the money they have invested. Our dividend policy, covering both the appointed and non-appointed activities of the company, ensures a fair, balanced and sustainable reward for customers, stakeholders and investors as well as complying with the dividend policy condition of our licence.

Dividend payments are designed to make sure that statutory obligations and key financial ratios are not prejudiced, that customer, environmental and other stakeholders are considered, and that the company has adequate resources to carry out its work now, and in the future.

Our shareholders supported substantial investment in the business during 2020–25, significantly over and above regulatory allowances. They expect to receive no further dividends for the next investment period to 2030. No dividends have been paid to external shareholders since 2017.

When proposing payment of a dividend, the directors of Southern Water Services Limited, acting in accordance with their directors' duties and with the company's licence, will consider the following:

- Base level of dividend – financial;
- Base level of dividend – performance; and
- Financial resilience.

This dividend policy is also aligned to our Articles of Association. These were also updated ahead of the 2025–30 Asset Management Period (AMP).

Financial performance
ctd

Base level of dividend – financial

The base level of dividend will be determined using an equity return consistent with our most recent Final Determination and our actual level of gearing. This recognises our management of economic risks and capital employed.

In assessing any adjustment to the base level of dividend, we'll take into account all aspects of our performance. This will reflect our overall financial performance as compared to the final business plan, as agreed by Ofwat.

Base level of dividend – performance

The Board will consider if the payment or part payment of the dividend reflects, or would be consistent with achievement of, the long-term social, environmental, financial and operational performance commitments made to stakeholders, including customers, colleagues and members of the Southern Water pension scheme.

In considering this issue, the Board will assess whether the company is significantly underperforming when compared with its Final Determination and/or has a serious performance issue. In order to determine performance, the directors will consider performance in the round and shall have regard to the suite of performance commitments that the company has made, which include targets in relation to:

- Performance for customers (including, but not limited, to C-MeX and D-MeX).
- The delivery performance of the large enhancement programme that we've committed to for 2025–30.
- Operational commitments which are of importance to customers (including, but not limited to leakage, per capita consumption, water quality, interruptions to supply, risk of low pressure and pollutions).
- Wider social and environmental commitments (including, but not limited to, commitments in relation to vulnerable customers, sustainable abstraction, climate change mitigation and adaptation, and community investment).
- This assessment will also consider the previous performance of the company and the relative performance of the company to our industry peers over the period from 2020–30.
- Compliance of the business in line with statutory and regulatory obligations.
- The base level of dividend yield can be adjusted up or down depending on performance.

The Board also takes into consideration the obligations of the company to its colleagues including (but not limited to) the obligation to make appropriate investment in health, safety and wellbeing and to make sure that there's appropriate funding of the pension scheme.

Financial resilience

The Board will consider our financial resilience ahead of any dividend decision and whether any financial out-performance should be reinvested to benefit customers or the environment.

The financial resilience assessment works on the principle that dividends declared reward efficiency and the effective management of risks.

This will consider the interests of our colleagues, other stakeholders, and our pension schemes. Our dividend policy is intended to support the financial resilience and investment-grade credit ratings of the business and ensure continued access to diversified sources of finance. As part of this, we review:

a. Headroom under debt covenants;
b. Reserves, ensuring we have sufficient reserves in place;
c. The impact on the company's credit rating;
d. The liquidity position and ability to fulfil licence conditions;
e. Key areas of business risk; and
f. The requirements of current and future investment needs.

The policy, as reflective of our Final Determination response, will make sure that we restrict the payment of dividends, if gearing is above 70%.

Payment and non-payment of dividends

We'll be transparent in the payment of dividends and will clearly justify the payment in relation to the factors outlined above.

The company is currently in trigger events due to its debt covenant and credit ratings and, as a result, is therefore not allowed to pay dividends.

The dividend policy applies to the payment of any dividend, regardless of the purpose of it.

The net benefits of unforeseen inflation will not be taken into consideration if they're not clearly linked to outperformance or the prudent actions of management.

The Board considers that the requirements of the dividend policy licence condition have been met and no dividends were declared or paid in 2025–26 (2025: £nil).

Dividends on the preference shares accrue like interest and, from an accounting perspective, they are treated as interest, even though they are called dividends. The last payment was made in July 2022 and was our first payment since 2020. These payments were made to a SWS group company and enabled the payment of external interest on loans within the group. None of this money was paid to Southern Water shareholders.

No payments were made in relation to preference share dividends (2025: £nil).

An accrual totalling £18.1 million in relation to the cumulative liability of preference share dividends to 31 March 2026 is included within the financial statements as an inter-company creditor.

Governance

We'll publish our dividend policy annually (in the Annual Report) and highlight any changes. No changes are currently planned to be made to the existing policy ahead of the next investment period (2030–35), but the Board will keep this under review.

Financial performance
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Tax strategy and policies

Southern Water and all group companies adopt the tax strategy and policies outlined below.

Our approach to the management of tax affairs is driven by our core values of succeeding together, always improving, doing the right thing and working with care, alongside the corporate strategy of the company. We've a low-risk tax appetite, and this is reflected in our management of tax.

The foundation of our tax strategy is to comply fully with tax legislation and to focus upon maintaining a strong tax compliance culture and an open and transparent relationship with HMRC.

To make this happen, we run regular compliance reviews both internally and externally to make sure that our tax policies are consistently applied. Our approach to tax planning is to align to business decisions made in the best interests of customers and stakeholders, rather than use tax planning to drive or determine business decisions. The very nature of our business means we always take a long-term view on all activities.

This means that our tax strategy, and approach to tax, is sustainable, ethical, and considers both social and corporate responsibilities. It also means that it can stand up to external scrutiny. When faced with a decision or business case, the ongoing tax impact is always considered as part of the process.

Our approach to tax management and governance

We make sure that we're fully compliant with tax laws, rules, regulations and reporting requirements in all operations. This means following both the letter of the law as well as the spirit of the law.

A culture of doing the right thing is embedded in our core values and our approach to tax embodies this by making sure that we pay the right amount, in the right place, at the right time. We also use the expertise of professional tax advisers to maintain best practice in our approach to compliance and in circumstances when additional advice might be needed.

The management of the tax affairs of Southern Water and all companies in the group, including the relationship with HMRC, is the responsibility of the Tax team. Roles and responsibilities within the team are clearly defined. The team reports to the Group Treasurer, who in turn reports to the Chief Financial Officer (CFO). The CFO is the Senior Accounting Officer (SAO) and has ultimate responsibility for the tax affairs for Southern Water and the Southern Water Group companies.

Our management of tax risk

We adopt a conservative approach to tax risk. Our tax management focus is on compliance, systems and governance and our tax planning is always aligned with our commercial and economic activity. All companies within the group are subject to UK tax and all companies are UK tax resident, irrespective of their place of incorporation. This means that each company is subject to UK tax.

Tax risk primarily comes from business changes and complexities, along with the ever-changing regulatory and legislative environment. We manage this risk by having an experienced Tax team dedicated to compliance and risk identification and management.

Our Tax team puts processes and controls in place and determines what level of risk is acceptable. We also work with industry tax experts who provide specialist services, check what we're doing and provide guidance on compliance requirements. Our Internal Audit team also carries out assurance on the control environment relating to the transactional processes underpinning our payments to the Exchequer and our collection of taxes on its behalf.

In December 2021, the Organisation for Economic Co-operation and Development (OECD) released a legislative framework, followed by detailed guidance sets, that is expected to be used by individual jurisdictions that signed the agreement to amend their local tax laws. The United Kingdom enacted the tax legislation related strategic report to the top-up tax in July 2023 in the Finance Act and the legislation is effective in the UK for periods commencing on or after 1 January 2024. In addition, amendments to IAS 12 'International Tax Reform – Pillar Two Model Rules' were endorsed by the UK Endorsement Board on July 2023 and the exception from recognition and disclosures of deferred taxes in this regard as required by IAS 12.4A has been taken. The group is within scope of the regulation. However, it is not expected to have a significant impact on the financial statements.

Our relationship with His Majesty's Revenue and Customs (HMRC)

A key factor in our management of our tax affairs is our relationship with HMRC.

We meet all statutory and legislative requirements and we manage our tax affairs in an open and transparent way. This means sharing information with HMRC, which goes beyond the normal filing of statutory returns. This includes sharing internal process manuals and other documents in an open and transparent way to demonstrate our management of tax risk. HMRC shares our view of our low-risk approach to the management of our tax affairs, with the last HMRC assessment, in September 2025, being that we were deemed to be a 'low-risk' company.

Maintaining public trust

We continue to be committed to complying fully with tax legislation, maintaining a strong culture of compliance and having open and constructive relationships with the authorities. We don't use tax avoidance schemes or take an aggressive approach on tax planning when interpreting legislation.

We apply government and fiscal authority tax incentives and exemptions, where they exist. For example, the UK tax system recognises the benefit to the economy of investment in infrastructure and environmental protection through the availability of capital allowances, which reduce the corporation tax Southern Water pays. Any benefits of this are passed to our customers through reduced bills.

Southern Water and all Southern Water Group companies pay taxes in the UK and do not use offshore companies to avoid tax or levies.

Although our tax strategy is reviewed and updated each year, it's not expected to significantly change from year to year.

Financial performance
ctd

We regard this publication as complying with our duty as required under paragraph 16(2) of Finance Act 2016 for the financial year ended 31 March 2026.

Understanding our taxable profits and our corporation tax

Our taxable profits are generally different to our accounting profits for the following reasons:

- **Capital allowances and depreciation** – capital allowances are a way of obtaining tax relief on certain types of capital expenditure. These are treated as a business expense and so reduce our taxable profit. Depreciation represents how much of an asset's value has been used up and reduces accounting profit. Capital allowances are applied at different rates than used for depreciation. As a result, there's a difference between capital allowance deductions made against our taxable profits and depreciation made against our accounting profits. The annual variance between capital allowances and depreciation results in a difference between our taxable profit and accounting profit. Due to the large scale of our capital expenditure programme and the level of capital allowances available and utilised, our taxable profits are significantly reduced.
- **The treatment of interest costs** – we borrow money to finance our capital expenditure programme. The interest associated with this borrowing is recognised as both an accounting and tax expense, reducing profit and the amount of tax we pay. However, there are differences between the amounts of interest recognised for accounting profits and for taxable profits. Examples are that movements on the fair value of our financial derivatives are not recognised in our taxable profits, interest that's capitalised in our financial statements is treated as an expense when calculating our taxable profits, and a portion of interest that is restricted under corporate interest restriction rules.
- **Group relief** – Southern Water is part of the Greensands Junior group of companies (at 31 March 2026), as set out on pages 103 to 106. All of these companies are taxable as UK companies and profits or losses of the companies within the group can be set off against one another in the financial year. Group relief can be claimed by Southern Water Services Ltd where the standard rate of tax for the losses claimed is paid. For 2024–25, no tax for these losses was paid, therefore there was no group relief claimed.
- **Deferred tax** – the cumulative difference between taxable profits and accounting profits, which are expected to be temporary and reverse in future years, is presented as deferred tax on the statement of financial position. Changes to the future rate of corporation tax revise the carrying value of these differences.

Our tax charge is reduced by our large capital expenditure programme and the interest we're charged on borrowings. The benefit of this is passed to our customers through reduced bills. There's no corporation tax allowance within our customer bills for the regulatory period from April 2025 to March 2030.

Details of our tax charge for the current financial year are disclosed in note 10 to the financial statements on page 212.

Our other tax contributions

Our other contributions to the Exchequer amounted to £115.4 million. These are:

- Business rates of £36.1 million paid to local authorities (2025: £35.0 million) and payments to the Environment Agency of £14.3 million (2025: £11.3 million) for abstraction licences and discharge consents, which reduce profits chargeable to corporation tax.
- Employment taxes of £65.0 million (2025: £49.4 million) paid to the Exchequer under PAYE (Pay As You Earn) and National Insurance contributions.

No payments have been made to other group companies for tax losses surrendered to the company. As a result of capital allowances and interest charges, no corporation tax was paid by the company to HMRC in 2025–26.

Financial KPIs

Within our financial debt structure is a comprehensive set of covenanted financial ratios. Of these, there are two key ratios, namely the ratio of net debt to Regulatory Capital Value (RCV) and the ratio of adjusted net cash income to net interest cost.

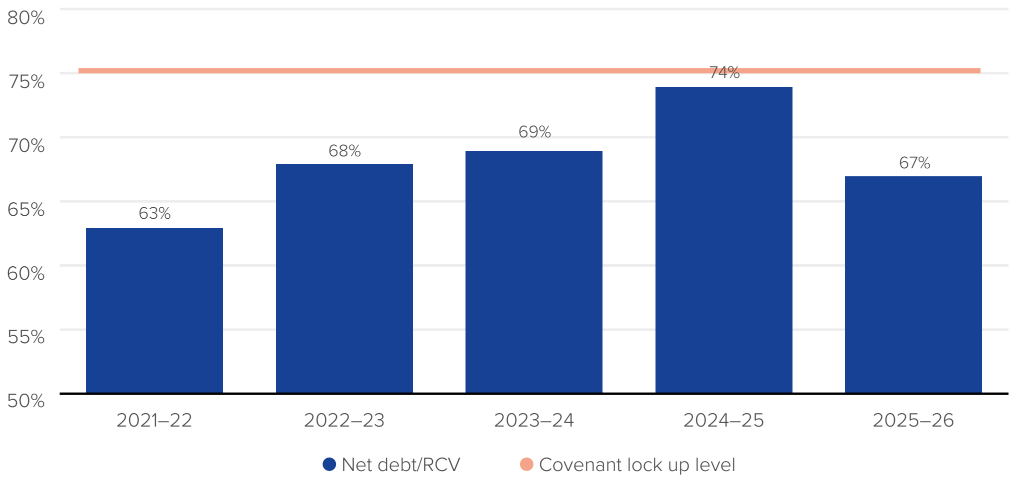
The net debt to RCV ratio is calculated as short- and long-term senior borrowings less cash and short-term deposits, for the consolidated SWS group of companies, to the RCV. The RCV is set by Ofwat at each five-year review and reflects our initial market value plus subsequent capital investment and inflation. The RCV is adjusted at each periodic review for relevant changes to the level of expenditure or performance during the five-year period.

The adjusted cash interest cover is measured as the ratio of net cash inflow from operating activities less RCV depreciation to net cash interest expense for the consolidated group of SWS companies.

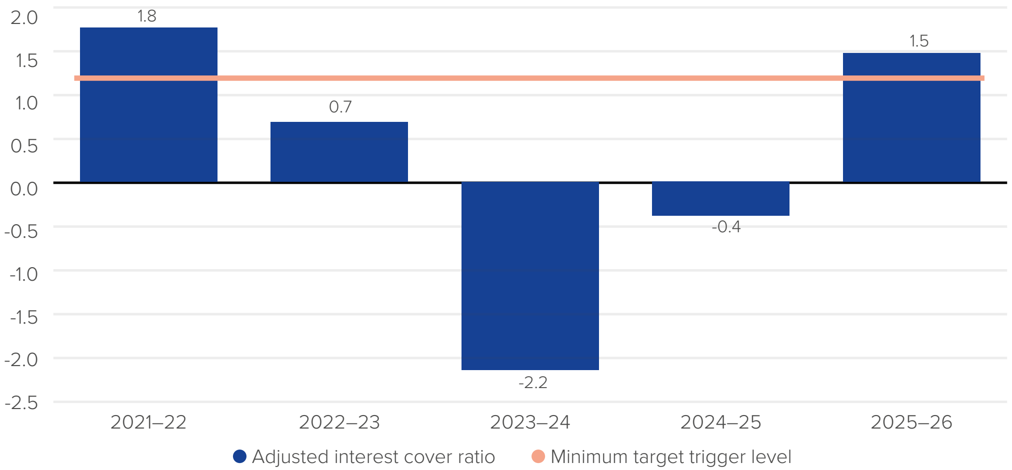
Credit ratings shown on the next page are as at the date of publishing the accounts.

Financial performance
ctd

Debt covenant
Net debt/RCV



Adjusted cash interest cover ratio



The covenanted lock-up level/trigger level refers to debt covenants where payment of dividends by Southern Water is not permitted or, in the case of net debt/RCV places restrictions on our ability to issue further debt. These are structural buffers to protect against a default covenant, e.g. the covenanted default net debt to RCV level is at 95%.

Credit rating as at date of publishing the accounts

Standard & Poor's
Class A debt: BBB- (negative outlook)

Fitch
Class A debt: BBB- (stable outlook)

Moody's
Class A debt: Ba1 (stable outlook)

In November 2025 Standard & Poor's revised our credit rating, removing its CreditWatch and placing us on (negative outlook).

Our Class A Debt is currently rated BBB- stable (Fitch), Baa3 negative (Moody's) and BBB- negative (S&P). As at least two of these credit ratings are at or below BBB/Baa2, a credit rating Trigger Event is continuing under the Common Terms Agreement (CTA). This means we cannot pay dividends to our shareholders.

However, the occurrence of a credit rating Trigger Event does not restrict our ability to continue to access permitted financial indebtedness to finance our working capital, maintenance capital expenditure or operating expenditure, refinance maturing indebtedness or to finance enhancement capital expenditure up until March 2035.

As a result of changes implemented to the CTA in October 2025, it no longer provides for a standalone event of default if our Class A debt rating were to be downgraded below investment grade by any two of Fitch, Moody's and S&P.

The company expects that it will no longer be in a debt covenant Trigger Event under the CTA when it submits its annual compliance certificate to lenders at the end of July 2026.

Capital structure

Why Southern Water raises finance

Significant capital investment has been a feature of our business since privatisation in 1989 and by 31 March 2025 the investment made was more than £11.5 billion. The investment is required to both maintain our existing asset base and to construct new assets to improve the environmental quality of wastewater, improve the quality of drinking water and accommodate population growth in our area of operation.

Every five years we submit our business plans to Ofwat for the next regulatory period. These plans detail our expectations of the costs to operate the business as well as the capital investment required to maintain and enhance our assets to deliver environmental improvements. Our economic regulator, Ofwat, reviews these plans and determines the revenues we are allowed to recover from customers for an efficient level of cost, which is benchmarked against other water companies and ensures that customers receive value for money.

2025–26 marks the first year of the new regulatory period (AMP8) which runs to 2030. During this period, our plans of over £8.9 billion will make environmental improvements, including storm overflow reductions, removal of nutrients through the wastewater treatment process, we'll complete obligations under the Water Industry National Environment Programme (WINEP), manage the increasing demand on water resources through delivery of our Water Resources Management Plan (WRMP) and make network resilience improvements and complete compliance remediation.

The amount invested each year is not the same as the amount recovered from customers through bills. This is because much of our investment is in long-life assets, such as pipes, treatment works and reservoirs, which serve customers over many decades. Instead of asking current customers to pay the full cost upfront, the sector is designed so that these investments are funded initially by investors. Customers then pay back the investment gradually over time through their bills, while investors receive a financial return – both of which are set by Ofwat. This approach helps to keep bills affordable and ensures that the cost of major investment is shared fairly between current and future customers, who only pay for their share of the benefit received from the investment.

We therefore raise finance to pay for the construction of new assets and to repay loans taken out in previous years, where the cost of the associated investment has not yet been fully recovered from customers. We can't rely wholly on raising new finance to pay for the construction of new assets. Our shareholders contribute approximately 30% of the funds we need, which also provides a financial buffer to absorb financial risk.

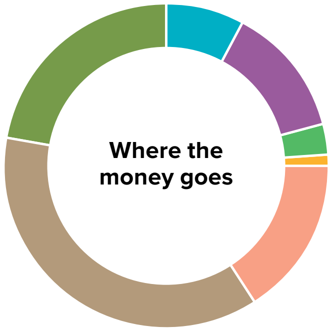
Revenues from our customers are used to meet the costs of running the business (our operating expenditure), to repay the cost of capital investment over time and to pay for the interest on the finance we raise and a return on the equity provided by our shareholders, to finance the capital investment programme.

The charts on the next page illustrate the sources and uses of expected cash flows for the Business Plan 2025–30 and demonstrate our requirement to raise finance to fund our capital investment programme. We also include a breakdown of the 2025–26 average bill for a dual service customer. The data is based upon the regulatory price determination for 2025–30, which sets out both our performance obligations and the limits on customer bills for this five-year price period.

Capital structure
ctd

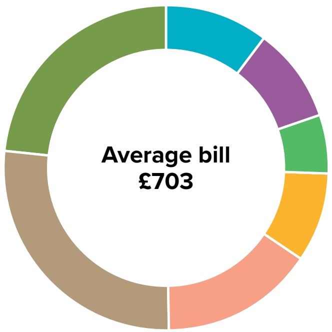
Key

Household customers	52.0%
Business customers	16.0%
Net debt proceeds	20.0%
Equity proceeds	12.0%



Key

Operating costs – providing clean water	8.0%
Operating costs – collecting and treating wastewater	13.0%
Operating costs – customer service	3.0%
Expanding our network for new housing and connections	1.0%
Capital investment – maintaining infrastructure	16.0%
Capital investment – enhancement expenditure	37.0%
Financing our capital investment	22.0%



Average bill for 2025–26

Key

Operating costs – providing clean water	£73	10%
Operating costs – collecting and treating wastewater	£67	9%
Operating costs – customer service	£40	6%
Capital investment – enhancement expenditure	£63	9%
Capital investment – maintaining infrastructure	£108	16%
Previous investment paid for over time	£189	27%
Financing our investment	£163	23%

Where the money comes from

Household customers – money we charge customers for providing water and wastewater services to their homes.

Business customers – money we charge businesses for providing water and wastewater services. It also includes charges to developers for providing infrastructure and new connections to our network.

Net debt proceeds – new loans raised to fund capital investment programmes, less loans repaid.

Equity proceeds – additional financing raised from shareholders to support the delivery of our capital investment programme.

Where the money goes

Operating costs – Day-to-day running costs of providing clean water, wastewater treatment and customer services including wages, power, chemicals, materials and bad debt* costs.

* Bad debt = the cost of providing for unpaid customer charges.

Capital investment maintaining infrastructure – investment to maintain our existing pipework and treatment works.

Capital investment enhancement expenditure – investment to build new assets, improve treatment standards, comply with environmental obligations and cater for population growth.

Expanding our network – the construction of new infrastructure and the connection of new properties to the network.

Financing our capital investment – the financing cost of equity and debt to deliver capital improvements to the business over the long term.

Capital structure
ctd

Ownership and structure (at 31 March 2026)

Southern Water Services Limited (Southern Water) is a privately owned company and is the principal subsidiary of Greensands Junior Finance Limited (GSJF), which sits at the top of its group. All companies in the group are incorporated in England and Wales, UK tax resident and liable for tax in the UK.

Ownership

On 31 March 2025, Greensands Holdings Limited (GHL) was the ultimate parent company and controlling party of Southern Water, and the majority shareholder of GHL was MSCIF Wight Bidco Limited, on behalf of infrastructure funds managed by Macquarie Asset Management (MAM) who invested over £1.6 billion into the group between 2021 and 2023.

On 4 July 2025, as part of a group restructuring process, Sandstone Bidco Limited (SBL), an investment company, acquired the issued share capital of Greensands Junior Finance Limited (GSJF) and Southern Water (Greensands) Financing plc from Greensands (UK) Limited, an intermediate parent company of Southern Water, which was then in administration.

As a result of this restructure, GSJF became the new ultimate parent company of Southern Water, replacing Greensands Holdings Limited, the previous ultimate parent company.

SBL represents a consortium of long-term investors with the majority investment being funds managed by Macquarie Asset Management (MAM).

Following the group restructuring, the investors of SBL injected additional equity of £505.0 million into the group in November 2025, followed by a further £395 million in March 2026. These funds were all received indirectly by Southern Water and bring the total investment into the group since 2021 to over £2.5 billion.

The proceeds of the equity funding will support Southern Water's record investment programme for 2025–30, which is delivering additional capacity and resilience to infrastructure and services to meet new legislation, increased environmental standards and the impacts of climate change, as well as the expectations of its customers. None of the proceeds were paid to the existing shareholders of GHL.

SBL has also committed to provide a further £300 million of binding equity with drawdown of these funds to be on or before 31 March 2027. This will support a further reduction in leverage (as measured by the ratio of net debt to regulatory capital value) from circa 74% as at 31 March 2025 to 65% from 2029 onwards.

GSJF Board

The GSJF Board comprises three directors.

The purpose of GSJF is to act as a single-purpose entity, as the ultimate holding company for Southern Water and the other companies within the group. The GSJF board complements and supports the aims of Southern Water for its long-term success. GSJF does not impact the day-to-day operations of Southern Water, nor materially affect its ability to function as a company in providing an essential public service.

Group structure

In September 2007, the Greensands group of companies was established for the purpose of the acquisition of 100% of the share capital of Southern Water Capital Limited, the then ultimate parent company of Southern Water, from the Royal Bank of Scotland (investing £1.9 billion of equity and debt to finance the acquisition).

During 2018–19, additional Greensands financing companies were added to the group structure as part of a financing plan to improve financial resilience of Southern Water ahead of the five-year price review period starting April 2020.

Funds managed by Macquarie Asset Management acquired a majority stake in the Greensands group in September 2021 with an investment of £1.1 billion. This investment was used by the group to repay external debt totalling £476.0 million and make a cash injection into Southern Water Services totalling £529.9 million from the settlement of an inter-company loan and the issue of new equity.

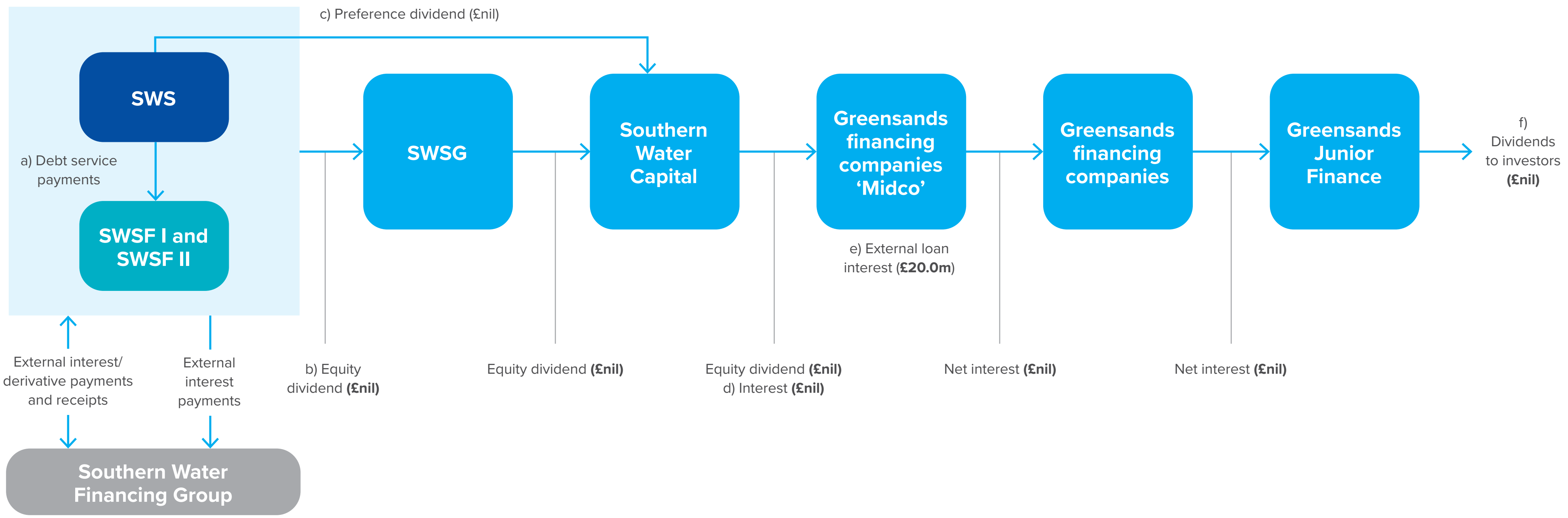
A second equity injection of £550 million was made in October 2023, of which, £175 million was retained in group companies to support interest payments on external debt and £375.0 million was injected into Southern Water Services.

As mentioned above, further investment totalling £900 million has been made into the group as part of a restructuring during 2025–26. This restructuring also included an agreement to reduce the external holding company debt held in the group by c.£450 million and extend the maturities of the remaining debt of c.£415 million.

A summarised group structure (at 31 March 2026), together with details of the interest and dividend payments between companies, is shown in figure 1.

Capital structure
ctd

Figure 1: Interest and dividend payments 2025–26



In summary, SWS has made no payments to internal companies. Greensands companies have paid external loan interest payments of £20.0 million.

No interest or dividends have been paid to investors in Greensands Junior Finance, and none were paid to the investors in Greensands Holdings prior to the change in ownership structure on 4 July 2025.

Footnote:

a. Interest payments from SWS to SWSF I and SWSF II on the loans taken out on behalf of SWS. This is then used to pay the interest on these external loans.
b. There were no ordinary dividends during the year.
c. No dividend payments were made on the preference shares issued by SWS in relation to dividends accrued at March 2026.
d. Interest payable on inter-company loans from Southern Water Capital to Greensands.
e. External interest paid by GSF Ltd and Greensands Financing plc, funded from interest receivable and cash held at 'Midco'.
f. No dividends were paid to investors.

All companies are UK tax resident and therefore subject to UK taxes.

All companies within the Greensands Junior Finance group are incorporated in the UK.

The previous holding company, Greensands Holdings Ltd is incorporated in Jersey, but UK tax resident. The company was incorporated there in 2007 because Jersey law allowed greater choice than the UK about the way distributions can be made to shareholders while treating UK and non-UK investors equally.

Capital structure
ctd

Greensands Junior Finance	Greensands Junior Finance Limited (GSJF)	The ultimate parent company for the group from 4 July 2025.
Greensands financing companies	Greensands Senior Finance Limited (GSSF) Greensands Investments Limited (GSI)	Intermediate holding company established as part of the Greensands acquisition of Southern Water Capital in 2007.
Greensands financing companies 'Midco'	Greensands Finance Holdings Limited (GSFH) Greensands Finance Limited (GSF Limited) Greensands Financing plc (GSF plc)	A group of companies incorporated in 2018 as part of a financial restructuring exercise to improve the financial resilience of Southern Water. The objective of the restructuring was to reduce the total leverage within the Southern Water Financing Group. There are no debt guarantees in place between the Greensands financing companies and the Southern Water Financing Group, with the result that SWS is fully protected, and fully isolated, from a default at any Greensands company.
Southern Water Capital	Southern Water Capital Limited (SWC) Southern Water Investments Limited (SWI)	Intermediate holding companies established 2002 as part of a previous ownership structure.
Southern Water Services Group	Southern Water Services Group Limited (SWSG)	Intermediate holding company established as part of a previous ownership structure.
Southern Water Financing Group	SWS Group Holdings (SWSGH) SWS Holdings Limited (SWSH) Southern Water Services Limited (SWS) SW (Finance) I plc (SWF I) SW (Finance) II Limited (SWF II)	SWS is the regulated water and wastewater company. It is the company that this Annual Report and financial statements relate to. SWF I and SWF II have been incorporated to raise finance on behalf of SWS. The Southern Water Financing Group was established in 2003 and comprises a legal framework where each company guarantees the obligations of others within the group. Security granted to the lenders within this group is limited to the share capital of SWS Group Holdings Ltd. This structure ensures that SWS can continue to operate as a regulated water and wastewater company in the event of a default by any of the group companies above the financing group.

Previous members of the group structure, prior to the restructuring on 4 July 2025 are listed below. These companies are in the process of being closed and dissolved.

Greensands Holdings Limited (GHL)	The previous ultimate parent company for the group.
Greensands Europe Limited (GSE)	A previous intermediate holding company.
Greensands UK Limited (GSUK)	A previous intermediate holding company.
Southern Water (Greensands) Financing plc (SWGF)	Established to provide additional external financing for the acquisition of the Southern Water Capital group of companies in 2007 plus a further £250 million of additional finance raised in 2019, the proceeds of which were invested into SWS. The external debt held by this company was removed as part of the group restructuring in 2025–26.

Capital structure
ctd

How we finance the business

In note 20 to the financial statements, page 218, we provide an analysis of our outstanding debt at 31 March 2026 and 31 March 2025. Our loans comprise: sterling bonds, issued by our financing subsidiaries SWF I and SWF II and listed on the UK Stock Exchange; other loans, including loans from US insurance companies; bank loans; and a loan from the European Investment Bank.

The regulatory framework under which revenues and the RCV are indexed exposes us to inflation risk. This risk is managed using inflation-linked loans and derivatives within the overall debt portfolio. We're not restricted to issuing only sterling debt but will make sure that any other currency loans are fully hedged back to sterling. We also hedge our exposure to interest rate volatility by making sure that at least 85% of our outstanding debt liabilities are either inflation-linked or fixed rate for the current five-year regulatory period and at least 70% in the next period (on a rolling basis).

We also consider refinancing risk by making sure that debt maturities are not concentrated in any single year or regulatory period. When issuing new borrowings, we test that refinancing obligations are less than 20% of RCV in any two consecutive years and 40% of RCV within any five-year regulatory period. The maturity profile of our borrowings extends to March 2056, which means that we can comfortably meet this test.

We make sure that sufficient liquidity (cash and committed borrowing facilities) is in place to fund the business for at least the next 12 months (including loan and inflation-linked swap accretion maturities), which is an important consideration given that we have negative cash flow generation in most years because of our continuing capital investment programme.

As a result of our prudent liquidity policy, we can have large cash balances at times. We reduce the risk of losing cash on deposit, from bank or fund failure, by setting maximum limits on cash deposits and minimum credit ratings for each bank or fund. Banks must have, as a minimum, a credit rating of P1 (Moody's), A1 (Standard & Poor's) or F1 (Fitch). Funds must have the most secure rating of AAA rated.

The Greensands companies also have their own external loans:

- Loans issued by Southern Water (Greensands) Financing plc, represented in the diagram above as part of the 'Holdco' financing companies which were removed as part of the restructuring in the group during the year.
- Loans issued by Greensands Finance Limited and Greensands Financing Plc, represented in the diagram above as part of the 'Midco' financing companies. The maturity dates of these loans were extended as part of the restructuring in the group during the year.

Risk management approach

Our approach to risk management is designed to support sound decision making through a clear and consistent understanding of risk across the organisation.

Read more about climate-related risk management and mitigation on **pages 67 to 83**

Risk management is embedded within our governance and internal control framework and underpins how we operate, providing assurance that risks are identified, assessed and managed in line with our strategic objectives.

Risk is inherent in our business and we operate in an environment where a range of risks and uncertainties cannot be entirely eliminated. Our approach to risk management is focused on supporting effective decision making through a clear and consistent understanding of risk across the organisation. Those risks that could have a material impact on our performance, resilience or ability to deliver our strategic objectives are defined as our principal risks. Our risk governance framework provides the structure through which these principal risks are identified, monitored and reported, enabling us to maintain a resilient and well-controlled business.

Managing risk

Our approach to risk management is designed to provide a clear and consistent framework for managing and reporting risks associated with our operations to the Executive and to the Board.

This framework is the totality of systems, structures, policies, processes and people that identify, measure, monitor, report and control or mitigate internal and external sources of risk.

It promotes better decision making and strengthens our operational resilience. It supports the best outcomes and opportunities for the company and our customers. See framework process below.

1. **Risk identification and ownership**

   Understand the risk environment, identify the specific risks we face and assess potential exposure.

2. **Risk assessment**

   Determine how best to manage identified risks to balance exposure.

3. **Risk response**

   Take action to manage the risks we are exposed to, ensuring our resources are effectively and efficiently prioritised and used.

4. **Risk monitoring, reporting and escalation**

   Report on a quarterly basis to the Executive Committee, Audit Committee, and the Health and Safety and Operational Risk Committee and to the Board on a periodic basis on how key risks are being managed, monitored, assured and the improvements that are being made.

5. **Risk appetite and communication**

   Use our analysis to support the Board's determination of risk appetite and to monitor and report against it.

Risk management approach
ctd

Across the company our risk management approach is embedded within the business directorates and their business processes. We have put in place an approach that provides a consistent basis for measuring risk to:

- establish a common understanding of risks on a like-for-like basis, taking into account potential impact and likelihood,
- report risks and their management to the appropriate levels of the company,
- inform prioritisation of specific risk management activities and resource allocation.

All areas of the company review risks and business processes to help inform and enable risk-based decision making. As part of our annual planning process, the Executive and Board review the company's principal risks, emerging risks and high-impact low-likelihood (HILL) events.

Three lines of defence

Our approach to risk management adopts the 'three lines of defence' model in which risk ownership responsibilities are functionally independent from oversight and assurance:

- Primary responsibility for risk management lies with the business. The risk owner is the first line of defence. An important part of the role of all colleagues is to make sure that they manage risks appropriately.
- The Risk Management function forms the second line of defence and provides independent and objective review and challenge, oversight, monitoring and reporting in relation to material risks.
- Independent External Assurance and the Internal Audit function act as the third line and provide independent assurance on the business control environment and the effectiveness of the wider system of internal control.

First line

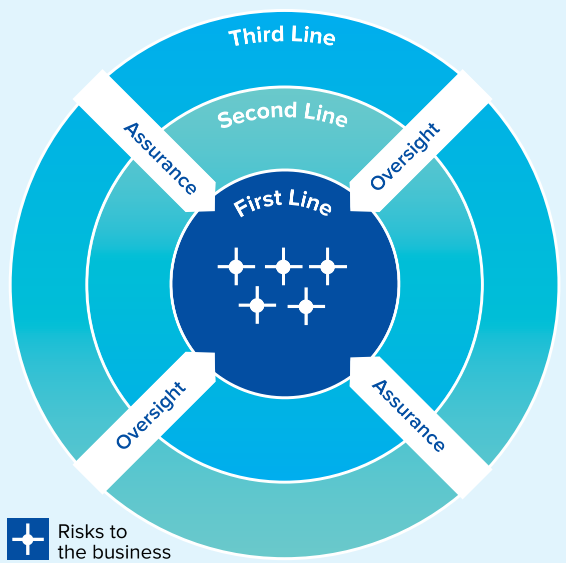
- The functions that own and manage risk.

Second line

- The internal functions that oversee risk and regulatory compliance activities.
- Provide guidance, direction and oversight.
- Develop the related assurance frameworks.

Third line

- Provides independent assurance on the business control environment, and the effectiveness of the wider system of internal control.



The next 12 months

The coming year will focus our risk management efforts on maturing our control environments and risk mitigation activities, including:

- strengthening the design and effectiveness of key controls across our principal risks, with greater emphasis on prevention and early intervention,
- enhancing management ownership and accountability for risk and control effectiveness at all levels of the organisation,
- improving the consistency and quality of risk and control assurance, including clearer escalation of emerging issues,
- embedding more robust monitoring of risk mitigation actions to ensure timely delivery and sustained effectiveness,
- further developing our use of data and management information to provide clearer insight into risk trends and control performance,
- deepening our focus on operational, commercial, and supplier risks to support resilience and value for money,
- reinforcing a strong risk and control culture through targeted training, guidance, and leadership engagement.

Continuous improvements to our risk management approach are critical to support long-term organisational development, value and sustainability. This means the decisions we make are considered and demonstrate our continued commitment to delivering value to our customers, stakeholders and the environment.

Read more about the Board's role in mitigating risks on **pages 109 and 145 to 185**

Risk management approach
ctd

To successfully embed risk management, the process is supported by a governance structure that defines roles and responsibilities at each level of the company. The Board has overall accountability for risk management but discharges this role through the Audit Committee. It oversees and advises on enterprise risks, while the Health and Safety and Operational Risk Committee oversees and advises on operational risks.

Role of the Board

The role of the Board is to promote the long-term sustainability and our responsibilities to shareholders, customers, colleagues, and the communities in which we operate. It has overall responsibility for risk management within the company.

The Board is responsible for maintaining an effective risk culture and is committed to:

- reviewing, endorsing and monitoring our approach to risk culture and conduct,
- forming a view on our risk culture and the extent to which it supports our ability to operate consistently within our risk appetite.

The Board defines our risk appetite, enabling the company, in both quantitative and qualitative terms, to judge the level of risk it is prepared to take in achieving its overall objectives.

Our risk appetite is directly aligned to our principal risks. The risk appetite for each of these underpins our governance and reporting framework and is subject to regular review by the Board. The alignment of our principal risks with risk appetite allows for an informed analysis and discussion of our position and provides the Board with the insight to make key decisions.

As a company we are tolerating a level of risk which is outside our current risk appetite and is reflected in the review of our principal risks in the coming pages.

The Board ensures the oversight and monitoring of our risk culture, appetite and management activities through the Audit Committee.

Role of the Audit Committee

The Audit Committee is responsible for the review of the company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems. It advises the Board on the company's overall risk appetite, tolerance, culture and strategy, considering the current and prospective regulatory, legal, political, macroeconomic and financial environment with the Board retaining overall ownership and approval.

The Audit Committee oversees and advises the Board on current risk exposure and longer-term strategic risks to determine our future risk strategy. It also has a key role in risk assessment:

- reviewing the company's overall risk assessment processes for enterprise and corporate risks that inform the Board's decision making, ensuring qualitative and quantitative metrics are used;
- reviewing regularly and approving the parameters used in these measures and the methodology adopted; and
- setting a standard for the accurate and timely monitoring of large exposures and corporate risk types of critical importance.

In addition, the Audit Committee reviews the company's capability to identify and manage new and emerging risk types and reviews reports on any material breaches of risk limits and the adequacy of proposed action. The Audit Committee also considers the findings of internal and external investigations and executives' response.

Role of the Health and Safety and Operational Risk Committee

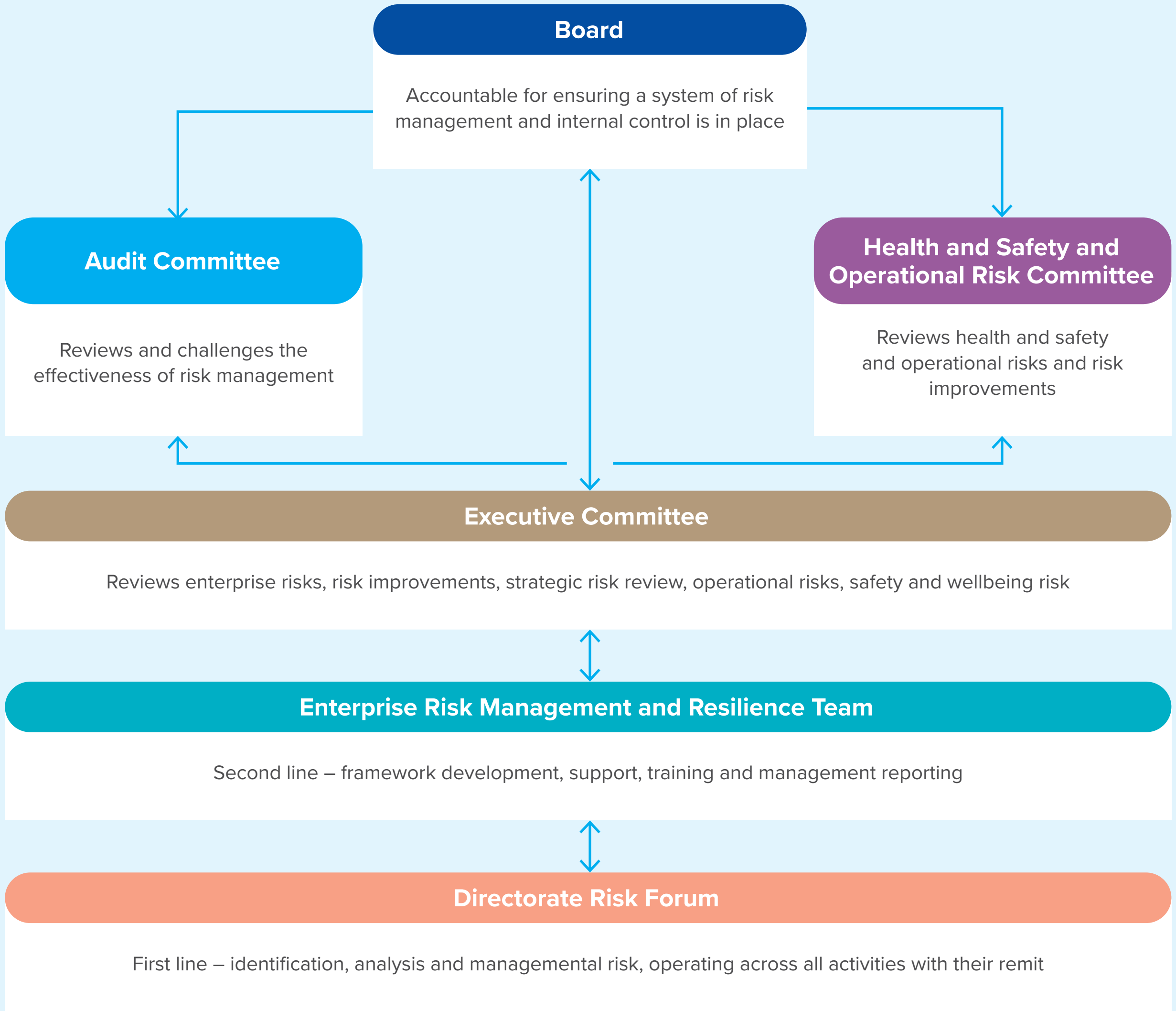
The Health and Safety and Operational Risk Committee is responsible for the oversight and assessment of the overall adequacy and effectiveness, of the health, safety and wellbeing policies, strategies; processes and controls; operational risk management and compliance with relevant legal and regulatory requirements, with the Board retaining overall ownership and approval.

The Health and Safety and Operational Risk Committee has a key role in:

- reviewing the areas of significant corporate and individual health, safety, wellbeing and operational risk whether the executive is managing these risks effectively, including via the supply chain;
- reviewing the company's health, safety, security and wellbeing performance; and
- reviewing operational risk and risk management of water, wastewater and capital delivery.

Risk oversight and governance

Key risk and governance responsibilities include:



Emerging risks, high-impact low-likelihood (HILL) events and principal risks

Emerging risks

We regularly consider new, changing, or emerging risks that could affect our ability to achieve long-term objectives. We define emerging risks as uncertain future events that are challenging to assess due to their unpredictable nature or lack of reliable information. We run regular horizon-scanning exercises to identify and monitor emerging risks. Our risk assessment process monitors available management information from a wide variety of internal and external business and environmental sources. It then analyses potential causes, impacts, likelihood, and the time frame over which a risk could occur.

Our immediate horizon scan reviews possible emerging risks and their potential impact on the company, as illustrated.

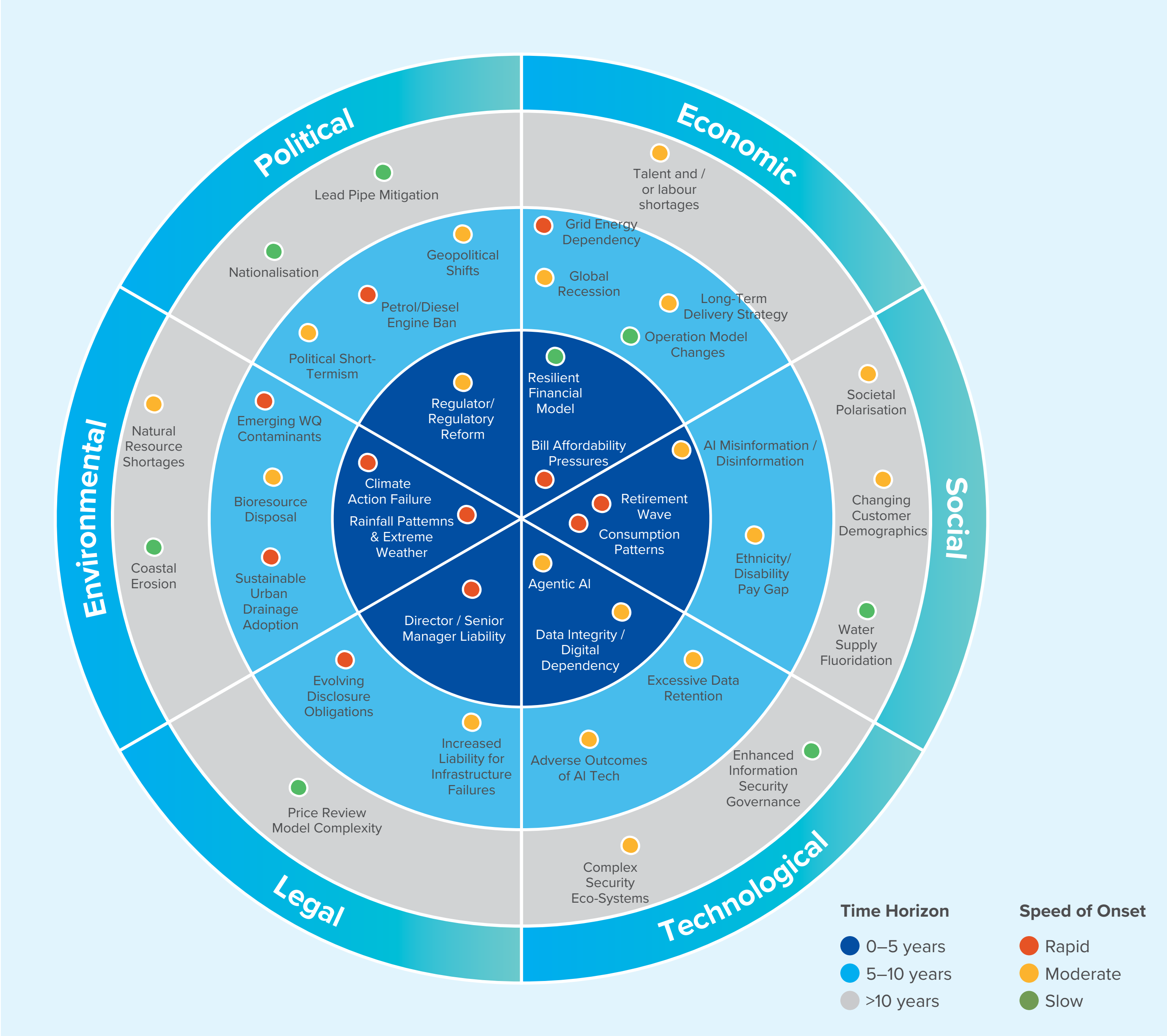
High-impact low-likelihood (HILL) events

High-impact, low-likelihood (HILL) events by their very nature are disruptive, and difficult to identify and control due to their unfamiliarity and low probability and infrequency of occurrence. While rare, when they occur, they have a major impact and can materially affect business operations and the achievement of the strategic objectives. However, preparing for every possible event is far too costly.

We regularly review a representative range of challenging yet plausible HILL event scenarios to understand the potential impact of such events, calling on expertise and business knowledge, and the application of our risk management framework. This allows us to understand the potential impact of such events and make sure that appropriate contingency plans are in place.

Key mitigation for HILL events is the preparedness of the enterprise-wide continuity planning to identify vulnerabilities, reduce their potential impact and to provide resilience in our planned 'response and recovery'. This is critical to have in place in addition to any preventative actions and controls.

HILL events are also considered when deciding what disaster recovery and business continuity scenario exercises to carry out. Understanding our preparedness and conducting a potential impact analysis for HILL events increases our knowledge of the underlying threats, allowing us to plan for the unknown.



Principal risks and uncertainties

Read more about our principal risks on **pages 113 to 122**

Principal risks

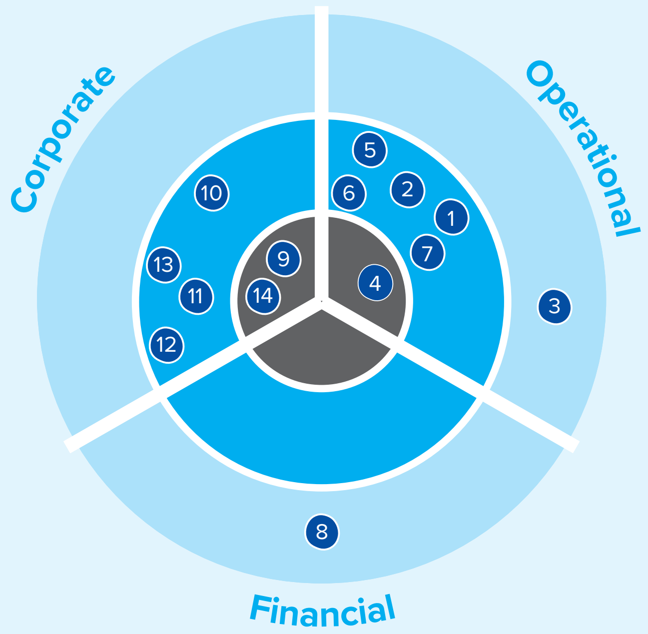
Those risks that have the potential to have a material impact on the company's strategic objectives are our principal risks.

As part of our annual planning process, we manage, monitor and report on the principal risks for the Executive and the Board to review.

We have 14 principal risks. These are a key feature of our risk taxonomy and risk appetite. We review our principal risks and their risk components on an annual basis, in response to changes in internal and external operational environment, making sure that emerging risks are reflected and that the current structure reflects our risk context, including evolving priorities and emerging risks.

Principal risk radar

The principal risk radar provides an indicative view of the current risk position of each of the principal risks, relative to each other.



Key

- Improving
- Stable
- Deteriorating

1. Asset and Infrastructure Resilience
2. Climate Change
3. Drinking Water Quality
4. Environment and Public Health
5. Water Resources and Drought
6. Delivery
7. Transformation
8. Financial resilience and funding
9. Digital and cyber resilience
10. Digital and cyber resilience
11. Legal Compliance
12. People
13. Regulatory environment reform
14. Reputation and Transparency

Principal risks and uncertainties
ctd

Key
Improving | Stable | Deteriorating

Principal risks

Our approach is aligned with the UK Corporate Governance Code including the requirements of Provision 29. The Board provides oversight of our risk management framework, approach and internal control environment, ensuring that appropriate systems and controls are in place to identify and manage risk effectively. While these controls are designed to mitigate risk, they cannot eliminate it entirely.

Risk management is embedded across the business, supported by clear governance, defined accountabilities and consistent processes for identifying, assessing and managing risk. We regularly review emerging risks to ensure we remain responsive to change.

We operate a structured governance framework, with risk ownership clearly assigned and oversight provided through management committees and the Board. Defined escalation processes ensure that significant risks are reported in a timely way, supporting effective decision making.

The Board regularly reviews the effectiveness of our approach, governance and internal controls, and remains focused on maintaining a robust and transparent framework that supports delivery of our strategy, protects customers and improves the environment.

	Principal risks (not in order of priority)	Trend
Operational risk		
1	Ageing infrastructure and asset failure	Stable
2	Physical impact of changing weather conditions	Stable
3	Supply of wholesome water	Improving
4	Serious pollutions, pollution and environmental protection	Deteriorating
5	Water supply constraints and temporary use bans	Stable
6	Capital project delivery	Stable
7	Business transformation initiatives	Stable
Financial risk		
8	Liquidity and equity	Improving
Corporate risk		
9	Cyber security – corporate	Deteriorating
10	Cyber security – operational technology (OT)	Stable
11	Legal and regulatory enforcement action	Stable
12	Talent acquisition and skills	Stable
13	Fundamental reform of the regulatory model	Stable
14	Public and stakeholder trust and perception	Deteriorating

Principal risks and uncertainties
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Our risk assessment also reflects ongoing economic pressures, including customer affordability challenges, alongside geopolitical uncertainty and sector-specific risks such as energy dependency. These factors underline the importance of maintaining reliable services, strong environmental performance and customer trust.

Cost-of-living pressures increase affordability risks, which we address through targeted customer support. Wider economic uncertainty continues to drive volatility in supply chains and costs, while our energy intensive operations expose us to price and supply risks. These are managed through active monitoring, hedging and investment in lower-carbon solutions.

We operate in a highly regulated environment with increasing expectations. We continue to enhance controls, processes and investment to maintain compliance and improve performance. Operational risks remain across wastewater treatment compliance, reservoir safety, bioresources management and the delivery of customer service transformation.

Failure to maintain compliance with wastewater treatment standards could result in environmental harm, regulatory action and loss of stakeholder trust. Similarly, reservoir safety remains a critical priority, with risks relating to asset integrity and adherence to statutory requirements managed through rigorous inspection, maintenance and assurance processes. The treatment and disposal of bioresources presents ongoing operational and environmental risks, including capacity constraints and compliance challenges, which are mitigated through robust controls, contingency planning and targeted investment.

Delivery of our customer service transformation programme also carries execution risk, including potential disruption to systems, processes and customer outcomes. This is managed through phased implementation, strong governance and continuous performance monitoring.

In addition, the increasing use of advanced technologies, including artificial intelligence and data analytics, introduces emerging risks relating to data integrity, model bias, decision transparency and regulatory compliance.

We are strengthening our governance frameworks, controls and assurance processes to support the responsible use of these technologies and reduce the risk of adverse outcomes. We are also responding to evolving disclosure and reporting requirements by enhancing our frameworks and assurance processes to meet increasing stakeholder expectations.

Risk areas	Trend
Water Resources long-term planning	Deteriorating
Bill affordability	Deteriorating
Geo-political uncertainty	Stable
Grid energy dependency	Stable
Wastewater treatment compliance	Deteriorating
Reservoir safety	Improving
Customer service transformation	Deteriorating
AI adverse outcomes	Stable
Bioresource disposal	Stable
Evolving disclosure obligations	Deteriorating

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Operational risk

	Risk climate	Risk response and mitigation	Assurance and control	Cross reference
1 Asset and Infrastructure Resilience **Ageing infrastructure and asset failure** Risk that our assets and infrastructure fail. **Risk climate** Stable **Executive accountability** Chief Operating Officer	Rising demand for water and increasingly stretching regulatory targets have put pressure on our operations. The growing frequency of extreme weather events and shifting weather patterns have also impacted the reliability of water supplies and wastewater services. In response, we have significantly scaled up our capital investment programme to 2030, which is focused on improving the resilience of critical assets, replacing substantial sections of our ageing network and enhancing overall system reliability. This investment is already delivering tangible benefits, with a step change in performance in water, across both unplanned and planned outages, including notable improvements in water supply disruption and a reduction in customer interruptions. Despite this progress, sustained and significant investment in our infrastructure remains essential to continue to improve performance and ensure long-term resilience.	• Capital investment and infrastructure renewal. • Investment in reducing site outage to provide enhanced production network resilience. • Asset management strategy, lifecycle modelling and planning and investment prioritisation. • Data, digital and smart asset management. • Governance, assurance and continuous improvement.	• Proactive maintenance and condition monitoring. • Critical asset health checks and performance tracking. • Operational resilience and contingency planning for critical asset failure.	Read more about investment in our assets on **pages 27 and 42 to 43** Read about our performance on **pages 24 to 85**
2 Climate Change **Physical impact of changing weather conditions** Increasingly extreme and unpredictable weather has a major / recurring impact on service delivery/ infrastructure. **Risk climate** Stable **Executive accountability** Chief Executive Officer	Changing climate patterns are increasing pressure on our operations, driven by higher temperatures, drier and hotter summers and more frequent drought conditions, challenging water availability. At the same time, increased intensity and frequency of storms and rainfall are heightening risks to infrastructure, flooding and pollution events, while extended periods of dry weather reduce the availability of water supplies. These combined physical climate risks require us to balance service resilience, environmental protection and reliable outcomes for customers, with weather events becoming more frequent. Our Business Plan 2025–30 outlines the investment required to ensure the resilience of our assets and services, including mitigating and adapting to changing weather conditions.	• Water Resources Management Plan – managing supply under drought and variable rainfall conditions. • Drought Plan – specific preparedness and response to prolonged dry periods. • Water Industry National Environment Programme (WINEP) – including catchment and nature-based solutions. • Drainage and Wastewater Management Plans (DWMPs) – resilience to flooding, storm events and network capacity pressures.	• Drainage and Wastewater Management Plans (DWMPs) – resilience to flooding, storm events and network capacity pressures. • Operational resilience plans – maintaining service during weather disruptions (storms, heat, cold). • Climate change risk assessments and adaptation reporting (CCRA and ARP4).	Read more about our approach to climate change on **pages 67 to 83**

Principal risks and uncertainties
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Operational risk

	Risk climate	Risk response and mitigation	Assurance and control	Cross reference
3 Drinking Water Quality **Supply of wholesome water** Risk that drinking water quality is compromised. **Risk climate** Improving **Executive accountability** Chief Operating Officer	Water quality performance continues to show sustained improvement, with 99.98% samples passing regulatory standards, supported by site improvements, audits of water supply works, and cleaning and inspection of service reservoir cells to identify and mitigate water quality risks. We continue to work with our regulators to manage licensed abstraction volumes, balancing the security of supply with the protection of our natural environment, while ongoing investment in leakage reduction, network performance, and water supply works improves reliability of supply and reduces the risk of interruptions to supply.	• Source protection and catchment management (WRMP, Water for Life – Hampshire, WINEP, partnerships). • Treatment capability, optimisation and innovation. • Asset performance and operational resilience. • Monitoring, compliance and adaptive planning (CCRA, adaptation reports, regulatory engagement, partnerships).	• ISO17025 Management System. • Water quality processes and procedures. • Water quality sampling and testing against statutory limits.	Read more about how we ensure a high-quality supply of water on **pages 42 to 53**
4 Environment and Public Health **Serious pollutions, pollutions and environmental protection** Risk that the company continues to have high levels of serious pollutions and pollutions. **Risk climate** Deteriorating **Executive accountability** Chief Operating Officer	Rising demand for water and increasingly stretching regulatory targets have put pressure on our operations. The growing frequency of extreme weather events and shifting weather patterns have also impacted the reliability of water supplies and wastewater services. Since the start of our Turnaround Plan, we've reduced pollution events by c.30%; however, serious pollution incidents have increased. Improving pollution performance remains our primary focus. We have delivered a range of mitigation activities through our strategic Turnaround Plan and Pollution Incident Reduction Plan. Continued and substantial investment in our assets is required, including delivery of the WINEP-CSO programme and implementation of sustainable drainage systems, to further improve environmental performance and reduce reliance on storm overflows. This includes a particular focus on reducing spills affecting rivers, chalk streams and bathing waters.	• Pollution Incident Reduction Plan. • Bioresources Strategy. • Net Zero Carbon Plan. • Clean Rivers and Seas Plan. • Water Industry National Environment Programme (WINEP) for water and wastewater, including catchment and nature-based solutions.	• ISO14001 Quality Management system. • Sampling regime. • Telemetry and early warning systems for rising risk. • Incident Management Framework.	Read more about our environmental performance on **pages 27 to 41**

Principal risks and uncertainties
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Key
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Operational risk

	Risk climate	Risk response and mitigation	Assurance and control	Cross reference
5 Water Resources and Drought **Water supply constraints and temporary use bans** Extreme water shortage jeopardises service. **Risk climate** Stable **Executive accountability** Chief Operating Officer	Changes to our regulatory operating environment and weather patterns and events impact our supply/demand balance and increase our risk in relation to drought, raw water source depletion and abstraction, with a period of dry weather following prolonged wet weather. This focus has now transitioned into the early stages of drought response. We continue to develop our plans should we experience extended periods of dry weather and work with our regulators to manage our licensed abstraction volumes, balancing the security of supply with the protection of our natural environment. Our Water for Life – Hampshire programme is focused on developing strategic water resource solutions to secure long-term, sustainable water supply for the region while protecting the environment. WINEP defines the environmental improvements and compliance activities water companies are required to deliver to protect rivers, groundwater, and ecosystems.	• Water Resources Management Plan – managing supply under drought and variable rainfall conditions. • Drought Plan – specific preparedness and response to prolonged dry periods. • Water Industry National Environment Programme (WINEP) – including catchment and nature-based solutions that mitigate flood/drought impacts. • Water for Life – Hampshire, capital and asset improvements to provide long-term resilience.	• Climate resilience in capital investment programmes. • Climate risk assessments and stress testing. • Stakeholder engagement on climate adaptation.	Read more about investment in new water sources on **page 43**
6 Delivery **Capital project delivery** Capital delivery projects are not delivered to agreed time, cost, and quality. **Risk climate** Stable **Executive accountability** Managing Director – Capital Projects	We have begun our largest and most ambitious investment programme to deliver our 2025–30 business plan, totalling £8.9 billion, more than double the previous programme. This includes £3.4 billion for water services and £4.1 billion for wastewater, supporting storm overflow reduction, wastewater treatment upgrades (including sites such as Budds Farm), and strategic schemes such as Water for Life – Hampshire. Alongside network reinforcement, mains replacement, and smart metering, these investments aim to improve resilience, efficiency and environmental performance. Delivery remains challenging due to planning, governance and supply chain constraints; in response, we are strengthening programme governance, enhancing planning and prioritisation, and working more collaboratively with strategic partners while investing in capability and digital controls to improve delivery outcomes.	• Enhanced programme governance and oversight with clear accountability oversight of major investment programmes. • Investment in internal capability and skills to support delivery of the capital portfolio. • Risk management and assurance to identify issues early and ensure timely corrective action • Strategic partner and supply chain management with the adoption of collaborative delivery models. • Digital project controls and performance monitoring – increased use of data, digital tools and performance tracking.	• Standardised delivery frameworks, standards, processes and controls. • Robust front-end planning and prioritisation improving scheme development, planning and risk-based prioritisation. • Change control for scope, cost and schedule.	Read more about our in-year project investment on **pages 27 and 42**

Principal risks and uncertainties
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	Risk climate	Risk response and mitigation	Assurance and control	Cross reference
7 Transformation **Business transformation initiatives** Failure to deliver transformation initiatives. **Risk climate** (Stable) **Executive accountability** Chief Transformation Officer	Business transformation risk remains a key consideration as the organisation delivers a significant portfolio of strategic and operational change initiatives alongside its wider investment programme. This is driven by the scale and pace of change, increasing complexity across technology and processes, and external pressures including resource constraints and evolving regulatory expectations. Unclear prioritisation, insufficient change capability, or ineffective governance could impact the successful design and delivery of transformation outcomes. In response, we are strengthening our transformation approach through clearer strategic alignment, enhanced governance and oversight, and improved programme and change management capabilities – prioritising key initiatives, investing in people, data and technology, and adopting more structured delivery frameworks to ensure consistent execution and sustainable benefits realisation. Together, these actions aim to support effective delivery of transformation programmes and enable long-term organisational performance and resilience.	• Clear strategic alignment and prioritisation. • Strengthened governance and oversight. • Enhanced programme and change management capability. • Structured delivery frameworks and standards. • Resource planning and capacity management. • Technology and data enablement. • Performance monitoring and benefits realisation.	• Programme governance framework. • Change control process. • Integrated Programme Plan. • Board-level reporting.	Read more about how we're doing things differently on **pages 27, 42, 54 and 61**

Financial risk

	Risk climate	Risk response and mitigation	Assurance and control	Cross reference
8 Financial Resilience and Funding **Liquidity and equity** Perceived high risk across the sector causes investors to withdraw. **Risk climate** (Improving) **Executive accountability** Chief Financial Officer	Financial resilience and funding risk remains a key consideration, as the organisation operates within a challenging and uncertain economic environment. This includes ongoing cost pressures, revenue variability, wider economic instability, and geopolitical factors that continue to influence inflation, supply chains and financing conditions. Recent changes in credit ratings, including Moody's assessment, further reflect the heightened scrutiny of the sector and can impact access to, and the cost of, capital. In response, the company is focused on maintaining a strong financial framework, underpinned by prudent financial planning, disciplined cost management and active engagement with lenders and investors. This includes strengthening liquidity, optimising capital structure, and aligning investment programmes with available funding. Together, these actions are designed to support sustainable access to funding and maintain financial resilience while delivering long-term investment commitments.	• Liquidity testing and reporting undertaken, forming part of the 'going concern' assessment. • Sufficient cash and facilities are maintained to mitigate risks. • Detailed budgetary scrutiny of operational and capital spend. • Improved operational performance. • Prudent financial planning and forecasting. • Funding diversification and access to capital markets. • Governance, assurance and financial risk monitoring. • Disciplined cost control and efficiency programmes. • Engagement with credit rating agencies, lenders and investors. • Capital structure optimisation. • Active liquidity and cash management.	• Financial instructions manual. • Treasury and cash management. • Treasury management policy.	Read more about financial performance on **pages 90 to 100**

Principal risks and uncertainties
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Key
Improving Stable Deteriorating

Corporate risk

	Risk climate	Risk response and mitigation	Assurance and control	Cross reference
9 Digital and Cyber Resilience **Cyber security – corporate** Risk that a serious cyber security breach occurs. **Risk climate** Deteriorating **Executive accountability** Chief Digital Officer	Cyber threat to the business remains dynamic and increasingly uncertain, with legacy technology, emerging vulnerabilities and a significant proportion of the estate still to be transitioned presenting ongoing risk. We continue to strengthen the resilience of our digital and operational technology environments to protect our services, systems and data, delivering targeted improvements to reduce cyber risk, enhance network security, and embed more robust operational governance. While controls, including network protection, next generation firewalls, and a sustained programme of vulnerability remediation, have reduced overall exposure and improved our security posture, further work is required to extend these principles consistently across the estate, mature recovery capabilities and sustain improvements, with geopolitical tensions increasing the likelihood of opportunistic attacks and contributing to a deteriorating risk climate.	• Enhanced programme governance and oversight with clear accountability oversight of major investment programmes. • Legacy data centre decommissioning. • Investment in internal capability and skills to support delivery of the capital portfolio. • Digital project controls and performance monitoring – increased use of data, digital tools and performance tracking.	• Digital security improvement and cyber security programmes. • Standardised delivery frameworks, standards, processes and controls.	Read more about how we're upgrading technology on **pages 27, 42 and 54**
10 Digital and Cyber Resilience **Cyber security – operational technology (OT)** Risk that a serious operational technology cyber breach occurs. **Risk climate** Stable **Executive accountability** Chief Digital Officer	Cyber threat to the business remains dynamic and increasingly uncertain, with legacy technology, emerging vulnerabilities and a significant proportion of the estate still to be transitioned presenting ongoing risk. We continue to strengthen the resilience of our digital and operational technology environments, including operational technology communications remediation to replace legacy connectivity and address end of life services across operational sites, improving the reliability and security of communications and establishing a more robust foundation for operational data and control services. While improvements in network protection, vulnerability remediation and operational monitoring capabilities have reduced exposure and improved security posture, further work is required to sustain and optimise these capabilities, extend controls consistently across the estate and remain vigilant as geopolitical tensions increase the likelihood of opportunistic attacks, contributing to a deteriorating risk climate.	• Strengthening resilience of digital and operational technology environments through targeted improvements to reduce cyber risk and enhance network security. • Improving network security by implementing network segmentation and undertaking vulnerability remediation. • Operational technology communications remediation programme completed, improving reliability and security of communications.	• NIS programme. • Standardised delivery frameworks, standards, processes and controls.	See above.

Principal risks and uncertainties
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Corporate risk

	Risk climate	Risk response and mitigation	Assurance and control	Cross reference
11 Legal Compliance **Legal and regulatory enforcement action** The business fails to comply with its obligations resulting in legal or regulatory enforcement. **Risk climate** Stable **Executive accountability** Chief Financial Officer and General Counsel	The risks of non-compliance with legal, regulatory and data protection obligations, are driven by increasing regulatory scrutiny, tightening environmental standards, and the complexity of the operating environment. Key areas of exposure include environmental compliance (such as pollution incidents and permit breaches), delivery against regulatory performance commitments, and the protection of customer data in the context of increasing cyber security threats. Given previous enforcement actions in the sector, there remains an elevated risk of investigation or prosecution where performance falls short. Failure to maintain effective controls, governance and oversight could result in enforcement action, financial penalties and reputational damage. The company is strengthening its compliance framework through enhanced governance, regulatory engagement, targeted improvement programmes, and increased focus on environmental performance, cyber security and data protection.	• Delivery of key transformation and training programmes in both water and wastewater operations. • Embedding of a robust three lines of defence compliance model. • Transparent and timely communication with our various regulators. • Annual review of our license of appointment with Ofwat. • Targeted remediation and improvement programmes. • Environmental compliance and permitting controls. • Cyber security, data protection and training. • Financial resilience.	• Robust legal governance and oversight. • Comprehensive compliance framework • Legal assurance, audits and monitoring.	Read more about performance on **pages 24 to 85**
12 People **Talent acquisition and skills** Business is unable to attract, retain, and develop sufficiently skilled people. **Risk climate** Stable **Executive accountability** Chief People Officer	Ensuring the right people are in the right place at the right time remains critical to delivering our business objectives, and the risk climate for 2026–27 is improving as mitigations are implemented to strengthen workforce capacity and capability, including refreshed strategic workforce planning, targeted buy/build plans, and improvements in attraction and retention through a clearer employer value proposition (EVP), consistent hiring standards, and strengthened succession planning. While challenges persist in attracting and retaining technical and STEM roles due to geographic and market pressures, these risks are being mitigated through improved planning, internal redeployment, capability development, and strengthened governance, performance management, and colleague engagement.	• Workforce plan refreshed to align with operating model, with buy/build plans for six critical capability areas. • EVP and careers site to support attraction of key skills and capability. • Strengthening succession and knowledge management for leadership and critical roles. • Maintaining a market-indicated total rewards package. • Establishing hiring standards and consistent assessment approach for leaders and operational roles. • Continuing work to align terms and conditions to support workforce requirements.	• Talent acquisition framework and recruitment standards. • Attraction strategy and EVP. • Organisational culture framework.	Read more about our people on **pages to 61 to 66**

Principal risks and uncertainties
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Corporate risk

	Risk climate	Risk response and mitigation	Assurance and control	Cross reference
13 Regulatory Environment Reform **Fundamental reform of the regulatory model** A major overhaul of regulatory structures creates uncertainty in the market. **Risk climate** (Stable) **Executive accountability** Chief Financial Officer	The need for water regulation reform was reinforced not only by government intervention, including the Independent Water Commission led by Sir Jon Cunliffe, driven by heightened public, environmental, and political scrutiny but also by calls from water companies themselves for clearer, more coherent regulation to better support long-term investment and environmental outcomes. While reform presents a longer-term opportunity to strengthen the sector's framework, in the interim it may create ambiguity around roles, requirements, and expectations, impacting planning and delivery could results in regulatory uncertainty, disruption, and misalignment between policy intent and operational delivery. We are responding by actively engaging with the review process and regulators, strengthening internal governance and regulatory insight, and building flexibility into AMP8 plans to adapt to emerging changes while maintaining compliance and delivery of customer and environmental commitments.	• Influencing and shaping regulatory policy. • Forward planning and implementation readiness. • Translation of regulatory requirements into business controls. • Capability and skills development. • Integrated governance and change management.	• Early and proactive regulatory engagement.	Read more about the regulatory environment on **page 20**

Principal risks and uncertainties
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Key
Improving Stable Deteriorating

Corporate risk

	Risk climate	Risk response and mitigation	Assurance and control	Cross reference
14 Reputation and Transparency **Public and stakeholder trust and perception** The organisation fails to maintain trust and confidence with its customers, regulators and stakeholders. **Risk climate** Deteriorating **Executive accountability** Director of Corporate Affairs	Our relationships with customers and stakeholders are closely connected to our operational performance and wider national sentiment about the water industry and while sectoral reputation has continued to be challenging year-on-year since 2022, we have recorded a stabilisation in the last two quarters due to fewer significant incidents and improved communication and operational efforts. There continues to be significant political and media interest, alongside regulatory reform and scrutiny, and while we engage in open conversations, provide timely reporting and are committed to improving performance and accountability to rebuild trust and the delivery of the business plan. Clear communications to customers and stakeholders must be maintained to foster a stable risk climate.	• Monitoring developments in requirements from all regulators on key issues. • Maintaining close dialogue with Government, Ofwat and other regulators on key issues. • Building relationships with MPs, local authorities and councillors to build understanding and mitigate risk of public criticism. • Nurturing our proactive relationship with key media outlets and journalists to improve balanced reporting, and challenging inaccuracies. • Creating digital content for social media, website and on our intranet that helps educate audiences, myth busts, and demonstrates transparency. • Continuing to engage constructively with all regulators and relevant stakeholders to build understanding, awareness and claimed action. • Working with our regulators to demonstrate that we are working towards achieving the targeted outcomes of our business plan. • Securing third-party advocates and partnerships to help share information to help with credibility and trust.	• Stakeholder engagement strategy and mapping. • Community engagement programmes and partnerships. • Processes ensuring accuracy and integrity of all external publications.	Read more about how we're improving performance on **pages 24 to 85**

Viability statement

Southern Water Services (SWS) is a regulated utility operating over a long-term investment horizon across successive regulatory price control periods, with largely predictable, regulatory-determined revenues. Ofwat sets price-controls for five-year periods, which reduces the potential for variability in revenues from the regulated business. The company benefits from a rolling 25-year operating licence.

Ofwat regulates the water industry in England and Wales and has a statutory obligation to ensure that water and wastewater companies can finance their functions. In addition, Ofwat has a primary duty (under the Water Industry Act 1991 as amended by the Water Act 2014) to ensure that water and wastewater companies have the long-term resilience to meet the needs of customers.

Basis of assessment

In preparing the long-term viability statement (LTVS), SWS has conducted an assessment covering the seven-year period up to March 2033. This assessment period is consistent with the company's strategic planning horizon and aligns with the PR24 (AMP8) regulatory period, extending into the next (AMP9).

The analysis has considered current performance, planned performance improvements, funding of the defined benefit pension scheme and the principal risks that affect the business as documented in the Strategic Report on pages 112 to 122. "Severe but plausible" downside scenarios were developed to quantify the financial effects of some of the principal risks faced by the business. These risk scenarios were then tested both individually and in combined scenarios. An overview of this analysis is provided below. Mitigating actions and the effectiveness of these actions were also considered.

The Board has assessed viability by reference to the company's ability to:

- Maintain sufficient liquidity and committed facilities;
- Remain in compliance with financial covenants;
- Maintain investment grade-equivalent credit metrics consistent with regulatory expectations; and
- Continue to finance its functions under Ofwat's financeability requirements.

The analysis has also considered the long-term financing needs of the business, which includes equity commitments of circa £0.3 billion and circa £3.0 billion of additional new finance used to fund the capital investment programme, alongside the repayment of approximately £1.1 billion of debt maturities and inflation-linked accretion repayments during the period to 2030.

Assessment assumptions

For the LTVS, the Board assessed a forward-looking term up to 31 March 2033, with the following assumptions:

- SWS has adopted the commitments and customer promises in the Final Determination for 2025–30 (PR24) as further updated by the now complete Competition Markets Authority (CMA) appeal process. The Board has since agreed a business plan for the period to 31 March 2030.
- This business plan for 2026–30 has been used as the basis for the long-term viability assessment.
- The long-term viability assessment has then been extended to 2033 using prudent management assumptions of the spend and associated regulatory allowances for the period 2030–33, based on the end of AMP8 levels. This has been based on extrapolations from PR24 allowances. However, these remain inherently uncertain.

Stress tests

The 'principal risks' identified pages 112 to 122 are recognised as the key risks facing SWS and those that will have the potential greatest impact on the business. These are regularly reviewed by the Board. Based on these principal risks, the following risk factors are considered to have the potential for a negative impact on the financial position of SWS and have been used as the basis for creating severe but plausible stress testing scenarios:

- **Outcome Delivery Incentive (ODI). Performance Commitment (PC) or other regulatory penalties:** These may materialise as a result of under-performing on performance commitment targets set by Ofwat, or other statutory obligations which carry a financial consequence.
- **Increased expenditure:** Increased expenditure has been considered in light of the size of the capital programme and the challenging cost allowances set in the PR24 Final Determination (as updated by the CMA), as well as unexpected costs arising from high energy prices, high inflation, operational incidents, and/or maintaining service during periods of severe weather.
- **Outturn inflation is different to forecast:** SWS's financial projections are exposed to inflation scenarios given the index-linked nature of business cash flows and a number of credit metrics which include inflation adjustments (SWS uses inflation forecasts published by HM Treasury). SWS has in place inflation linked debt and derivatives to mitigate some of this risk.
- **Increased cost of financing, e.g. due to outturn interest rates being different to forecast:** SWS's financial projections make assumptions about future levels of interest rates when assessing net interest payable. SWS takes this risk into account when planning and executing its funding programme, while the issuance of fixed-rate debt and consideration given to any required hedging further mitigate some of this risk.

Viability statement
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The likely individual financial impact of these risks has been estimated and then used in the construction of severe, but plausible, downside scenarios. In developing these scenarios, we have considered combinations of risk factors and the potential correlations between risk factors:

Stress test	Link to principal risks	Severe but plausible scenario
ODI/regulatory penalty	Operational	One-off penalty incurred in current year paid in financial year 2028–29, equivalent to 3% RORE
Increased expenditure	Operational Corporate	Increased expenditure above our allowances (+8.5% p.a. to 2030)
Macroeconomic shock – low inflation	Financial	Inflation forecasts reduced by 5% across the plan
Macroeconomic shock – high inflation	Financial	Inflation forecast increased by 5% across the plan
Macroeconomic shock – higher cost of financing	Financial	Interest rates increase by 2% from current assumptions
Combined operational scenario 1	Operational Corporate Financial	8.5% overspend to 2030 combined with the financial penalty, and lower inflation.
Combined operational scenario 2	Operational Corporate Financial	8.5% overspend to 2030 combined with the financial penalty, and higher inflation.
Combined macroeconomic scenario 3	Financial	Interest rates increase by 2% along with higher inflation

Assessment of results and mitigating actions

There is sufficient financial flexibility within the base case assessment period to 2033, with headroom projected to improve as we progress with our plans, improving the resilience of SWS assets and investing to accommodate population growth in the South East, while reducing the impact on the environment from the treatment and processing of water and wastewater.

Across all scenarios modelled the company maintains adequate liquidity headroom and access to committed facilities. Covenant headroom is reduced in downside scenarios but remains above trigger levels, unless otherwise noted. Credit rating metrics show sensitivity in more severe scenarios, however, mitigating actions are available to preserve financial resilience.

For the period to 31 March 2030, should a severe weather event occur (or a greater number of severe events in close succession), management believes that the costs of this can be accommodated in the plan proposed, although it (or any other significant one-off cash cost) may require rephasing of borrowing and spending plans.

The recent significant investment in the business made to 2025 (and to date since then) has improved operational resilience for the period 2025 to 2030 and this has been recognised by its regulators, government and other key stakeholders. The requirement for further investment will, however, result in limited financial flexibility as the 2025 to 2030 investment plan is around 50% larger than the plan determined for the regulatory period to 2025.

For AMP8 no dividend payments to external shareholders are forecast to be made; any allowance associated with dividends will be reinvested into the business, with an assumption that dividends will be resumed in AMP9 (subject to necessary license and covenant conditions being met).

At the time of writing, the company has secured an additional binding equity commitment of £300 million due to be received by 31 March 2027, in addition to the £900 million received during the financial year to 31 March 2026.

The company is currently in a credit rating Trigger Event, although it expects it will no longer be in a debt covenant Trigger Event under its debt documents when it submits its annual compliance certificate to lenders at the end of July 2026.

Credit ratings and financial ratios are expected to recover during the period from 2026 to 2030 as a result of improved operational performance from the significant additional expenditure invested in the period to 2026, as well as the equity support received. However, until the ratings agencies satisfy themselves as to these improvements and consider a change in SWS's ratings, SWS will remain in credit rating Trigger Event.

A Trigger Event see page 189 to 190 for further explanation results in restrictions on the payment of dividends and for SWS to prepare a plan, for the Security Trustee, of how it plans to recover. SWS obtained a waiver from its lenders to permit continued access to financial indebtedness, and to also continue to finance the business in a credit rating Trigger Event or a financial ratio Trigger Event to March 2035.

Viability statement
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A Default Event see page 189 to 190 for further explanation does not materialise in any of the scenarios tested as a primary consequence of the stress testing. However, depending on the severity and duration, and absent successful mitigation, it could cause ratings downgrades, which would not directly be an Event of Default under the terms of its financing documents, but could cause a breach of its regulatory license, depending on what action Ofwat decided to take. This would be an Event of Default, although the directors consider this scenario to be unlikely.

For each of the scenarios tested, we've identified appropriate mitigating actions if stress tests would result in projected metrics deteriorating materially. These mitigating actions are set out in the table below.

Severe but plausible scenario assessed	Potential impact on viability (pre-mitigants)	Possible mitigants available
One-off penalty incurred in current year, paid in financial year 2028–29, equivalent to 3% RORE	Cashflow impact which increases net debt and gearing while reducing interest cover and liquidity. No covenant breaches forecast, mostly single year weakening of ratings metrics.	Manage short-term working capital and liquidity. Review spend profile of capital programme.
Increased expenditure compared to our allowances (+8.5% p.a. to 2030)	Cashflow impact which increases net debt and gearing, and reduces liquidity over time. No breach of covenants, but some pressure on credit rating cashflow related metrics.	Equity support. Review dividend assumptions (AMP9 only). Manage short-term working capital. Review spend profile of capital programme. Cost reduction programme, with a focus on discretionary/ non-essential items. Raise additional debt funding. Engage with ratings agencies
Inflation forecasts reduced by 5% across the plan	Cashflow, index linked debt/ derivatives and RCV will reduce. Due to proportionately higher RCV exposure to inflation, gearing marginally increases. No breach of covenants nor pressure on credit rating metrics.	Dynamic monitoring of impacts but no mitigants envisaged to be required.
Inflation forecast increased by 5% across the plan	Cashflow, index linked debt/ derivatives and RCV will increase. Due to proportionately higher RCV exposure to inflation, gearing marginally decreases. No breach of covenants. Potential single year of pressure on cashflow related credit ratings.	Dynamic monitoring of impacts but no mitigants envisaged to be required.
Interest rates increase by 2% from current assumptions	Increase in new debt cost causing a cashflow impact, offset in part by interest receivable. Limited impact due to high proportion of fixed rate debt. No covenant breaches. Pressure on cashflow related ratings metrics in final two years of assessment period.	Equity support. Review dividend assumptions. Review spend profile of capital programme. Cost reduction programme, with a focus on discretionary/ non-essential items. Proactive pre-hedging of new debt issuance and adapting funding plans.
Combined operational scenario 1 – 8.5% overspend to 2030 combined with the financial penalty, and lower inflation	Cashflow and liquidity impacts offset by lower index linked debt/derivatives and RCV. The net impact causing gearing to increase. Potential breach of ICR trigger in single year. Pressure on credit rating metrics across a number of periods.	Equity support. Review dividend assumptions. Manage short-term working capital. Review spend profile of capital programme. Cost reduction programme, with a focus on discretionary/ non-essential items. Raise additional debt funding. Engage with ratings agencies and creditors.

Viability statement
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Severe but plausible scenario assessed	Potential impact on viability (pre-mitigants)	Possible mitigants available
Combined operational scenario 2 – 8.5% overspend to 2030 combined with the financial penalty, and higher inflation	Cashflow and liquidity impacts while index linked debt/derivatives and RCV will increase. The net impact causing gearing to increase. Potential breach of ICR trigger in single year. Pressure on credit rating metrics across a number of periods.	Equity support. Review dividend assumptions. Manage short-term working capital. Review spend profile of capital programme. Cost reduction programme, with a focus on discretionary/ non-essential items. Raise additional debt funding. Engage with ratings agencies and creditors.
Combined macroeconomic scenario 3 – Interest rates increase by 2% along with higher inflation	Cashflow and liquidity impacts while index linked debt/derivatives and RCV will increase. The net impact causing gearing to increase. Potential breach of ICR trigger in AMP9. Pressure on credit rating metrics across a number of periods.	Equity support. Review dividend assumptions. Review spend profile of capital programme. Cost reduction programme, with a focus on discretionary/ non-essential items. Proactive pre-hedging of new debt issuance and adapting funding plans.

Viability

The Board has assessed the viability of SWS to the period 31 March 2033. In doing so, it has considered SWS's current financial and operational position, the principal risks facing the company and resulting stress tests, and the impact of mitigating actions, the most material being further equity commitment, rephasing of capital investment plans and raising further liquidity.

The other companies in the wider Greensands group are principally in place to support the viability of the regulated business. The Board has taken into consideration the activities of other group companies (pages 101 to 106) as well as the overall group structure and is satisfied that it poses no additional risk to the financial flexibility of SWS.

In making their assessment, the directors have assumed that the capital markets will be available to provide funding for the significant ongoing capital investment programme as well as for the refinancing of debt, credit facilities and financial derivative maturities when they fall due. The directors anticipate the ability to efficiently raise new finance and a stable and supportive regulatory environment.

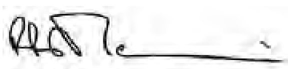
The Board is satisfied that it has sufficient information to judge the viability of the company and has a reasonable expectation that the company will be able to continue to operate and meet its obligations over the period to 31 March 2033.

Governance and assurance

The Board has reviewed the company's medium-term plan and reviews the company's principal risks from a strategic perspective, which form the basis of the stress tests modelled.

The Audit Committee supports the Board in reviewing the results of the analysis as part of its normal procedures.

The Strategic Report, including the directors' Section 172(1) Statement on pages 86 to 87, was approved by the Board of Directors and signed on its behalf by:



Richard Manning
Company Secretary

15 July 2026

Chair's overview

"We must ensure value for customers, secure continued shareholder and capital market support, protect the environment and listen to our many stakeholders."

Keith Lough
Non-executive Chair

This marks my seventh and final year as Chair of Southern Water.

I step down from the role on 16 July 2026. I am proud of the Board's achievements and the role it has played through difficult times for the company. I pay tribute to all the Board colleagues with whom I have had the privilege to work over these last years.

I welcome my successor, Andrew Davies, who comes to the company with a wealth of relevant experience. I hand over to him, I believe, a strong Board and an effective system of corporate governance.

The Board of Southern Water has shown decisive leadership in steering the company through difficult times. In my time as Chair we have overseen two price reviews (including appealing the last determination); we have refinanced the company and taken on board effective new investors, Macquarie and, very recently, Asterion Industrial Partners; we have dealt with failures in performance, often in the public spotlight; we have developed a new five year strategy and major underpinning capital investment programme. We are in the process of seeing major change in our regulatory environment which we and the industry agree looks for the better. We hope the new regulator will be established in a way that meets the aspirations for it that the Cunliffe Report set.

There have been times when we as a Board have had to push hard for remedies to basic operational performance to meet standards expected by our regulators and the public. We have, on occasion, had to address issues about culture and behaviour in the company. I leave the Board with confidence that the company is now on a healthy forward trajectory, led by a strong executive team and with a much-needed underpinning programme of capital investment.

Effective corporate governance is at the heart of a healthy company; it needs to evolve to match the state of the company and the challenges it faces. But good governance abides by constant principles, clearly set out for us in the FRC's Corporate Governance Code and Ofwat's Board Leadership, Transparency and Governance principles. We set out later on in this section how we comply with these important principles, see page 131. The Water (Special Measures) Act 2025 has introduced further tests which we must meet, not least around consumer representation, fit and proper tests for leaders, and requirements about executive remuneration.

My approach to leading the Board has also rested on practices which go more to who we are and how we work. At their simplest, I have always sought to ensure that we have the right balance of skills and experience on the Board; that the Board is really in the driving seat, setting strategy and holding the executive to account; that our relationship with the executive, and wider company, is in right measure challenging and supportive; that we focus on the right issues, balancing our attention between the long-term and urgent short-term matters. Above all I believe the Board has to lead and set the example on ethics and the culture of the company. Each Board Member makes an annual ethics declaration This is fundamental to healthy culture and transparency throughout the company.

Looking back over the last year, the Board has given its attention to (amongst other matters):

- Hearing from regulators and government first hand on the company's performance and building on improvements.
- Lessons learned from operational and safety incidents.
- The findings of the Cunliffe Review and subsequent legislation.
- Financial resilience and the company's referral to the CMA.
- Understanding colleagues' views through the Employee Engagement Survey and site visits.

During the year, Board membership has remained constant apart from the loss of an investor-nominated director, Steve Fraser, whose contribution we have missed. As a result of this change and changes that occurred last year the Board is smaller – with four independent non-executives (excluding me as Chair), two investor appointed non-executives and two executives. I believe we function better as a smaller Board although, with our committees, there is much work to go around, and I am always conscious of the need for and benefits

Chair's overview
ctd

of investor representation, which has implications for overall size and shape. I am sure my successor will want to form his own view about the optimal size for the Board and the balance of skills and experience it needs. Indeed, Will Price, an investor nominated non-executive director and a source of constant support to the Board, has signalled his intention to stand down this year. Upon completion of Ofwat's new fitness and propriety processes, he will be replaced by Martin Bradley and Steve Hurrell will also join the Board as investor-nominated non-executive directors. Further, following the recent equity transaction, Asterion Industrial Partners are expected to nominate a non-executive director.

During the year, we decided to fold the activities of the ESG Committee into the Board's and other Committees' work. It had served a useful purpose but we are now able to ensure that first order issues about the environment, consumers and governance come direct to the Board. As part of our commitment to openness we received feedback directly from the Chair of our Independent Customer Scrutiny Committee and the CEO, Will Price and I participated in live-streamed challenge sessions from that committee. Our Independent Climate and Environment Challenge Group (ICECG) will give their Annual Report to the Board in July 2026.

We established a new Board committee to oversee the capital programme. This will be a first order issue for the Board and needs the detailed scrutiny which a committee will be able to give it. The Major Projects and WRMP Committee is chaired by Neil Corrigall and I thank him for taking on this role for which his background qualifies him so well.

Malcolm Cooper has continued to chair the Audit Committee. Malcolm has chaired this Committee throughout almost all my tenure as Chair. I pay particular tribute to him for his diligence, his eye for issues and his ability to challenge effectively. Malcolm has also played the role of Senior independent non-executive director, quietly and effectively. It will fall to my successor to replace Malcolm in these important roles when Malcolm's term comes to an end.

Christèle Delbé has continued to chair the Remuneration Committee. I thank her for grappling with this complex and sensitive area, and not least dealing with the impact of the Special Measures Act. Achieving a balance between rewarding our senior leaders for the complex roles they have and penalising poor performance remains a real challenge.

I have continued to chair the Nominations Committee. The search for my successor was led by Malcolm Cooper.

Neil McArthur's experience from capital-intensive industries has benefited our Health and Safety and Operational Risk Committee, which he chairs and Kerensa Jennings brings extensive experience in data platforms and an understanding of the emerging applications of AI from which the Board has profited, alongside her media and other skills.

I thank Lawrence Gosden for his role as chief executive officer during my last four years as Chair. He has faced major challenges and led strongly. He is ably supported by Stuart Ledger as CFO. On behalf of the Board I express our gratitude to both these leaders for the role they have played in transforming the company. Richard Manning leaves the company this Summer after eight years as General Counsel and Company Secretary. I and the Board have benefited greatly from Richard's wisdom, experience, humanity and sheer nous. We thank him and wish him very well for the future.

During the year we conducted a small-scale review of the Board by external consultants Stanton Marris. The review finds that we have acted on many of their recommendations from last year. But its main purpose – and the reason for engaging an external reviewer – was to give my successor an objective view of the Board and to point him to the kind of issues that he will want to address. Of course, any transition of this kind is a moment for a reset. I am sure that Andrew Davies will wish to put his own stamp on the Board; its membership, its agenda, its way of interacting with the executive and with key stakeholders, etc. I hand the role over to him with pride in the positive changes and determination that I have witnessed in the last seven years, and also in the knowledge that I leave the company in good hands for the next stage in its journey.

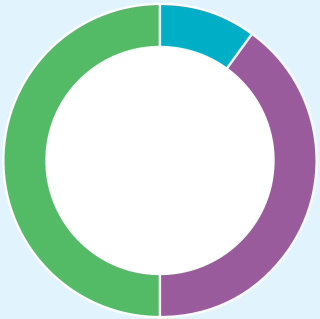
Keith Lough
Non-executive Chair

15 July 2026

Governance at a glance

The section that follows is a concise summary of the Board's role, activities and considerations.
Our framework enables agile and effective decision-making, while ensuring we have established and robust governance practices in place.

Board tenure



Colleague engagement

Workforce participation in December 'Pulse' survey	80%

Benchmarking our performance

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

Our environmental performance is monitored by the Environment Agency's Environmental Performance Assessment (EPA) annually. We expect a one-star rating for 2025.

We performed well in the 2025 Global Real Estate Sustainability Benchmark (GRESB), which assesses the ESG performance of infrastructure assets. We were awarded a Green Star rating, achieving the highest possible five stars, and a score of 96 out of a possible 100 (2024: Green Star, five stars).

Board highlights

1. Stakeholder engagement

The Board was pleased to welcome a number of key stakeholders, including the Chief Inspector of the Drinking Water Inspectorate, the CEO and Chair of Ofwat, the Chair of the Environment Agency (EA) and the Minister for Water.

This direct communication enables the Board to further the company's commitment to transparency and openness while continuing to demonstrate its oversight and ownership of the company's performance. With a changing regulatory and governmental landscape, these engagements provide an invaluable opportunity for an exchange of views on important matters that affect the sector, the environment and customers.

2. Investing for the environment and our customers

The Board welcomed further significant investment coming from shareholders in the year.

It will fund the company's ambitious programme to provide the new infrastructure and continued improvements in services.

The continued shareholder committed investment in Southern Water, led by funds managed by Maquarie Asset Management, now totals £2.8 billion since 2021. No external dividends are expected to be paid before 2030.

3. Independent scrutiny

A new independent Independent Customer Scrutiny Committee was established to provide independent, visible, evidence-based scrutiny of Southern Water's performance, governance and stewardship. The sessions are streamed live and focused on outcomes that matter to customers and communities. It is the first scrutiny model of its kind in the UK water sector.

In addition to our Chief Executive Officer, both the Chair and shareholder non-executive director have attended the committee, facing questions on environmental performance, customer service, financial resilience and governance. The Board heard from the Chair on the work and operation of the scrutiny committee.

Governance at a glance
ctd

Major Board decisions

May

The re-constitution of the Major Projects and WRMP Committee to enable the Board to consider the company's delivery plans and water resource planning.

Award of the smart metering contract.

June

Approval of capital investment to reduce storm overflow releases and improve bathing and shellfish waters.

September

Approval of the financing strategy to support and maintain financial resilience.

November

The discontinuation of the ESG Committee, elevating matters to the Board and dispersing to the committees where appropriate to enable better oversight of strategic matters.

January

Approval of wholesale and retail charges, balancing the need for continued investment, maintaining financial resilience and reducing bill impact for customers.

Review of support provisions available to household customers to mitigate the bill increase.

March

Endorsement of the successor to Keith Lough as Chair of Southern Water.

Overview

Ofwat's Board Leadership, Transparency and Governance Principles

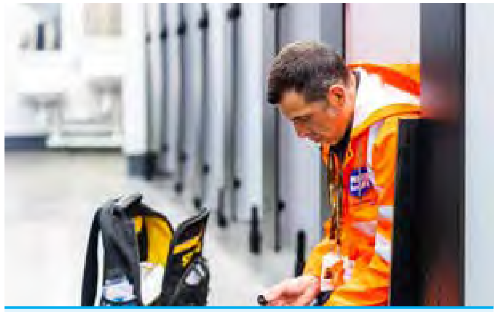
Our starting point is Ofwat's four high-level principles:

1. Competence and independence

Boards and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high-quality decisions that address diverse customer and stakeholder needs.

Committees and associated ad-hoc working groups have given the Board the ability to exercise oversight carefully and deeply across all aspects of the company's business. Each committee has a majority of independent directors. The Board and its committees demand and receive high-quality analysis and proposals from the Executive. Board members are also able to bring to bear their own experience and background, ensuring there is a wider knowledge base to draw on and enhancing the quality of decision making.

2. Purpose, values and culture



The regulated company Board establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

Alongside its engagement with the Price Review process, following the company's decision to appeal the Final Determination to the Competition and Markets Authority (CMA), the Board has focused on embedding the business strategy framework and readiness for the Price Review 2029 (PR29). It oversaw the delivery of the company's operating strategy and plans, including the new approach to managing performance.

3. Effectiveness

The regulated company has an effective Board with full responsibility for all aspects of the regulated company's business for the long term.

The Board has worked effectively during the year, providing a forum within which the executive directors, non-executive shareholder directors and independent non-executive directors can debate issues clearly and transparently and come to agreed decisions. Through its committees the Board has a direct view of all aspects of the regulated business and is able to hold executives to account for different aspects of the company's performance.

4. Transparency and accountability

The board's leadership and approach to transparency and governance engenders trust in the regulated company and ensures accountability for their actions.

The Board aims to ensure strong openness and transparency. This report sets out who Board members are, their skills and qualifications for the job, how they work and the key issues they have examined during the year. They believe that the combination of skills and experience, including a majority of independent non-executive members, gives the Board a strong and independent perspective on the governance of the company.

Section 'Ofwat Principles' on **pages 165 to 167** sets out, in table form, more detailed cross references to the sections of this report which show the Board's compliance with the principles.

Overview
ctd

Financial Reporting Council

Corporate Governance Code

During 2024, the Financial Reporting Council (FRC) issued updated Corporate Governance Code Guidance. As the FRC states, the guidance is very much a prompt for boards to examine their own competence and improve their effectiveness. There are a number of issues to which the Board gave its attention during the year, including its committee structure and the approach to Provision 29 and key controls. The Board expects to report on around 35 material controls in July 2027, which are aligned to the company's principal risks.

Board effectiveness and Chair evaluation

The Board conducted an externally facilitated evaluation led by the Nomination Committee.

Read more on **pages 151 to 154**

Board of directors

Key

- A Audit Committee
- MP Major Projects and WRMP Committee
- N Nomination Committee
- RE Remuneration Committee
- HS H&S and Operational Risk Committee
- Committee Chair

Keith Lough
Chair

Non-executive independent:	On appointment
Committee membership:	MP N
Date of appointment:	01/08/2019

Experience:

Keith has extensive experience in the natural resources and energy sectors in both finance and leadership roles, including as finance director of British Energy plc between 2001 and 2004, during a period of major restructuring.

In addition, Keith served as non-executive chair of Gulf Keystone Petroleum plc and led the successful debt restructuring.

Immediately prior to his appointment to the Board of Southern Water, Keith was a non-executive member of the Gas and Electricity Markets Authority (Ofgem), where he was chair of the audit and risk assurance committee, having served on the board since 2012.

Keith holds an MA in economics and an MSc in finance and is a Fellow of the Association of Chartered Certified Accountants.

External appointments:

Keith is senior independent director of Hunting plc.

Note: Keith Lough will retire as Chair on 16 July 2026.

Lawrence Gosden
Chief Executive Officer

Non-executive independent:	No
Committee membership:	N/A
Date of appointment:	01/07/2022

Experience:

Lawrence joined Southern Water in May 2020 and was appointed to the Board on 1 July 2022 when he became the company's Chief Executive Officer.

Lawrence brings significant experience to the Board having worked in the water sector for over 30 years. He has a track record for successful operational and capital programme delivery and a wealth of experience delivering major infrastructure programmes, asset management, customer service and operational transformation alongside the provision of impactful and inclusive strategic leadership.

Prior to his return to Southern Water, Lawrence spent 12 years at Thames Water in a variety of senior executive and leadership positions. Notably, he was managing director for wastewater and subsequently chief operating officer.

Lawrence was also a non-executive director at National Highways where, among other things, he chaired their health and safety committee.

Lawrence gained a first-class honours degree in engineering before starting his career as a graduate at Southern Water.

Stuart Ledger
Chief Financial Officer

Non-executive independent:	No
Committee membership:	N/A
Date of appointment:	03/01/2023

Experience:

Stuart joined Southern Water as Chief Financial Officer in January 2023.

He has held senior positions both inside and outside the water sector. Stuart was previously the CEO at Affinity Water and the CFO for Affinity for the four years prior to that. Stuart's extensive experience in the industry also includes nine years at Thames Water as the CFO of the retail business and as group financial controller. Prior to this, he was financial controller at Wolseley, following almost eight years at EDF Energy.

External appointments:

Stuart is a director of Landlord Tap Limited, which is a website that gives details to water companies of those responsible for paying water or wastewater charges for their tenanted properties. He is also a trustee of Rett UK, a charity supporting sufferers of Rett Syndrome, as well as their families and carers.

Board of directors
ctd

Key

- A Audit Committee
- N Nomination Committee
- HS H&S and Operational Risk Committee
- MP Major Projects and WRMP Committee
- RE Remuneration Committee
- Committee Chair

Malcolm Cooper
Independent non-executive director

Non-executive independent:	Yes
Committee membership:	A N RE HS
Date of appointment:	23/12/2019

Experience:

Malcolm joined the Board in December 2019 and was appointed as Chair of the Audit Committee.

Malcolm worked for around 30 years at National Grid plc, British Gas plc and other companies. He was a member of the board of both National Grid Gas plc and National Grid Electricity Transmission plc.

Malcolm was previously a non-executive director of St. William. He is also a past president of the Association of Corporate Treasurers and was a member of the Listing Authority Advisory Panel of the FCA.

Malcolm has a degree in Pure Mathematics and is both a Fellow of the Association of Chartered Certified Accountants and the Association of Corporate Treasurers.

External appointments:

Malcolm is a non-executive director at MORhomes plc, where he is chair and chairs the socially responsible investment committee; Local Pensions Partnership Investments Ltd, where he chairs the audit and risk committee; and Custodian Property Income REIT plc, where he chairs the audit committee.

Christèle Delbé
Independent non-executive director

Non-executive independent:	Yes
Committee membership:	RE
Date of appointment:	31/05/2023

Experience:

Christèle Delbé is a sustainable business director with more than 18 years pioneering strategic initiatives and shifting behaviour to unlock tangible commercial benefits across food, consumer goods, technology and non-profit sectors. She is an issues expert on responsible supply chains and consumption, carbon, waste, packaging and human rights.

Christèle was head of innovation and partnerships for Bonsucro, where she shaped and secured £1.5 million in funding for seven multi-stakeholder impact programmes. She has also advised organisations including UNICEF, Solidaridad, RNIB and Producers Direct on developing strategic partnerships with the corporate sector. As supply chain solutions director at KSAPA, she is co-creating solutions for smallholder-led agriculture value chains with organisations including GPSNR, Reckitt Benckiser and Coca-Cola.

Previously, as head of sustainable innovation for the Vodafone Group, Christèle pioneered a programme that created four mobile products for Unilever, Nestlé, Danone and Anglo American to address supply chain, community and water challenges in Africa and Asia. As group head of sustainability at Orange Group, Christèle embedded global sustainability strategy, ethics and reporting frameworks into seven countries.

External appointments:

Her current portfolio includes lecturing with the Cambridge Institute for Sustainability Leadership (CISL); consulting with KSAPA on smallholder value chain partnerships; trustee and interim chair at Producers Direct.

Kerensa Jennings
Independent non-executive director

Non-executive independent:	Yes
Committee membership:	A
Date of appointment:	31/05/2023

Experience:

Kerensa Jennings is an award-winning digital leader and adviser who has held senior leadership positions in the private, public and charitable sectors. Selected by Computer Weekly among the most influential tech leaders in the UK, she has served on a range of boards including commercial companies, social enterprises, charities and government committees.

A former director at the Royal Household where she was CEO of a Royal social enterprise, based at Buckingham Palace, she was previously the BBC's head of strategic delivery and BT group director of data platforms. Kerensa is also a professionally qualified executive coach, a bestselling author, and as CEO of Inglenook Global Ltd advises and coaches a range of businesses on change and growth.

External appointments:

Her current portfolio includes non-executive adviser and board member at Knight Frank, a global limited liability partnership; trustee at Sir John Soane's Museum; board member at Founders4Schools, visiting professor of Media, Strategy and Communications at University of Huddersfield; Fellow RSA; and advisory board member at Digital Leaders, Noon, Trove, Digital Boost and Balance the Board.

Board of directors
ctd

Key
- A Audit Committee
- MP Major Projects and WRMP Committee
- N Nomination Committee
- RE Remuneration Committee
- HS H&S and Operational Risk Committee
- Committee Chair

Neil McArthur
Independent non-executive director

Non-executive independent:	Yes
Committee membership:	MP HS
Date of appointment:	01/10/2024

Experience:

Neil joined the Board in October 2024 and was appointed Chair of the Health and Safety and Operational Risk Committee. Neil has extensive experience in major capital intensive industries across the energy/natural resources value chains and utilities and is a non-executive director of AFRY AB. As an executive he was the former CEO and Chairman of the executive Board of Arcadis NV, a global leader in water, infrastructure and environmental design consulting; executive board member of Booz & Company; partner at Oliver Wyman and started his career at Shell.

External appointments:

He is chairman of the Supervisory Board of Sif Holdings N.V. and a non-executive director of AFRY AB.

Andrew Davies
Independent non-executive director and Chair Designate

Non-executive independent:	Yes
Committee membership:	N/A
Date of appointment:	06/05/2026

Experience:

Andrew brings extensive leadership experience across infrastructure, construction and engineering. He was previously chief executive of Kier Group plc from April 2019 to October 2025, where he led a significant transformation of the business into one of the UK's leading infrastructure services, construction and property groups.

Andrew has also served as senior independent director of Chemring Group plc between May 2016 and January 2025, and as chief executive of Wates Group between January 2014 and January 2018.

Prior to that he worked for the defence and aerospace contractor, BAE Systems plc, for 28 years, in various roles including group strategy director, managing director, land systems and latterly as managing director, maritime.

Andrew is a FICE (Fellow of the Institution of Civil Engineers).

External appointments:

He has been chair of EKFB (Eiffage, Kier, Ferrovial and BAM Nuttal) a JV building the central C2/3 section of HS2, since 2022.

Note: Andrew Davies will take over from Keith Lough as Chair on 16 July 2026.

Will Price
Non-executive director

Non-executive independent:	No
Committee membership:	N RE
Date of appointment:	08/09/2021

Experience:

Will joined the Board in September 2021.

Will joined Macquarie in 2007, and heads the Utilities and Networks team for Macquarie Asset Management in EMEA.

Will has been involved in several acquisitions, on behalf of Macquarie-managed funds, including Thyssengas, Czech Grid Holding, EP Infrastructure, E-Redes, MEIF Power Romania, National Gas and Last Mile Infrastructure.

Will has a Bachelor of Science in Economics and Politics from the University of Bristol, UK. He also holds a Master of Finance from INSEAD Business School, France.

External appointments:

Will is currently a director on the board of National Gas and EP Infrastructure.

Board of directors
ctd

Key

A Audit Committee
N Nomination Committee
HS H&S and Operational Risk Committee
MP Major Projects and WRMP Committee
RE Remuneration Committee
Committee Chair

Neil Corrigall
Non-executive director

Non-executive independent:	No
Committee membership:	HS A MP
Date of appointment:	29/11/2023

Experience:

Neil is an operating partner for Macquarie Asset Management (MAM).

Prior to joining MAM, Neil held multiple leadership roles at Severn Trent plc covering regulation, strategy, business development, M&A and corporate finance. Most recently he had full P&L and operational accountability for the group's diversified renewables division, Severn Trent Green Power, covering biomethane production from waste, onshore wind, solar and hydro power. Before that, Neil was a management consultant at McKinsey & Company focusing on utilities, energy and infrastructure, and at Coca-Cola as a strategy analyst. He also previously served as a non-executive director for Czech Grid Holdings, the largest gas distribution business in the Czech Republic.

He has an undergraduate degree in Industrial Engineering and holds an MBA from London Business School.

External appointments:

Neil serves as a non-executive director on the board of Cadent Gas.

Richard Manning
Company Secretary

Committee membership:
Secretary to all Committees

Date of appointment:	24/07/2018

Experience:

Richard joined Southern Water in July 2018 as General Counsel and Company Secretary and has overall responsibility for risk, internal audit, corporate governance and assurance alongside his legal and Board governance roles. He is a member of the Executive Committee.

He has held similar roles in a number of listed and private companies including GCap Media plc, JJB Sports plc and Waterstones, and brings a wide experience of legal and governance matters.

Richard holds a law degree and an MBA and is a qualified solicitor.

External appointments:

Richard is chair of the Wells Festival of Literature, a registered charity.

Note: After eight years, our Company Secretary, Richard Manning, will retire from the company at the end of July 2026 with the Board's thanks. Sandra Redding will take over his position.

Corporate governance report

as at 31 March 2026

Our Board's Composition as at 15 July 2026

There have been a number of changes to the composition of the Board during the year. After two-and-a-half years on the Board, Steve Fraser stepped down as a non-executive director.

On 6 May 2026 Andrew Davies joined the Board as an independent non-executive director and Chair Designate, and will succeed Keith Lough as Chair on 16 July 2026.

As at 31 March 2026, women made up 23% of the Board (two out of nine directors). We are committed to having a diverse workforce that reflects the communities we operate in.

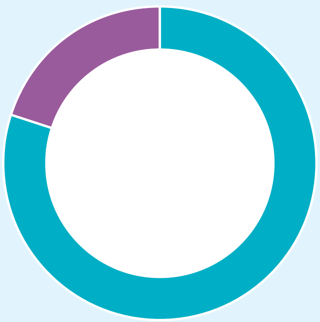
We publish a Gender Pay Gap Report annually. Our report showed that the median pay gap remains in favour of women. This year the reported gap increased to -6.8%, reflecting higher female representation across several leadership and specialist roles where salaries are typically higher. It also reflects a higher concentration of male colleagues in lower-paid operational and field roles, which influences the overall distribution across the organisation. In terms of the bonus gap, we saw a significant improvement in the mean bonus gap from 56.4% in 2024 to 25.7% in 2025. The application of the PRPP Rule to executive directors impacted the 2025 figure but also represents a more normalised bonus cycle.

The median bonus gap of -1.7% indicates that at the mid-point of the organisation, bonus outcomes are broadly equivalent between men and women. The proportion of men and women receiving a bonus was also broadly equal at 87.9% and 87.6% respectively.

Read more about gender pay gap on **page 185**

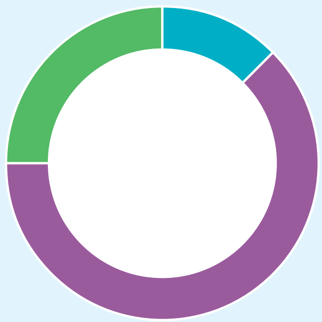
As at 15 July 2026

Board gender profile



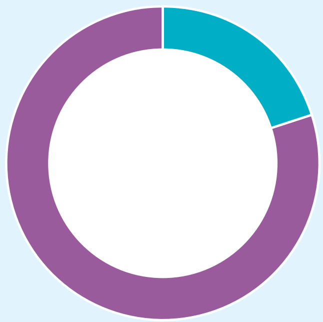
Male	8
Female	2

Board independence*



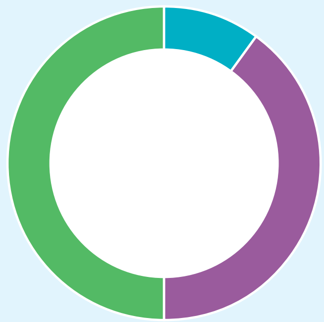
Independent on appointment	1
Independent	5
Shareholder nominated	2

Executive and non-executive directors



Executive	2
Non-executive	8

Board tenure



< One year	1
One to three years	4
Three to six years	5

* Excluding executive directors

Corporate governance report ctd

1. Competence and independence

Boards and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high-quality decisions that address diverse customer and stakeholder needs.

Overview of responsibilities

The Board's role is to:

- Establish the company's purpose, strategy and values;
- Develop and promote the company's purpose in consultation with a wide range of stakeholders;
- Determine overall strategic aims and direction consistent with the company's purpose;
- Monitor and assess the company's values and culture to ensure that behaviour throughout the business is aligned with its purpose;
- Have full responsibility for all aspects of the company's regulated business in the long term;
- Ensure obligations to, and interests of, all company stakeholders are known and met appropriately;
- Provide effective leadership and collective responsibility for the long-term success of the company for the benefit of its members, taking into account the interests of a wide range of stakeholders, including customers, local communities, colleagues, suppliers and the company's impact on the environment;
- Ensure that sufficient resources are available to the CEO and his team to operate, manage and develop the business appropriately; and
- Ensure that appropriate and effective processes and controls are in place to assess and appropriately manage risk.

Shareholder Reserved Matters

Certain matters are reserved to the board and shareholders of Sandstone Water Holdings Limited (SWHL), a parent company of Greensands Junior Finance Limited, in which the principal investors are funds managed by Macquarie Asset Management. The Board of Southern Water has approved these matters, which include matters typical in such circumstances. Agreement of the company's dividend policy is one such matter. Dividend decisions themselves are a matter for the Southern Water Board. The Board does not consider that these matters contradict the obligations contained in Ofwat's Board, Leadership, Transparency and Governance Principles and have concluded that they are consistent with the Board having full responsibility for all aspects of Southern Water's business, including the freedom to set, and accountability for, all aspects of the company's strategy.

See **note 36**, post balance sheet events for details of changes to our structure after 31 March 2025.

Corporate governance report ctd

1. Competence and independence

Shareholders

Certain matters are reserved to the shareholders

See previous page.

Southern Water Services Limited Board of Directors

The Board of Southern Water is ultimately responsible for the company.

Executive Committee (ExCom)

Comprising the Chief Executive Officer, Chief Financial Officer, General Counsel and Company Secretary, Chief People Officer, Chief Digital Officer, Chief Transformation Officer, Chief Operating Officer, Director of Corporate Affairs and Managing Director Capital Projects, it meets to agree areas of strategy and other matters critical to the company.

Executive Sub-Committees

ExCom, alongside members of the company's senior leadership team, supports the CEO in driving the implementation of strategy in the company. Comprised of members of the Executive and senior leaders, the sub-committees meet regularly to consider matters including health, safety, security and wellbeing, information security, compliance, environmental and performance.

Read more about our Board on **pages 133 to 136**

Corporate governance report ctd

1. Competence and independence

The Board

- Has full responsibility for the company's business over the long term.
- Establishes the company's purpose, values and culture and sets its strategy.

Audit Committee

- Monitors the integrity of the company's financial statements by challenging the basis of preparation and the judgments made.
- Monitors the integrity of non-financial information reported by the company.
- Keeps under review the company's internal controls and risk management systems.
- Reviews the company's overall risk appetite, tolerance and strategy and level of resilience.
- Oversees internal audit and the relationship with the external auditor.

Health and Safety and Operational Risk Committee

- Monitors and advises on health, safety, security and wellbeing and makes appropriate recommendations to the Board.
- Reviews and monitors operational risks and related risk management systems.

Major Projects and WRMP Committee

- Monitors performance of the Major Projects portfolio.
- Monitors the management of risk of the portfolio.
- Oversight and challenge of the development of the Water Resources Management Plan (WRMP).
- Provide assurance to the Board of the deliverability of WRMP.

Nomination Committee

- Reviews the size, structure and composition of the Board.
- Evaluates the balance of independence, skills, experience and diversity on the Board.
- Leads the process for identifying and nominating candidates for approval by the Board of directors.

Remuneration Committee

- Sets remuneration policy for all executive directors and the Chair.
- Recommends and monitors remuneration for senior leaders.
- Approves the design of, and determines targets for, any performance-related pay schemes.
- Reviews the design of all long-term incentive plans.
- Oversees major changes to colleague benefit structures.

Corporate governance report ctd

1. Competence and independence

What the Board has done during the year

Key areas of focus	Actions	Matters considered during the year (examples)
Set company purpose, strategy values and goals	The Board continued to devote time to the Final Determination of the company's 2025–30 Business Plan, including the company's referral to the Competition and Markets Authority (CMA). Building on the refresh of the company's vision, objectives and key results, the Board reviewed the operating and corporate strategies at a dedicated strategy day. The Major Projects and WRMP Committee has overseen strategic water resource projects.	• CMA Determination • Financing • Strategic water resources • Smart metering
Monitor values and culture	The Board continued to monitor the values and culture of the company. It continues to believe that a strong culture among all our colleagues and the wider community who work with us, is vital to our future business success. The main instruments for the monitoring of culture have been the colleague survey, Employee Voice groups and hearing directly from colleagues during site visits. Attention was given to a number of underpinning policy statements e.g. Code of Ethics, Modern Slavery statement and Speak Up policy. The Health and Safety and Operational Risk Committee continued to focus on safety culture, and the role it plays in keeping everyone safe and well every day, with the Audit Committee reviewing Speak Up (Whistleblowing) reports.	• Code of Ethics • Speak Up (Whistleblowing) reports • Employee Engagement Survey • Safety culture
Engage with stakeholders	The Board welcomed the Independent Water Commission report following Sir Jon Cunliffe's comprehensive review of the water sector, and heard directly from the Minister for Water, the DWI, Ofwat and the Environment Agency to enable an exchange of views on important matters that affect the sector, the environment and customers.	• Chair of the Independent Scrutiny Panel • DWI, Ofwat and EA to the Board • Minister for Water to the Board • Board members attending the Independent Scrutiny Panel
Hold the Executive to account for performance	In July 2025, the company published its final Update Report of its Turnaround Plan. The Board's focus is now on delivery of the company's largest and most ambitious investment plan. The Board held 'deep dives' on a number of matters, including the cause of serious pollutions and mitigating actions, the cause of a significant incident and steps taken to prevent a re-occurrence, changes to the Environment Agency's Environmental Performance Assessment and reviewed Ofwat's Performance Report. The Board is constantly seeking to secure improvements in these critical aspects of the company's performance.	• Operational performance reports • Deep dive on serious pollutions • Review of Camber Sands incident • Closing report following the Testwood loss of supply incident • Performance reporting in the months where there is no meeting
Ensure that resources are deployed according to priorities	The Board maintains a continuous dialogue with its investors, not least through Board representation. The Board's task is to secure a balance between the interests of investors, including their right to expect a return for their investment, and the interests of the company in ensuring the funding needed to secure the future of its services. The Board monitors the company's financial resilience and will continue to seek to secure the trust of its investors and the proper interests of the company, its stakeholders, its customers and the environment.	• Shareholder engagement • Financing strategy • Budget and execution plan approvals • Condition P
Oversee the management of risk	The Board considers risk as part of its cycle of meetings, including the company's principal risks and current risk appetite position, observing the changing risk climate and key risks impacting the company. The Board has continued to monitor the company's post-incident activities following the criminal attack on our IT systems in December 2023. The Audit Committee also monitors key processes and controls for the Board, with the Health and Safety and Operational Risk Committee overseeing the company's controls on process safety.	• Risk appetite and principal risks, including climate change impacts • Cyber and information governance update • Process safety audits

Corporate governance report ctd

1. Competence and independence

Board committees

In line with both Ofwat's principles and the UK Corporate Governance Code and with best practice, the Board has established a number of standing committees:

Audit

The Audit Committee has oversight of financial reporting matters, non-financial assurance, compliance, internal controls, Enterprise risk and management systems, both internal and external auditors, and procedures for whistleblowing.

Health and Safety and Operational Risk

The Health and Safety and Operational Risk Committee has responsibility for monitoring and advising on operational risks, health, safety, security and wellbeing performance.

Nomination Committee

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board and assessing its independence, skills, experience, expertise and diversity. It leads the process for identifying and nominating candidates to fill independent non-executive director vacancies.

Remuneration

The Remuneration Committee has responsibility for setting remuneration, policy and structure for the executive directors and senior executives and the Chair.

Major Projects and WRMP Committee

The Major Projects and WRMP Committee is responsible for overseeing and monitoring delivery and review and management of areas of significant risk. It provides oversight and challenge on behalf of the Board on the WRMP, providing assurance of the plan's deliverability.

Specific responsibilities have been delegated to these committees by the Board. Each committee has written Terms of Reference, which are published at www.southernwater.co.uk/about-us/corporate-governance/. These are reviewed at least annually.

Other committees are constituted if and when required for specific matters.

Board meetings and attendance

A total of six* Board meetings were scheduled to take place during the year – attendance as follows:

Member	Attendance
Keith Lough	6/6
Malcolm Cooper	6/6
Kerensa Jennings	6/6
Christèle Delbé	6/6
Neil McArthur	6/6
Neil Corrigall	6/6
Will Price	6/6
Steve Fraser**	1/3
Lawrence Gosden	6/6
Stuart Ledger	6/6

* Short notice Board meetings were called for approvals and other matters, outside of the scheduled meetings. These are not included in the table above.

** Retired as a director on 8 December 2025.

Note: In addition, a strategy day is held each year.

The agenda and papers are sent to Board members in advance of each meeting, while a monthly performance report is distributed when there is no scheduled meeting.

The Board holds its meetings at the company's head office in Worthing, unless an operational site visit can be organised or it is more convenient to meet elsewhere. In addition to the scheduled Board meetings, a strategy day is held each year to discuss the company's plans.

Where a director has a concern over any unresolved matter, they are entitled to require the Company Secretary to record it in the minutes of a meeting. Should the director later resign over the issue, the Chair would bring it to the attention of the Board.

All members of the Board were, and are, able to allocate the necessary time to the company in order to be able to discharge their responsibilities effectively.

Read more about the committees on **pages 153 to 185**

Corporate governance report ctd

1. Competence and independence

Chair

The role of the Chair is to lead the Board in its shared responsibilities, to encourage and facilitate the contributions of its members and to ensure adherence to governance principles and processes.

Keith Lough has served as the company's Chair since 2019. In line with the Ofwat's principles as well as the UK Corporate Governance Code, Keith was viewed as independent on appointment.

The Chair discusses meeting agendas with the CEO and Company Secretary, although any director may sponsor an item. The Chair has authority to act and speak for the Board between its meetings.

The Chair reports to the Board, chairs of its committees and individual directors on decisions and actions taken. He will also consider the performance of the executive directors and to provide feedback.

Keith retires from the Board on 16 July 2026 and will be replaced by Andrew Davies.

Chief Executive Officer

The Chief Executive Officer is a member of the Board and has all the responsibilities of a director of the company. Lawrence Gosden has served as the company's Chief Executive Officer since July 2022. In his executive role, responsibility has been delegated to him to deliver the company's strategy. He is empowered to take all decisions and actions that further the company's strategy and which, in his judgment, are reasonable within the Chief Executive Officer's limits set out in the company's internal controls and matters reserved to the Board. The non-executive directors, led by the Chair, appraise his performance annually.

Chief Financial Officer

The Chief Financial Officer is a member of the Board with all the responsibilities of a director of the company. Stuart Ledger was appointed as the company's Chief Financial Officer in January 2023. In his executive role and reporting to Lawrence Gosden, he has the responsibility for managing the company's financial affairs and assisting the Chief Executive Officer in the delivery of the company's strategy. His performance is reviewed annually by the Chief Executive Officer.

Senior independent non-executive director

Malcolm Cooper is the senior independent non- executive director. He is the chair of the Audit Committee and is also a member of the Health, Safety and Operational Risk, Nomination and Remuneration committees.

As senior independent non-executive director, Malcolm will chair Board meetings in the event that the Chair is unable to do so. In the capacity of senior independent non-executive director, he will be available to discuss matters or concerns with investors as required.

Malcolm led the process to recruit the new Chair.

Corporate governance report ctd

1. Competence and independence

Independent non-executive directors

The largest group on the Board are the independent non-executive directors (which include the senior independent non-executive director) in accordance with the Ofwat principles and as a matter of good governance practice. The number of independent non-executive directors is also in accordance with the company's licence conditions, which require at least three independent non-executive directors on the Board.

They provide independent advice and perspectives, and review and challenge decisions and reporting on behalf of all stakeholders, including customers and colleagues.

The independent non-executive directors are appointed for their external expertise and experience in specific areas.

The non-executive directors also appraise the Chair's performance.

Andrew Davies will take on the role of Chair on 16 July 2026.

Shareholder representative non-executive directors

Under the terms of the Shareholders' Agreement, certain investors have a right to nominate for appointment non-executive directors to the Board of Southern Water. As a statutory director, such an individual has all the duties, obligations and rights of a director of Southern Water and, as such, must act in accordance with the directors' duties set out in the Companies Act 2006. This includes those set out in section 172, to promote the success of the company for the benefit of its members as a whole, having regard to the long term and the interests of the company's stakeholders.

Company Secretary

All directors have access to the advice and services of the Company Secretary, Richard Manning, and the Company Secretariat team. The Company Secretary is responsible for ensuring that the Board operates in accordance with the adopted governance framework and that there are good information flows to the Board and its committees and between senior executives and the non-executive directors. The appointment and removal of the Company Secretary is a matter reserved to the Board.

Directors are also able to obtain appropriate independent professional advice in connection with the performance of their duties.

Sandra Redding will take over from Richard at the end of July 2026, following his retirement from the company.

Corporate governance report ctd

1. Competence and independence

Board independence

In accordance with Ofwat's principles, the majority of non-executive directors have been independent and independent non-executive directors were the largest single group on the Board throughout the year.

Following listed company best practice, the Board takes into account those matters listed in Provision 10 of the UK Corporate Governance Code, as well as any other relevant circumstances or considerations in forming its assessment of the independence of directors.

The Board considers that the independent non-executive directors were throughout the year, and continue to be, independent in character and judgment and persons of standing with relevant experience, collectively having connections with, and knowledge of, the company's area and understanding of the interests of our customers, communities, workforce, suppliers and the environment and how these can be respected and protected.

Conflicts or potential conflicts are governed by the Companies Act 2006. The Board does not have power to authorise conflicts under the company's Articles of Association. If a conflict should arise, the conflicted director takes no part in discussions and may not vote on that issue. During 2025–26, no director declared a material interest at any time during the year in any contract of significance with the company.

Balance of skills and experience of the Board (as at 1 July 2026)

The Board, as a whole, has an appropriate balance of skills, experience, independence and knowledge of the company, and provides independent support and advice as well as new ideas and healthy challenge. The number of directors with significant and/or material skills, knowledge and experience related to the key areas necessary to deliver the company's strategy is summarised below.

Board skills matrix

	1	2	3	4	5	6	7	8
Capital programmes	●	●	●	●	●	●	●	
Operations	●	●	●	●	●	●		
Customer	●	●	●	●	●			
Environment	●	●	●	●	●	●	●	
Governance	●	●	●	●	●	●	●	
Regulation	●	●	●	●	●	●	●	
Financing	●	●	●	●				
Transformation	●	●	●	●	●	●		
Digital and technology	●	●	●					
Utilities sector	●	●	●	●	●	●	●	●

Working together to create a sustainable future

In order to be able to deliver for our customers, the communities we serve and the environment, the Board requires a diverse range of skills and experience.

Details of the individual Board members' experience are on pages 133 to 136.

Corporate governance report ctd

1. Competence and independence

Board report

Introduction

The Board takes full responsibility for setting the company's strategy and holding the executive to account for performance. It plays a critical role in setting the tone of the company and acting as interface with key stakeholders – the company's customers and shareholders, communities, government, regulators.

The Board works through, and with, its committees to ensure proper oversight of the company's business. The role of committees is described on pages 140 and 142. Each committee makes its own report setting out its responsibilities and the key areas it has addressed during the year. This report of the Board's activities sets out the areas on which it has focused during the year.

Setting long-term strategy

A key focus for the Board in 2025–26 has been the response to the CMA's Determination following referral of the company's investment plan for the current asset management period (AMP) 2025–30. With a focus on the company's performance and plans for 2025–30 and readiness for PR29, the Board met in March 2025 to discuss and consider corporate and operating strategies.

Aligning purpose, values and culture

The Board continues to prioritise culture, monitoring key indicators whether directly or through its committees. Building on the culture diagnostic that was presented to the Board the results of the latest colleague engagement survey were shared. The Health and Safety and Operational Risk Committee is focusing on safety culture and continues to seek external assurance on the company's safety plans. The Board members once again committed to the company's Code of Ethics.

Monitoring performance

The Board oversaw the conclusion and publication of the final update of the company's Turnaround Plan. Following the development of the company's objectives and key results for this investment period, the Board has focused on monitoring and challenging the company's performance and delivery, tracking both leading and lagging indicators.

The Board has continued to monitor the company's compliance performance, including flow and spills. The company published its sixth Pollution Incident Reduction Plan, building on the previous year's plan. The Board approved expenditure to progress with delivery of the overflow programme to reduce spills and meet targets on bathing water and shellfish water requirements.

The Board received an investigation update, including recommendations, following the Testwood Water Supply Works loss of supply incident in December 2024 and has been kept updated on the investigations following the release of beads from the company's Eastbourne Wastewater Treatment Works in November 2025.

Long-term resilience

The Board has continued to focus on both the operational and financial resilience of the company. In addition to the response to the CMA's Determination of the company's investment plan, the Board has continued to oversee plans to improve resilience in its water resources, approving schemes in the Water for Life – Hampshire programme.

The Board has continued to support both shareholders and management in strengthening the company's financial resilience and welcomed the further equity injections in November 2025 and March 2026 and the confirmation of a commitment to further equity in June 2026, in addition to that received in June 2025. The Board is grateful for the continued support of its long-term shareholders.

Holding the company account for performance

The Board dedicates considerable time to the monitoring of performance. As will be seen from individual committee reports, they keep activities within their remit under review. The Board carries out its monitoring and oversight role as follows:

- Each committee chair reports matters considered by the committee at Board meetings.
- At each meeting, the executive presents a reporting suite, including updates from the CEO and CFO, and an outcome delivery incentive and operational report of key results.
- In addition to its core meetings, the Board conducts deep dives into specific topics with matters considered in the year.

The Board holds some meetings at operational sites, conducting site visits to enable it to have a first-hand feel for issues and to hear the views of colleagues. Health, Safety and Operational Risk Committee also often includes a site visit.

Where performance falls below levels expected the Board will always interrogate the facts and background to the issue and will seek to give firm support to the executive in ensuring appropriate remedies.

Sustainability

The Board continues to have oversight of sustainability, including receiving an update on the company's Net Zero Carbon Plan and water quality performance.

Other key matters considered during the year

- Views of stakeholders.
- Environmental and water quality compliance.
- Investigations into operational incidents.
- Customer service.
- Code of Ethics.
- Health and safety performance.
- Water resources.
- Regulatory reform.

Stakeholder engagement

The Board sees itself at a pivotal point between stakeholders and the company. In addition to key stakeholders attending at Board meetings, individual Board members continue to be actively engaged in outreach to customers and communities. The Chair and CEO in particular play an important role with investors, regulators, the wider industry and government.

Corporate governance report ctd

2. Purpose, values and culture

The regulated company Board establishes the company's purpose and vision, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

Our purpose:

We provide water for life to enhance health and wellbeing, protect and improve the environment and sustain the economy.

Our vision:

Working together to provide sustainable water and protect the environment today and for future generations.

Building on the foundations for success

Following the conclusion of the company's Turnaround Plan the Board has overseen delivery against the key operational metrics and strategic moves that will deliver on the company's purpose and vision. The company's core values then provide the foundation and ethical decision making framework by which we operate.

Embedding and monitoring culture

The company's Employee Voice group members attend a quarterly company wide session with members of the Executive and senior leadership team to engage in meaningful conversation and agree key decisions and actions. Our workforce non-executive director Neil Corrigall, attends the sessions and engages with the Employee Voice group, enabling insight into the culture of the organisation and the extent to which the purpose and values are embedded.

The health, safety, security and wellbeing of our people is an overriding value and a core pillar of our strategy on how we make a behavioural shift to make sure we're always working with care. Colleagues continue to attend our company-wide immersive training event with Board members also attending the programme.

The Board and committees will hold meetings on operational sites, undertaking a tour of the site and engaging with colleagues and supply partners to better understand the culture of the organisation.

The company undertook a Pulse Engagement Survey, with the Board receiving an update on the results, including colleague engagement trends and the actions underway to strengthen engagement as a driver of performance, retention and delivery of the business plan.

All of the Board members continue to sign up to the Code of Ethics, which has been personally endorsed by the Chair and Chief Executive Officer.

The Board has further continued to monitor the company's culture through the review of metrics including:

- Colleague engagement scores
- Safety observations raised
- Speeding events
- Pollution incidents and self-reporting
- Water quality compliance
- Customer satisfaction (C-MeX) and complaints
- Speak Up (whistleblowing report)
- Employee relations cases
- Work-related mental health absence
- FELT leadership site visits.

The Health and Safety and Operational Risk Committee receives regular reports on health, safety and wellbeing matters, including the number and nature of incidents/accidents and the culture of health and safety in the company.

Corporate governance report ctd

2. Purpose, values and culture

Stakeholder engagement

Throughout the year the Board has been kept informed of the views of the company's stakeholders, including its regulators, suppliers, investors and government. In addition to stakeholders attending Board meetings the company's Chair and Chief Executive Officer regularly attend meetings with government bodies such as Ofwat, the Department for Environment, Food and Rural Affairs, the Environment Agency and Drinking Water Inspectorate.

Colleague engagement

In accordance with the UK Corporate Governance Code, and in support of the Board's duty under section 172(1) to consider the interests of the company's workforce as well as part of the Board's role in its monitoring and assessing of culture, Neil Corrigall is the appointed non-executive director with the remit of communicating the views of the company's workforce.

The scope of this role includes:

- Obtaining and communicating to the Board the views of the company's workforce in respect of matters, including pay and conditions; health, safety and wellbeing; working environment; and culture. This enables the Board to give appropriate consideration of the interests of the workforce. Communication methods include: regular meetings with the company's workforce representatives, the Chief People Officer and Director of Health, Safety, Security and Wellbeing; attendance at workforce events; attending Employee Voice groups, and visits to operational sites and offices.
- Providing regular reports to the Board.
- At least annually, meeting with the chair of the Remuneration Committee to enable the committee to take into account the conditions of the workforce when setting executive remuneration policy (in accordance with the UK Corporate Governance Code).

Board listening approach

Board listening channels	Opportunities
Non-executive director for workforce engagement	Provides the Board with information about the views of the workforce directly as opposed to via management.
'Company Conversations'	All colleagues can directly ask questions of, and communicate their concerns to, the CEO and CFO.
All-colleague surveys	Insight into the engagement and satisfaction levels of colleagues as well as the culture and ethics of the organisation.

Read more about colleague engagement on **pages 62 and 149**

Corporate governance report ctd

2. Purpose, values and culture

A message from Neil Corrigall

Neil Corrigall

Non-executive director for workforce engagement

In my remit of engaging with the workforce, I provide an important and, potentially, alternative route for colleagues to raise concerns as well as provide a perspective on colleague engagement, independent of management.

The company's Employee Voice forum provides the opportunity for management to share its strategy and seek informed views on ideas and topics, promoting an open and timely communication with colleagues representing all areas of the business. I attend these quarterly sessions to enable a clearer understanding of colleagues' views and insights. In addition, I engage directly with colleagues through office and operational site visits to hear directly from them.

I am pleased to see the progress by the business on safety performance and risk with the continued commitment of management to ensure that everyone is safe and well every day. A focus on the company's safety culture will be a priority to drive further improvement. In addition, recognising the role organisations play in colleague health, both work and personal, I welcome the renewed focus on colleague wellbeing and mental health through the deployment of Mental Health First Aid training. The programme of welfare facility improvements continues to deliver and resolve long standing issues at certain sites, including an acceleration of the programme within the current investment period.

Over the year the executive have responded to concerns about inconsistencies in terms and conditions and made targeted adjustments in response. The Employee Assistance Programme has had improvements made, in particular for terminal illness cover. Internal communication has improved to ensure awareness of the range of colleague benefits are fully understood.

Changes to the company's performance management process have been iterated and improved following feedback from the Employee Voice forum.

My roles on various Board committees, allow me to convey my knowledge of colleague concerns and attitudes. The Board or its committees receive updates on the findings of colleague engagement surveys together with management's response, talent and succession planning and reports from the company's Speak Up channels. The Board and its committees are cognisant of the impact continued transformational change can have on an organisation, its colleagues and supply chain partners and ensure that both the Board and management are mindful of this when considering its strategy and delivery of the company's ambitious investment plan.

Following a significant period of turnaround and while the company continues its transformation, I look forward to engaging with colleagues on a wide range of topics and to see how change has been embedded across the organisation.

Neil Corrigall
Non-executive director

15 July 2025

Read more about Southern Water's people on **pages 61 to 66**

Corporate governance report ctd

2. Purpose, values and culture

Board activities

During the year, the Board reviewed and considered a number of key matters as part of implementing the company's strategy.

Area	What was reviewed and considered?	Link to our strategy
Business strategy Operational key results to deliver against the Business Plan 2025–30	The Board tracked progress against the company's key results. The Board approved the company's response to the CMA Determination. The Board reviewed and approved key submissions for the Water for Life – Hampshire programme through the Major Projects and WRMP Committee.	Protecting and improving the environment; Ensuring a source of high-quality water for the future
The environment Impacts	The Board, through the Health and Safety and Operational Risk Committee, reviewed the causes of the company's serious pollutions performance. The Board approved expenditure to deliver the company's Clean Rivers and Seas Plan, improving bathing and shellfish waters. The Board reviewed the company's water resource position. The Board heard from the chair of the Environment Agency on the company's performance at its Board meeting.	Protecting and improving the environment; Ensuring a source of high-quality water for the future
Our customers Delivery of essential services	The Board reviewed the investigation and recommendations following the supply interruption event at Testwood Water Supply Works in December 2024. The Board reviewed the approach to improving customer service and satisfaction.	Ensuring a source of high-quality water for the future
Our finances Ability to continue to operate as a going concern and deliver its strategy	The Board welcomed the further equity injections by the company's shareholders, led by funds managed by Macquarie Asset Management. The Board approved the company's execution plan. The Board reviewed and approved key financing activities to support the financial resilience of the company.	Protecting and improving the environment; Ensuring a source of high-quality water for the future; Understanding and supporting our customers and communities
Our people The health, safety, security and wellbeing of our workforce	The Board reviewed leading and lagging indicators. The Board reviewed progress against the company's Health and Safety Everyday Plan.	Enabling our people to drive change and performance

Key

- Protecting and improving the environment
- Ensuring a source of high-quality water for the future
- Understanding and supporting our customers and communities
- Enabling our people to drive change and performance

Corporate governance report ctd

3. Effectiveness

The regulated company has an effective board with full responsibility for all aspects of the regulated company's business for the long term.

Board evaluation

In line with the UK Corporate Governance Code and the Ofwat principles, there is an annual evaluation of the Board in terms of its performance and effectiveness.

During the year we appointed Stanton Morris Consultants to carry out an independent review of the Board's effectiveness. This evaluation was timed to support the succession of the new Chair and provided a framework for how he may set the way forward for the Board.

The review found that progress had been made on the previous year's recommendations, with more to be made. The review also noted that the abolition of the ESG Committee had allowed first order issues on the environment and customer to come directly to the Board and that deep dives and the strategy day continue to be a valuable way for the Board to engage in more depth with some of the longer-term 'big issues' facing the company. There continued to be a healthy and productive relationship between iNEDs and investor-appointed non-executive directors, and between executive and non-executive directors.

Corporate governance report ctd

3. Effectiveness

The 2025 evaluation was based on a number of key areas to be assessed. A summary of key findings under these areas is below. Besides these issues, the Board also looked at the functioning of committees, effectiveness of Board members at meetings and relationships with investors.

Area	Findings
Board composition The review asked about the composition of the Board, in terms of size, skills, and diversity and its fitness to meet challenges of the future.	The review concluded that while a smaller Board allows for better interaction between members, it does face a large agenda and could afford to grow by one to two further members to bring additional expertise. The review concluded that while it is not the job of the Board to contain every skill and expertise needed by the company, the breadth of experience amongst directors should allow for scrutiny, challenge and constructive dialogue across the major issues the company faces.
Board management The review asked how effective the Board was at managing its forward agenda, challenging the executive, engaging with the business and managing risk.	The review observed the importance of ensuring that the Board's forward agenda aligns with the priorities, with a focus on those issues which 'move the needle'. The Chair, CEO and Company Secretary will continue to plan forward agendas together, with the aim of focusing attention to ensure that the agenda is aligned with the issues are the major priorities. A key finding is that there is ever improving engagement with the executive. In turn, the Board is to consider being ever more challenging. The review found that the Board should continue to be more engaged with and visible in the business, reinforcing the support and strategic role of the Board. The Board continued to monitor risk, specifically risk appetite and there is scope to develop further, not least to align with priorities.

Area	Findings
Priorities for the incoming Chair The review asked about the areas of focus for the new Chair and how the Board will work in the future under his leadership.	The new Chair will wish to review the balance of skills and experience across the Board, gauging what each director brings and the role they can most effectively play, leveraging the experience of individual members. He will want to review the cadence of Board meetings, deep dives and strategy days and agree with the CEO and Company Secretary how best to set forward agendas, subject to the Board's final views.
Conduct of Board meetings Board members were asked to give their views on the preparation for and conduct of Board meetings.	• Board members believe that their meetings are productive and are run effectively. • They think that papers and presentations are generally of good quality and that they receive the information they need to discharge their role effectively. • They point to some improvements in process, e.g. around length and advanced circulation of papers. • Board members comment on their engagement with risk management and believe that they play an effective role. The company secretariat will incorporate these and other process improvements into Board policy and practice.
Communication Board members were asked about the quality of communication with leadership, management, colleagues and key stakeholders.	• Board members believe that levels of communication are in general strong, having a strong relationship with the Executive team. They welcome direct engagement with regulators. They will welcome further opportunity for colleague engagement. The company secretariat will seek opportunities to further develop Board engagement with key groups.

Board development and training

As in previous years the Board also has access to professional development, provided by external bodies and by the company's professional advisers. At the Chair's annual appraisal of the non-executive directors, he discusses individual training and development needs.

The Board members individually also carry out their own training and development, such as by attending relevant seminars and workshops to ensure that their knowledge is kept up to date. There is also a programme of induction for new Board members.

The Board will continue to focus on its development in the coming period, looking to ensure its engagement with big strategic issues/risks and its role in leading the company's culture and values.

The company secretariat will put into action the various points for improvement that arose in the 2025 evaluation.

Corporate governance report ctd

3. Effectiveness

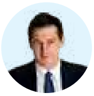
Nomination Committee Report

Keith Lough
Chair of the Nomination Committee

Attendance 3/3

Committee membership

Malcolm Cooper
Committee member
Attendance 3/3



Will Price
Committee member
Attendance 3/3

Among other activities, a key focus of the Nomination Committee this year has been finding a new Chair.

Having served as a director and Chair since August 2019, in accordance with good governance principles, I informed the Board of my intention to retire from the Board and as Chair upon the completion of a search for my replacement.

I have not played any part in that external search process, which has been ably led by Malcolm Cooper, the company's senior independent director, supported by the company's Chief People Officer.

As I note elsewhere in this Annual Report, following the formal, rigorous and transparent search process conducted by Odgers, I welcome the appointment by the Board on 6 May 2026 of Andrew Davies as an independent non-executive director and Chair Designate. Andrew will replace me as Chair of the company, and of the Nomination Committee on 16 July 2026 when I will step down as a director. After eight years, our Company Secretary, Richard Manning, will leave the company at the end of July 2026 with the Board's thanks. He will be replaced by Sandra Redding.

There were no changes to the composition of the Board during the reporting year.

In place of an internal Board effectiveness review, the committee commissioned an interim external review by Andrew Jackson of Stanton Marris, tracking the full review he conducted 12 months before. Not only did this produce useful insight into progress with the actions identified, but it will also be useful in my handover to Andrew Davies. These are important processes, designed to ensure continued evolution and development of the Board's effectiveness.

Keith Lough
Chair of the Nomination Committee

15 July 2025

Priorities for 2026–27

- Focus on succession planning at the Board and Executive.
- Board effectiveness review.
- Development of the company's Fitness and Proprietary policy and accompanying procedures in compliance with Ofwat rules.

Key activities undertaken

- Appointment of new independent non-executive director and Chair Designate and appropriate onboarding.
- Supporting Executive talent assessments, development, recruitment and succession planning.
- Continuing the promotion of Board and Executive diversity.
- Conducting an interim external Board and Chair review.
- Reviewing non-executive director fees – see the Director's Remuneration Report on pages 168 to 185.

Corporate governance report ctd

3. Effectiveness

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board and, based on the results of this review, for assessing its balance in terms of independence, skills, experience, expertise and diversity, and making appropriate recommendations based on this assessment. The committee leads the process for identifying and nominating candidates to fill independent non-executive director vacancies.

Board appointment process

The Nomination Committee leads the appointment process for new independent non-executive directors, based on criteria for skills, experience and knowledge determined as a result of the committee's review of the Board's composition. The committee, typically supported by an external search firm with no connection to the business, would produce a role specification and then lead the search for appropriate candidates. The preferred candidate would be selected through a series of meetings between Board members and the candidate(s).

The Board, supported by the committee, appoints individuals nominated by investors under the terms of the Shareholders' Agreement. All directors appointed this way, whether executive, independent or investor directors, act in the best interests of the company and for the benefit of all stakeholders. As was the case during the year, the current Chair does not oversee the committee if it is considering his succession. The committee approves the company's Fitness and Propriety Policy and supporting assessment framework. The framework establishes a structured process for assessing whether, on appointment, Board directors and others in senior leadership positions meet, and after appointment whether they continue to demonstrate the competence, capability, integrity and behaviours expected of those responsible for the stewardship of a regulated company. It meets the standards set by Ofwat under its Fitness and Propriety Rule. The first FPPT assessment under the framework started in March 2025, with the appointment of Andrew Davies.

Director induction

Board diversity

Diversity of views and opinions in a decision making body ensure that proposals face sufficient scrutiny and challenge and that decisions are made based on a broad range of perspectives. Diversity and different perspectives facilitate innovation, which is of great importance for any business. Therefore, the composition of the Board is made up of individuals from a diverse range of backgrounds, industries and professions to encourage this. Furthermore, a board must also reflect the communities and other stakeholders served by a business and there should be representation of different genders and of different ages, ethnic and social groups.

The Board continues to be supportive of greater representation of those historically under-represented in senior leadership positions and seeks to meet the expectation applicable to listed companies that at least 40% of Board members are female. As at 31 March 2026, two out of nine (22%) directors were female.

Succession planning

A considered and thorough assessment of the skills and expertise on the Board and what will be required in the future is of great importance for the long-term resilience of an organisation. The Board, assisted by the Nomination Committee, has reviewed its current array of skills and expertise, as well as what is required, in order to ensure that the Board continues to be effective.

Conflicts of interest and time commitments

As a matter of law, directors must be free of conflicts between the interests of the company and their own interests, or, where such conflicts are unavoidable, appropriate mitigations must be in place. Directors are required to declare any external interests that they, or persons closely connected to them, might have which could, reasonably, conflict with the interests of Southern Water. Under its Articles of Association, the Board of Southern Water is not permitted to authorise conflicts of interest.

The Board is aware of the potential for conflicts of interest in respect of the directors nominated by the investors and closely monitors this. As statutory directors, these individuals must manage any conflicts arising from their position in accordance with the provisions of the Companies Act 2006.

It is accepted that most directors will also have appointments on other boards (or similar bodies) or, in the case of non-executives, potentially also have full-time executive positions in other companies.

This is viewed positively, as it allows for a breadth of experience and enables Southern Water to take advantage of perspectives and expertise from other industries and sectors. However, the director must be able to devote sufficient time to their role at Southern Water and be able to discharge their duties effectively. Therefore, the number of external appointments of each director is kept under review. Under their terms of appointment, independent non-executive directors are expected to devote at least 24 days per year to their role at Southern Water.

The Board is satisfied that all directors were able to devote sufficient time and attention to their role at Southern Water throughout the year.

Read more about the different roles within the Board on **pages 143 to 144**

Corporate governance report ctd

4. Transparency and accountability

The Board's leadership and approach to transparency and governance engenders trust in the regulated company and ensures accountability for their actions.

The Board has a role to ensure that the company provides timely and accurate information on its performance to its customers, regulators and other key stakeholders.

The publication of financial statements and other documents is a core element of ensuring transparency and accountability on the part of the company. These disclosures must be correct and accurate, otherwise they cannot be relied upon by their respective audiences. The Audit Committee plays a key role in this process.

The committee is supported in its work by both internal and external auditors who can give independent assurance of the information presented by management.

Companies must also be transparent about the market and environment in which they operate, including the risks faced and what risks the company is willing to accept as well as its strategies for mitigation of these.

Accordingly, companies need to clearly understand the risk landscape in which they operate and the Board needs to agree what level and type of risk is acceptable.

Corporate governance report ctd

4. Transparency and accountability

Audit Committee Report

Malcolm Cooper
Chair of the Audit Committee

Attendance 4/4

Committee membership

Kerensa Jennings
Committee member
Attendance 4/4

Neil Corrigall
Committee member
Attendance 4/4

How the committee spent its time

- Annual and interim financial statements.
- Non-financial assurance.
- Progress on undertakings and commitments given to our regulators.
- Review of compliance with Licence of Appointment.
- Water quality and environmental compliance.
- Controls – Provision 29.
- Going concern.
- Condition P.
- Enterprise risk management.
- IT controls.
- Whistleblowing reports.

Priorities for 2026–27

- Risk appetite.
- Controls assessment.
- IT controls.

Key activities undertaken

June

- Major Projects assurance.
- Annual report and accounts.
- Non-financial assurance for annual reporting.
- Going concern.

September

- Section 19.
- Compliance.
- Non-financial assurance.

November

- Interim accounts.
- IT controls.
- Going concern.
- Assurance strategy.

March

- Principal risks and risk appetite.
- Licence review.
- Condition P.

Corporate governance report ctd

4. Transparency and accountability

Introduction

The Audit Committee focuses on the monitoring and review of the company's internal controls in respect of its financial and non-financial data, as well as the controls put in place to address risk within the business in areas such as legal and regulatory compliance and information governance and information security. The committee also oversees the relationship with the company's external auditor and oversees the work of the company's internal audit function. While the Board retains overall responsibility for risk, the Audit Committee reviews risk appetite and strategic risks, with the Health and Safety and Operational Risk Committee continuing to have responsibility for the monitoring of operational risk. The chair of the Audit Committee is a member of the Health and Safety and Operational Risk Committee and the chair of the Health, Safety and Operational Risk Committee observes risk discussions at Audit Committee.

A primary area of focus is the company's annual and interim financial statements to review, assess and recommend to the Board related areas including any relevant judgments and accounting treatments, going concern and long-term viability statement and 'fair, balanced and understandable' assessments, as well as on reviewing and assessing the company's non-financial reports such as the Annual Performance Report.

Throughout 2025–26, the committee received regular reports from the Head of Group Accounts, Group Treasurer, Head of Risk, Assurance and Internal Audit and the company's external financial and non-financial assurers and auditors. The Chief Financial Officer is a regular attendee at meetings of the Audit Committee. The committee also has access, as appropriate, to external professional advisers.

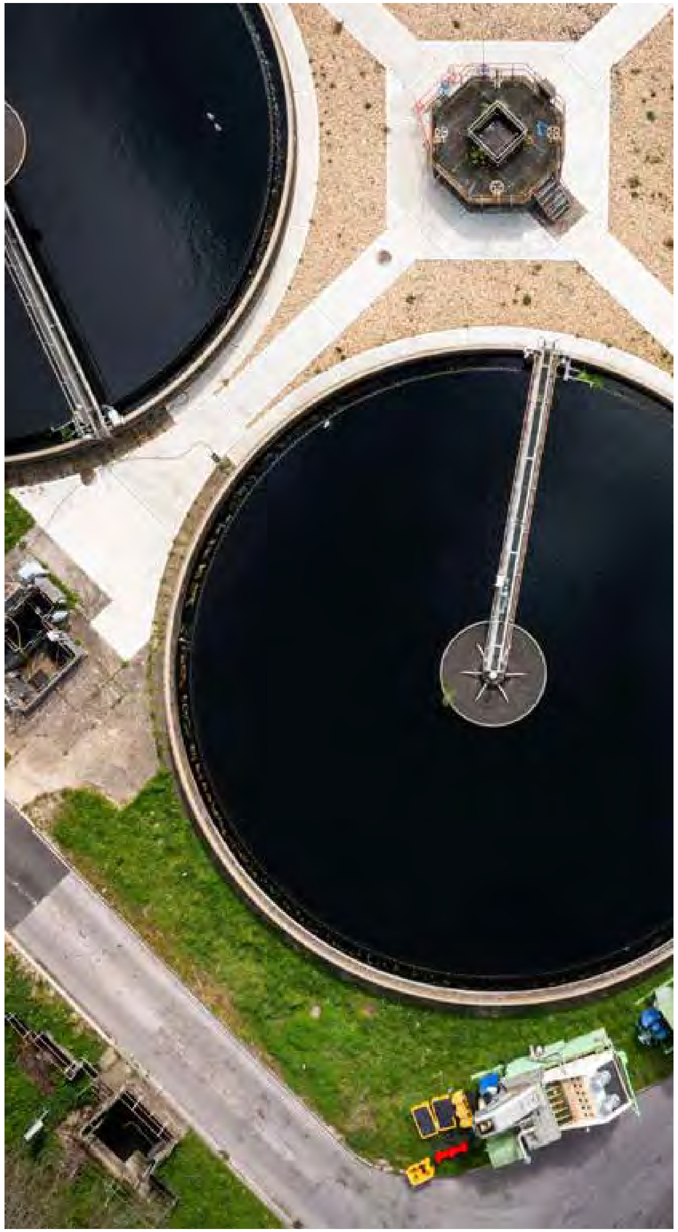
The committee is comprised of a majority of independent non-executive directors. No executive directors nor the Chair of the Board may be members, and at least one member of the committee must have recent and relevant financial experience, and at least one member must also have competence in accounting and/or auditing.

Work of the Audit Committee during the year

Throughout the year, the committee received regular updates on financial reporting, risk, internal audit and the company's regulatory framework.

During the year, the work of the Audit Committee focused on the following key areas:

- The company's annual and interim financial statements and going concern and viability statements
- Non-financial regulatory reporting and improvements in processes and controls, including oversight of external assurance
- Internal controls
- Corporate governance matters
- Compliance with Licence Condition P
- Annual review of licence
- Internal audit reports and plans
- Oversight of internal and external audit,
- Compliance with the company's legal and regulatory obligations in relation to financial and non-financial reporting
- External assurance of the company's post cyber event actions
- Water and wastewater regulatory compliance
- Speak Up (whistleblowing)
- The undertakings given to Ofwat as part of the regulatory settlement
- The assurance for regulatory submissions
- The ongoing investigations by the Environment Agency and the associated accounting considerations
- The level of non-audit fees paid to the external audit firm.
- IT controls
- Principal risks and risk appetite.



Corporate governance report ctd

4. Transparency and accountability

Financial statements

The Audit Committee received and reviewed the financial statements, including the key areas of judgment and estimation uncertainty set out in note 2, and the external audit report from Deloitte regarding the year-end financial statements. It considered any items of significant judgment that have been made and any comments on the control environment. There were no new significant issues raised by Deloitte. The company continues to take steps to address the matters raised by Deloitte's audit and the committee will monitor progress.

Revenue

The estimation of the measured income accrual, for consumption that has yet to be billed to customers, is a key judgment within the reported revenue.

How this issue was addressed

The Audit Committee reviewed the estimation made for unbilled revenue made at March 2026 which is a key accounting judgment given its gross value of £400.8 million, reflecting the increase in tariffs for 2025–26 and noted that there had been no changes to the overall approach from the previous year given the accuracy of the estimate made at March 2025. See page 209.

Contingent liabilities

The investigation by the Environment Agency (EA) into wastewater sampling compliance and the separate industry-wide investigation by the EA wastewater treatment works are ongoing.

How this issue was addressed

The Audit Committee has considered the status of these investigations along with advice from internal and external legal advisers to assess whether it would be appropriate to make a provision or disclose the matters as a contingent liability. Given the status of the investigations, the committee concluded that it was appropriate to disclose them as a contingent liability. See note 33 to these accounts.

Going concern and viability statement

The committee reviewed the company's liquidity position for the going concern period, which reflected the receipt of £0.9 billion of equity and debt repayments in the year and additional debt financing of £1.9 billion.

Given this strengthening in liquidity the committee concluded that the company was a going concern and there were no material uncertainties to disclose.

See page 189 for further detail.

The committee also reviewed the viability assessment and agreed for this to be made for the period to 31 March 2033 for this year. Please see page 126 for our statement.

Impairment of trade receivables

The company's policy for providing for bad debt, based on customer segments and the age of outstanding debt, has not changed in the year. The methodology used last year was applied, on a consistent basis, to calculate the base underlying provision charge for the full-year accounts.

How this issue was addressed

Last year, an additional judgment was applied to recognise the impact of our tariff increase on the likely recoverability of the outstanding debt. As the bad debt model now includes the cash collection performance over this period this judgment was released.

The Audit Committee reviewed the overall provision and discussed the increase in our tariffs, which had a significant impact on the underlying charge but also increased the provision rates for debt segments and the potential impact of the crisis in the Middle East on inflation and affordability. The increased rates, which added £7.1 million to the provision and an additional provision of £3.0 million for affordability, have been included in the provision charge.

Provisions

The Environment Agency has started prosecution proceedings against the company for several events at different locations across our region.

How this issue was addressed

The Audit Committee has decided, given the status of the proceedings and guilty pleas being entered in most cases, that it was appropriate for provisions to be made, see note 26 to these accounts for further details.

Capitalisation of overheads

The capitalisation of overheads is a key accounting judgment given the significant scale of the capital investment programme.

How this issue was addressed

The committee noted that the company's policy for capitalisation of overheads remained consistent with the prior year and that the level of overheads capitalised was consistent with the increase in the size of the capital programme from the prior year.

Corporate governance report ctd

4. Transparency and accountability

Our Ofwat performance commitments

The company has an external non-financial assurer to independently assure its non-financial reporting to Ofwat and check that there is a robust system of internal controls in place for non-financial regulatory reporting, such that information in the Annual Performance Report fairly represents the company's progress and delivery of its promises. The assurer attends meetings of the Audit Committee and reports formally the results of its assurance.

Section 19 undertakings

As part of the regulatory settlement reached with Ofwat in 2019–20, the company agreed to certain undertakings to implement improvements in the business in areas such as culture and robustness of non-financial reporting, as well as to recompense current and former customers. The committee has been responsible for monitoring and reviewing the controls and assurance put in place by management in respect of these undertakings and has received regular reports from management about the progress against the agreed action plans and from the company's external assurers in respect of such progress. The committee was pleased to note that the 2019 undertakings were completed and released by Ofwat, replaced by new undertakings which the committee will continue to monitor.

Internal controls

The committee monitors the internal financial controls systems of the company, including progress against the IT and general control deficiencies previously identified, along with other internal control and risk management systems and, accordingly, receives regular reports from both Internal Audit, external audit and any external assurers appointed by the company to review any particular areas of concern. Remediation of these deficiencies in internal control will continue to be an area of key focus in the next year.

The committee is monitoring the company's preparations for reporting on recent changes to the UK Corporate Governance Code, and in particular the approach to Provision 29.

The committee receives a regular report of any incidents of fraud or bribery, including the actions taken to investigate and respond to the incidents and information on potential incidents of wrongdoing under investigation.

The committee is provided with updates on matters identified via the company's Speak Up policy. There were no material incidents reported via Speak Up during the year.

The committee is also aware of the need to ensure that the group complies with sanctions placed on individuals and organisations in Belarus and Russia following the invasion of Ukraine.

Oversight of internal audit and external audit

The Audit Committee is responsible for overseeing both the work of the Internal Audit function and for the management of the relationship with the external auditor and external non-financial assurer. The committee reviews the performance of external auditors on an annual basis to ensure that they remain effective.

In accordance with best practice, the committee held discussions with both the internal and external auditors, in the absence of management and the Audit Committee will continue this practice.

Internal audit

The Head of Internal Audit and the team report on a day-to-day basis to management on the effectiveness of the company's systems of internal controls and the adequacy of these systems to manage business risk and to safeguard the company's assets and resources.

The committee received regular reports throughout the year from Internal Audit in respect of its work during the year in accordance with the internal audit plan agreed with the committee at the beginning of the year. The reports from Internal Audit are a material element of the assurance received by the committee on the company's controls. If changes are required to internal audit action dates for medium and high risk actions, the owners must attend the committee and explain why such changes are needed and seek the committee's approval.

Corporate governance report ctd

4. Transparency and accountability

The committee reviews, at least annually, the level of resources and the budget of the Internal Audit function. The Head of Internal Audit is able to raise any issues with the committee or its Chair at any time during the year.

Fair, balanced and understandable

At the request of the Board, the committee has considered whether, in its opinion, this Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and whether it provides the information necessary for shareholders to assess the company's position, performance, business model and strategy.

Risk

During the year the Audit Committee, alongside the Health, Safety and Operational Risk Committee, was responsible for overseeing and challenging the effectiveness of Southern Water's approach to risk management. This included responsibility for monitoring the effectiveness of the company's systems of internal controls and for endorsing an internal audit plan that is informed by principal risk exposures including overseeing targeted reviews of key risk and control areas. The Audit Committee is responsible for monitoring and reviewing the company's risk appetite and tolerance and for more 'strategic' risks.

The committee is also responsible for maintaining an assurance landscape that has integrity, independence and reliability.

External auditor

Deloitte LLP was appointed as the company's external auditor for the financial year ending 31 March 2026.

The Audit Committee reviews the external auditor's effectiveness, seeking views from the committee and management, and would report to the Board any concerns over the continuation of the appointment.

The committee undertakes an annual review of the external auditor's independence and objectivity within the context of the applicable regulatory requirements and professional standards. This includes an assessment of the impact of any non-audit work carried out by the audit firm on the auditor's independence and objectivity. In the committee's view, the external auditor met these criteria. The committee also monitored the ratio of audit fees to non-audit fees and approved non-audit services and fees paid to Deloitte during 2025–26.

Details of the amounts paid to Deloitte for these services are provided in note 6 to the financial statements.

In accordance with listed company practice, the external audit contract will be put to tender at least every 10 years. A tender process would also be initiated if there were any concerns about the quality of the audit or the independence and objectivity of the auditor.

There are no contractual obligations that act to restrict the Board's choice of external auditor, although the Board is mindful of non-audit services currently being undertaken by other potential external audit providers.

Corporate governance report ctd

4. Transparency and accountability

Health and Safety and Operational Risk Committee Report

Neil McArthur
Chair of the Health and Safety and Operational Risk Committee

Attendance 5/5

Committee membership

Malcolm Cooper
Committee member
Attendance 5/5

Neil Corrigal
Committee member
Attendance 5/5

How the committee spent its time

- Delivery against the Health, Safety, Security and Wellbeing Transformation Plan.
- Safety culture.
- Wellbeing.
- Process safety.
- Contractor safety.
- Operational safety risks.
- Operational site visits.
- Priorities for the investment period.
- Improving risk perception.
- Drought.
- Contractor assurance.
- Supplier performance.
- Key operational risks.
- Cyber threat.

Priorities for 2026–27

- Embedding of safety culture.
- Risk control assessments.
- Delivery of the 2026–27 safety plan.
- Colleague risk perception.
- Site safety and controller of premises.

Key activities undertaken

April
- Portswood site visit following significant near miss.
- Assessment of delivery against the Transformation Plan.

July
- Peacehaven site visit.
- Process safety plan.
- Drought.
- Improving risk perception.

September
- Burham site visit.
- Contractor safety and assurance.
- Wellbeing.
- Serious pollutions.

November
- Half-year review of Safe and Well Everyday Plan.

March
- Burham site visit.
- Explosive Atmosphere risk.
- Cyber threat.
- Redundant sites.

Corporate governance report ctd

4. Transparency and accountability

Introduction

The Health and Safety and Operational Risk Committee has responsibility for monitoring and advising on operational risks, reviewing and monitoring health, safety, security and wellbeing performance, and continues to provide appropriate advice and recommendations to the Board in this area.

Health, safety, security and wellbeing

During the year the committee continued its focus on the company's delivery of the safety plan and was pleased that the external independent assessment by DSS+ for the 2025–26 year stated that "senior leadership commitment is clear and remains a driving force". The company has moved along the Bradley Curve, from Dependent to Interdependent and the report demonstrates our progress on the 13 dimensions of the Safety Management system. The focus for the upcoming year is ensuring that progress continues and that quality embedment is demonstrated across the organisation.

In addition to regular updates on performance, the committee receives reports on significant near-misses and HiPos that have occurred whether through the workforce or the company's supply chain. As a result of a significant near-miss at the company's Portswood WTW the committee visited the site to hear directly from operational colleagues, both he circumstances of the incident and to understand improvements that had been made to the site and processes to prevent a reoccurrence. The committee undertook further site visits throughout the year to better understand the company's approach to site and process safety, as well as the management of complex construction activity on operational sites. Any observations or actions from the site visits are addressed by site teams and management and an update is provided to the next committee meeting.

The committee received an update on how the company is improving colleague risk perception, recognising the value of technology but also understanding human factors and how colleague behaviour drives safety performance.

A deep dive was presented on the company's new approach to wellbeing, with a specific focus on mental health. In addition to improvements in supporting colleagues with the introduction of an occupational health providers, improvements have been made to supporting colleagues affected both directly and indirectly as a result of safety incidents, recognising the impact these incidents can have.

Risk

The committee received an update on management's refreshed to operational risk focusing on key health and safety and legislative risks, supported by a programme of assessment and a rolling programme of control assessments is reported to the committee at each meeting. Management presented an update on its new approach to process safety, with the committee hearing from an external out of sector organisation on a best practice approach.

The committee received an update on the company's redundant site estate, including the short and long-term mitigating actions being deployed to ensure that the sites remained safe.

The location and agenda of the committee meetings align with the three key safety areas of process safety, contractor safety and people safety.

Corporate governance report ctd

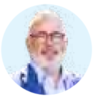
4. Transparency and accountability

Major Projects and WRMP Committee Report

Neil Corrigall
Chair of the Major Projects and WRMP Committee

Attendance 5/5

Committee membership



Keith Lough
Committee member
Attendance 5/5

Neil McArthur
Committee member
Attendance 5/5

How the committee spent its time

- Updates of the Water Resources Management Plan (WRMP) 2024 plan, stakeholder Engagement, solution options and risks, mitigations and drought readiness. Review of assurance processes and reports.
- Havant Thicket reservoir progress reviews, cost forecasts, regulatory process for cost adjustment mechanism (CAM2) and bulk supply agreement amendments.
- Hampshire Water Transfer and Water Recycling Project (HWTWRP) project development, commercial Direct Procurement for Customers (DPC) model, construction market engagement and Development Consent Order (DCO) preparation.
- White Horse Reservoir (WHR, previously known as SESRO) project development, cost forecasts and governance arrangements.
- Thames to Southern Transfer (T2ST) solution progression, optioneering and DPC/SIPR (Specified Infrastructure Provider) model.
- Ford and Aylesford solution optioneering and commercial model.
- Large Scheme Gated (LSG) process submissions and assurance.

Priorities for 2026–27

- DPC/SIPR procurement and contracts.
- WRMP delivery.
- Risk allocation.
- Cost change process.

Key activities undertaken

May
- Final draft WRMP progress.

June
- WHR development progress.
- Havant Thicket CAM2 and bulk supply agreement.

October
- HWTWRP DCO preparation, bulk supply and DPC terms.
- Havant Thicket CAM2.
- White Horse Reservoir.

November
- White Horse Reservoir main works contract.
- Ford and Aylesford recycling optioneering.
- Havant Thicket bulk supply agreement.

March
- HWTWRP market engagement and bulk supply.
- Ford/Aylesford recycling.
- T2ST optioneering.
- Large Scheme Gated submissions.

Corporate governance report ctd

4. Transparency and accountability

Introduction

The Major Projects and WRMP Committee has responsibility for oversight and challenge, on behalf of the Board, of SWSL's Major Projects portfolio, monitoring its performance, reviewing the areas of significant corporate and operational risk and whether the executive is managing these risks effectively, including via the supply chain. It also provides oversight and challenge, on behalf of the Board, of the development of SWSL's Water Resources Management Plan (WRMP), and to provide assurance to the Board of the deliverability of the WRMP.

Major Projects

During the year the committee received reports through the year and associated assurance for various regulatory gated submissions. Across the projects these covered similar topics of project development progress; commercial arrangements including where delivery is done by another water company, DPC or SIPR provider; planning and permitting risks; technical optioneering; cost forecasts; market engagement; stakeholder engagement. The projects covered were:

- Havant Thicket Reservoir providing a raw water storage reservoir supporting Hampshire.
- Hampshire Water Transfer and Water Recycling Plant providing recycled water into Havant Thicket and a transfer pipeline into Hampshire.
- WHR joint project with Thames Water and Affinity Water providing raw water storage in Oxfordshire that supports Hampshire.
- Thames to Southern Transfer (T2ST) includes a water treatment works and transfer pipeline from WHR to Hampshire.
- Ford and Aylesford Recycling projects providing recycled water to support river flows in Sussex and Kent.
- Large Scheme Gated submissions for various projects covered by Ofwat's cost change process.

The committee reviewed regulatory submissions and associated assurance as part of the Large Scheme Gated process.

Any actions or observations are addressed by management and updated to the committee at the following meeting to ensure that improvements to project development are incorporated into the programme and other risks are mitigated.

WRMP

During the year the committee received reports from management on: the progress of the final draft WRMP24 following wide stakeholder engagement, changes to the overall schemes selected and drought planning options, the company's Statement of Response and assurance of the materials and statements within. The committee covered the challenges in securing approvals for the overall plan, challenges for delivery and associated risks.

Our approach to governance

Ofwat Board Leadership, Transparency and Governance Principles

In 2019, Ofwat published its Board leadership, transparency and governance principles and, subsequently, in July 2019, amended the licences of water and wastewater companies to require such companies to meet the objectives set out in the Ofwat Principles.

The Ofwat Principles are a major update of the previous principles published in 2014 and include many of the principles and provisions of the Financial Reporting Council's (FRC) UK Corporate Governance Code. Accordingly, Southern Water seeks to apply both the Ofwat Principles and the relevant principles and provisions of the UK Corporate Governance Code in terms of its approach to corporate governance.

The Ofwat Principles are based around four objectives (set out below), each of which is supported by a number of provisions designed to assist companies in demonstrating that they are meeting the relevant objective.

1. Competence and independence

Boards and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high-quality decisions that address diverse customer and stakeholder needs.

	Objective/provision	Compliant	Page
i.	Boards and board committees have the appropriate balance of skills, experience, independence and knowledge of the company. Boards identify what customer and stakeholder expertise is needed in the boardroom and how this need is addressed.	Yes	129, 131, 132, 133-136, 137, 138, 143-144, 145, 149, 151 to 152, 153 to 156
ii.	Independent non-executive directors are the largest single group on the board.	Yes	133-136, 137, 142, 143 to 144, 145, 151-152, 153 to 156
iii.	The chair is independent of managers and investors on appointment and demonstrates objective judgment throughout their tenure. There is an explicit division of responsibilities between running the board and executive responsibility for running the business.	Yes	127 to 128, 133, 137, 143, 153-156
iv.	There is an annual evaluation of the performance of the board. This considers the balance of skills, experience, independence and knowledge, its diversity, how stakeholder needs are addressed and how the overarching objectives are met. The approach is reported in the annual report and any weaknesses are acted on and explained.	Yes	151 to 152
v.	There is a formal, rigorous and transparent procedure for new appointments, which is led by the Nomination Committee and supports the overarching objective.	Yes	153-156
vi.	To ensure there is a clear understanding of the responsibilities attached to being a non-executive director in this sector, companies arrange for the proposed, final candidate for new non-executive appointments to the regulated company board to meet Ofwat ahead of a formal appointment being made.	Yes	154
vii.	There is a majority of independent members on the Audit, Nomination and Remuneration Committees and the Audit and Remuneration Committees are independently led.	Yes	133 to 136, 156 to 160, 168 to 185

Our approach to governance
ctd

2. Purpose, values and culture

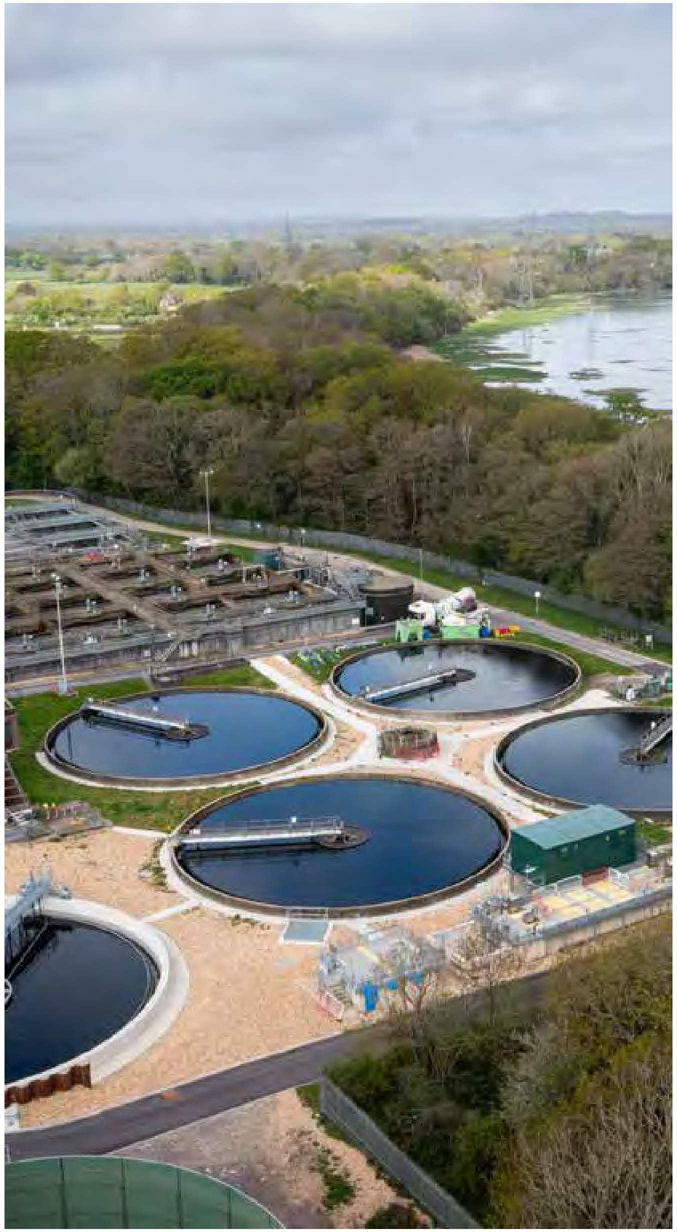
The regulated company board establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

Objective/provision	Compliant	Page
i. The board develops and promotes the company's purpose in consultation with a wide range of stakeholders and reflecting its role as a provider of an essential public service.	Yes	86 to 87, 131, 138, 140 to 141, 144, 146 to 148, 186, 188
ii. The board makes sure that the company's strategy, values and culture are consistent with its purpose.	Yes	86-87, 131, 138, 140 to 141, 144, 146 to 148, 186, 188
iii. The board monitors and assesses values and culture to satisfy itself that behaviour throughout the business is aligned with the company's purpose. Where it finds misalignment it takes corrective action.	Yes	131, 138, 141, 146, 147 to 148
iv. Companies' annual reporting explains the board's activities and any corrective action taken. It also includes an annual statement from the board focusing on how the company has set its aspirations and performed for all those it serves.	Yes	127 to 128, 129 to 131, 138, 140 to 142, 146, 147, 150, 156 to 164, 168 to 185

3. Effectiveness

The regulated company has an effective board with full responsibility for all aspects of the regulated company's business for the long term.

Objective/provision	Compliant	Page
i. The regulated company sets out any matters that are reserved for shareholders or parent companies (where applicable), and explains how these are consistent with the board of the regulated company having full responsibility for all aspects of the regulated company's business, including the freedom to set, and accountability for, all aspects of the company's strategy.	Yes	127 to 128, 130 to 131, 138 to 147, 150 to 164, 168 to 185
ii. Board committees, including but not limited to Audit, Remuneration and Nomination Committees, report into the board of the regulated company, with final decisions made at the level of the regulated company.	Yes	127 to 128, 130 to 131, 138 to 147, 150 to 164, 168 to 185
iii. The board of the regulated company is fully focused on the activities of the regulated company; takes action to identify and manage conflicts of interest, including those resulting from significant shareholdings; and ensures that the influence of third parties does not compromise or override independent judgment.	Yes	127 to 128, 130 to 147, 150 to 164, 168 to 185



Our approach to governance
ctd

4. Transparency and accountability

The board's leadership and approach to transparency and governance engenders trust in the regulated company and ensures accountability for their actions.

Objective/provision		Compliant	Page
Regulated companies publish the following information in a form and level of detail that is accessible and clear for customers and stakeholders:			
i.	An explanation of group structure;	Yes	103 to 106, 138
ii.	An explanation of dividend policies and dividends paid, and how these take account of delivery for customers and other obligations (including to colleagues);	Yes	2, 5 to 6, 8, 18, 90, 95 to 96, 100, 103 to 106, 124, 138, 186, 195 to 196, 211, 213, 219, 229
iii.	An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed;	Yes	21, 67, 70 to 71, 78, 88 to 89, 109, 112 to122, 141, 156 to 157, 190, 192, 208
iv.	The annual report includes details of board and committee membership, number of times met, attendance at each meeting and where relevant, the outcome of votes cast; and	Yes	127 to 129, 133 to 137, 142, 153, 156, 161, 163, 168
v.	An explanation of the company's executive pay policy and how the criteria for awarding short and long-term performance-related elements are substantially linked to stretching delivery for customers and are rigorously applied. Where directors' responsibilities are substantially focused on the regulated company and they receive remuneration for these responsibilities from elsewhere in the group, policies relating to this pay are fully disclosed at the regulated company level.	Yes	168 to 185

Directors’ Remuneration Report

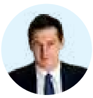
Section 1: Introduction

Christèle Delbé
Chair of the Remuneration Committee

Attendance 5/5

Committee membership

Malcolm Cooper
Committee member
Attendance 5/5



Will Price
Committee member
Attendance 5/5

Introduction

This was Southern Water's first year operating within the new investment period 2025–30, a £6.1 billion, five-year capital programme to improve environmental performance and customer service and secure long-term water and wastewater services.

Areas of focus for 2025–26

- Update Southern Water's Executive remuneration policy.
- Assess performance against the Annual Bonus Plan.
- Reset short and long-term incentive plans to drive performance improvement over the investment period.

Executive remuneration policy

In November 2025, the Board approved an update to Southern Water's Executive remuneration policy. It set out a clear framework for how executive director remuneration is determined, benchmarked and governed. The policy targets base pay positioning broadly at the 60th percentile of the benchmark comparator group. This is modestly above the market median, with upper-quartile reward only achievable through sustained delivery against stretching performance objectives, and recognises the particular context for Southern Water as it competes for talent in a competitive landscape with heightened demand for key skills.

Executive director remuneration review

During 2025–26, the committee completed an independent market benchmarking review, which confirmed that executive director base pay had fallen towards the lower end of the comparator group.

The committee considered the benchmarking evidence carefully alongside affordability, the workforce context, company performance and wider stakeholder and regulatory expectations. Having balanced these factors, the committee concluded that a measured approach to executive pay for 2026–27 was appropriate. Accordingly, a 3.5% cost of living increase was applied to base pay, consistent with the award made to the wider workforce.

The committee recognises that this decision does not fully address the market positioning identified through the review nor does it reflect the scale of operational improvement and investment the business is undergoing and the impact this has on leadership. The committee will continue to monitor remuneration levels as part of its ongoing oversight responsibilities.

Directors’ Remuneration Report

Directors' Remuneration Report ctd
Section 1: Introduction

Driving performance through the Annual Bonus Plan

In 2025–26 the company improved performance across the areas that matter most to customers and the environment, reducing leakage and flooding by digitalising water and wastewater networks and completing a £3.2 billion investment to maintain and upgrade infrastructure as part of its 2020–25 capital programme.

Environmental improvements were also accelerated, with 1,200 releases from storm overflows prevented and 14.5 hectares of rainwater runoff diverted away from the network, reducing pressure on the system.

While progress has been made, serious pollutions, customer experience and internal sewer flooding remain areas where further progress is required.

For the second consecutive year, no annual bonus is payable to the Chief Executive Officer or the Chief Financial Officer for 2025–26, in line with Ofwat's Performance Related Pay Prohibition Rule (PRPP Rule). This prohibition was triggered by a Category 1 pollution incident at Florence Farm in September 2025.

For 2026–27 the Annual Bonus Plan has been reset to reflect the company's priorities for the second year of the investment period.

Incentivising long-term sustainable performance

The committee approved a new Long-Term Incentive Plan for the executive directors and a small number of executives with direct accountability for business plan delivery. This scheme has been designed to reinforce delivery of our stretching business plan incentivising sustained performance improvement over the five-year investment period.

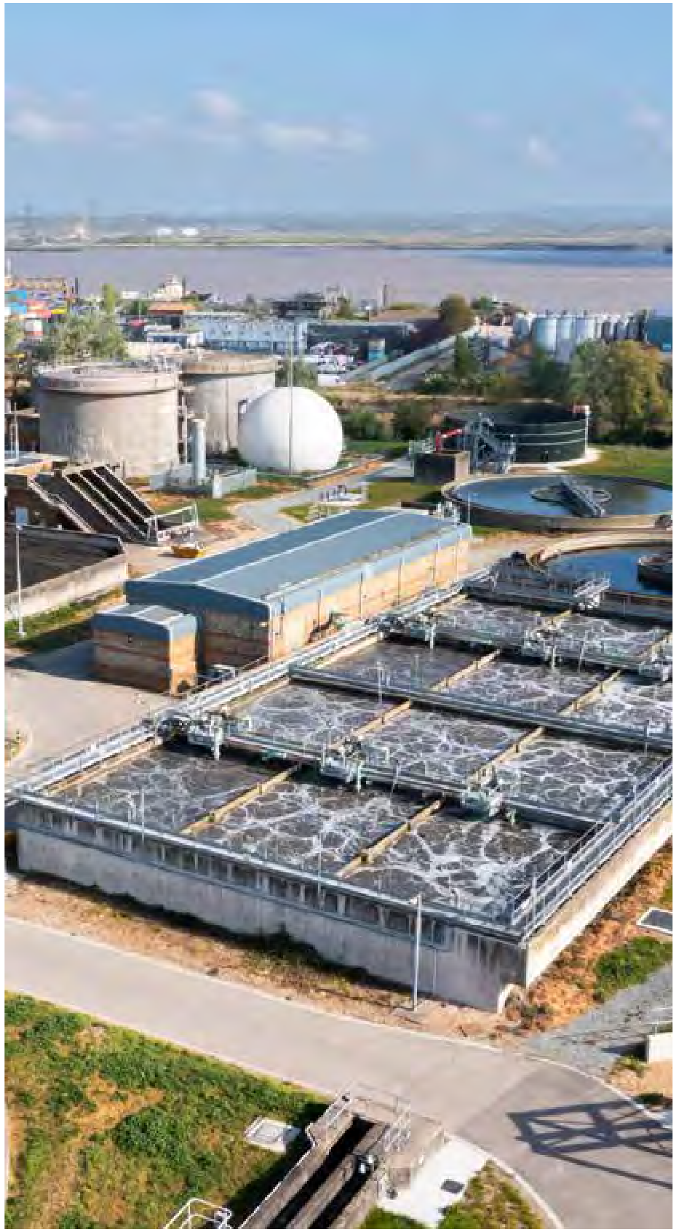
Priorities for 2026–27

The committee will continue to monitor remuneration arrangements to make sure that they are delivering the outcomes they are designed to support: improved environmental performance, better customer service and responsible delivery of the current investment programme.

We remain committed to reporting on progress openly and fully.

Christèle Delbé
Chair of the Remuneration Committee

15 July 2026



Directors' Remuneration Report ctd
Section 2: Governance

Introduction

This report has been prepared in line with Ofwat's Board Leadership, Transparency and Governance Principles, the PRPP Rule, the UK Corporate Governance Code and relevant legislation. The committee's Terms of Reference are available at www.southernwater.co.uk/board-committee-terms-of-reference.

Role of the Remuneration Committee

The Remuneration Committee is responsible for setting and overseeing remuneration policy for executive directors and senior executives, and for advising the Board on Chair remuneration. Its responsibilities include reviewing remuneration against market benchmarks, overseeing the design and operation of incentive arrangements, assessing performance outcomes, and ensuring compliance with all regulatory requirements.

Committee membership and attendance

During 2025–26 the committee comprised three Non-Executive Directors. Christèle Delbé and Malcolm Cooper are independent Non-Executive Directors. Will Price is an investor-nominated Non-Executive Director. The Board is satisfied that the committee has an appropriate balance of independence, governance experience, remuneration expertise and regulated sector knowledge.

The Chief Executive Officer, Chief Financial Officer and Chief People Officer attended meetings by invitation where relevant agenda items were considered. The Company Secretary, or their nominee, acts as secretary to the committee. No individual was present for or participated in discussions relating to their own remuneration.

Activity during the year

The committee met five times during 2025–26. The table below summarises the decisions taken by the committee during the year:

Decision	Decision	Outcome
Executive remuneration	Updated Executive remuneration policy	Established a clear remuneration rationale, governance framework and 60th percentile market positioning approach for 2026–27, alongside a new policy.
	Executive director remuneration review	3.5% cost of living increase approved, consistent with the wider workforce pay award. The committee acknowledged the benchmarking gap but concluded a more cautious approach was appropriate at this stage.
Governance	Reviewed Board remuneration	The Nomination Committee reviewed non-executive director fees; the Board approved a Chair fee increase to £300,000.
Incentives	Reviewed 2025–26 Annual Bonus Plan performance	Performance assessed against nine measures across customer, environmental, operational, safety and financial outcomes.
	Applied PRPP Rule	No annual bonus payable to executive directors for the second consecutive year, following the Category 1 incident at Florence Farm.
	Design, approve and grant new 2025–30 LTIP	All outcomes subject to PRPP Rule and the regulatory framework. New plan linked to five-year delivery.
Pensions	Arrangements reviewed	Maximum defined contribution match for future hires reduced from 11% to 10% of salary, effective from 1 July 2026.

Independent advice

Throughout the year the committee received independent advice from Ellason on policy, benchmarking, incentive design, governance matters and regulatory developments. Ellason, member of the Remuneration Consultants Group and a signatory to its code of conduct for UK remuneration advisors, provides no other services to Southern Water. The committee is satisfied that the advice received was objective, independent and of a high standard.

Stakeholder engagement

During 2025–26 the committee engaged with Ofwat on governance matters, including the application of the PRPP Rule, the Executive remuneration policy and the design of the LTIP. It also remained in dialogue with Defra to ensure consistency with policy and governance expectations.

Regulatory framework

The committee operates within a broad framework of regulatory, governance and legal requirements. The committee has, and will continue to have, full regard to Ofwat's expectation that remuneration arrangements support delivery of outcomes for customers and the environment, that performance-related pay reflects genuine accountability, and that all disclosures are transparent and complete.

Directors' Remuneration Report ctd
Section 3: Executive remuneration

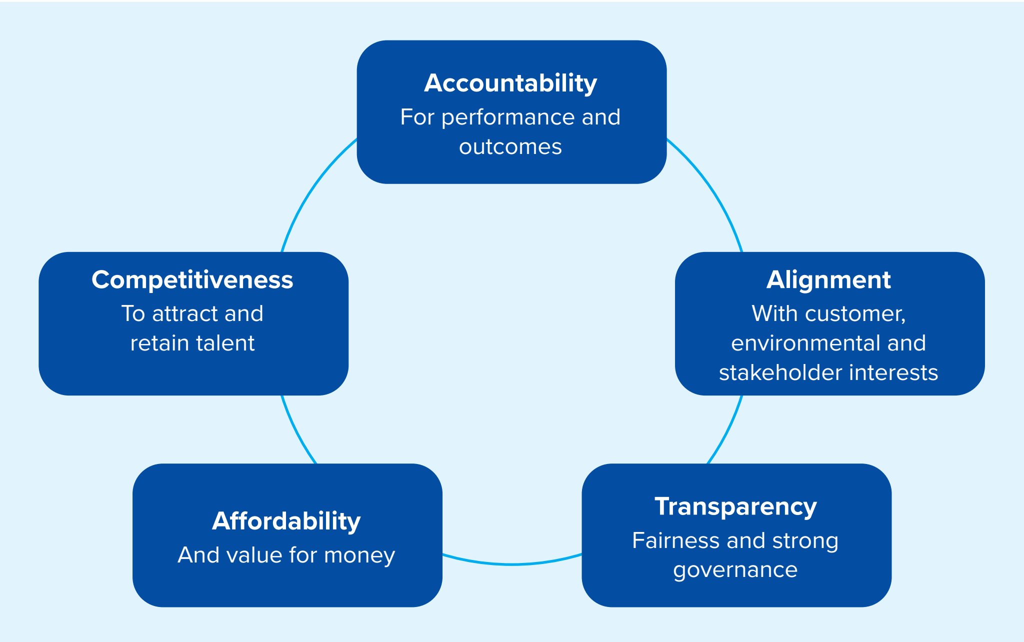
Policy overview

The committee approved an update to Southern Water's Executive remuneration policy in November 2025, with effect from December 2025. The policy establishes how executive director and senior executive remuneration is benchmarked, positioned, governed and reviewed. It applies to the executive directors and senior executives with direct accountability for the delivery of Southern Water's strategy and 2025–30 Business Plan.

The policy was developed in the context of Southern Water's five-year investment programme requiring sustained improvement in environmental performance, customer service, operational resilience and financial sustainability. The policy responds directly to Ofwat's expectations regarding accountability, transparency and alignment between pay and performance outcomes.

It will be reviewed every three years, or sooner if required by changes in the regulatory environment, market conditions or governance expectations.

The committee's remuneration approach is built on five principles (accountability for performance and outcomes; alignment with customer, environmental and stakeholder interests; transparency and strong governance; affordability and value for money; and competitiveness in attracting and retaining talent). These principles informed every aspect of the policy design and continue to guide how the policy is implemented.



Market positioning

The policy targets base pay at approximately the 60th percentile of a benchmark comparator group. Benefits are positioned around the market median, supporting consistency with the wider colleague proposition. Total remuneration may reach upper quartile levels, but only where there is sustained delivery against stretching performance objectives linked to customer, environmental and financial outcomes.

In determining the policy, the committee considered a range of alternative positioning rationales. Median positioning was considered insufficient to support the attraction and retention of executive talent. Upper quartile positioning was considered not merited given the company's performance (notwithstanding recent improvement), the regulatory context and stakeholder expectations.

The committee concluded that positioning base pay at approximately the 60th percentile provides an appropriate balance between competitiveness, affordability and accountability. It is modestly above the market median, consistent with the scale and responsibilities of executive director roles in organisations undergoing significant transformation, while ensuring that higher levels of remuneration remain dependent on the delivery of strong performance outcomes.

The committee may depart from this approach in exceptional circumstances, such as where there is a need to recruit or retain critical talent. Any such decision would require clear supporting evidence, committee approval and would be disclosed in the relevant remuneration report.

Comparator group

The objective of the comparator group is not to benchmark against every organisation in the water sector. It is to identify the organisations Southern Water genuinely competes with for executive talent, and which present comparable demands on their leadership in terms of organisational scale, operational complexity and capital programme delivery. The inclusion of a company within the comparator group does not imply endorsement of its performance.

The committee applies five criteria when assessing the appropriateness of comparator companies: sector relevance, operational scope, scale comparability, capital intensity and talent market relevance. It concluded that the most appropriate comparator group comprises the nine UK water and wastewater companies set out below.

- Anglian Water
- Northumbrian Water
- Pennon Group
- Severn Trent
- Thames Water
- United Utilities
- Welsh Water
- Wessex Water
- Yorkshire Water

The committee places particular weight on sector-specific expertise for Chief Executive Officer roles, with deep operational experience and regulatory knowledge of the water sector considered essential. The same comparator group is applied to the Chief Financial Officer for consistency, while recognising that finance leadership skills are more transferable across sectors and that broader market data provides additional context for those roles.

Directors' Remuneration Report ctd
Section 3: Executive remuneration

The committee also considers broader market data from FTSE 250 companies. This provides additional reference data, and, where available, role-specific market benchmarking for comparable executive positions.

Remuneration framework components

Executive remuneration comprises three elements. The table below summarises the structure of the remuneration framework:

Fixed pay	Annual Bonus Plan Maximum 150% of salary	Long-Term Incentive Plan Maximum 150% of salary (annualised)
Base salary Targeted at c.60th percentile of comparator group. Reviewed annually. **Benefits** Car allowance and private medical insurance. Housing allowance for the CEO. Mobility allowance for CFO. **Pension** 15% of salary (CEO) 11% of salary (CFO) 10% for future appointments.	Performance assessed annually, with targets framed around: Customer outcomes. Environmental performance. Operational delivery. Health and safety. Financial performance.	Aligned to 2025–30 investment period. Annual vesting opportunity from 2027. Performance assessed over rolling periods to incentivise sustained performance improvement.
	Subject to PRPP Rule. Zero payable if triggered, regardless of performance.	Subject to PRPP Rule – award is pro-rated for each year in which rule is triggered.

The above illustrates the structure of remuneration arrangements only. Actual outcomes depend entirely on performance against stretching objectives and compliance with Ofwat's Performance Related Pay Prohibition Rule. Upper quartile total remuneration is achievable only for sustained delivery against customer, environmental and financial targets.

Fixed pay

Base salary

Purpose: To provide competitive fixed remuneration reflecting the complexity, scale and accountability of the role.

Operation: Base salary is reviewed annually between October and January, with any approved changes normally effective 1 April in line with the annual pay cycle. The reference point is the 60th percentile of the comparator group. The committee also considers in its decision making company performance, individual performance, affordability, workforce pay increases and the broader stakeholder and regulatory context.

Salary increases are not automatic. Interim increases may be approved in exceptional circumstances, for example, where there is a substantive change in role or responsibilities.

Benefits

Purpose: To provide a proportionate standard package of benefits positioned at the market median, ensuring fairness and consistency with the wider colleague proposition. Other benefits may be offered to reflect individual circumstances.

Operation: Executive director benefits include car and private medical insurance. Benefits may also include housing allowance or a mobility allowance covering travel, accommodation and subsistence. Benefits are not performance-related and are reviewed periodically.

Pension

Purpose: To provide market-competitive retirement benefits proportionate to those available across the wider workforce.

Operation: Executive directors are eligible to participate in the company's defined contribution pension scheme, or take a cash-in lieu payment. The Chief Executive Officer receives a company pension contribution of 15% of salary, which was agreed contractually at the time of appointment and reflects the terms under which the role was filled. The Chief Financial Officer receives a company pension contribution of 11% of salary, consistent with the maximum contribution available to the wider workforce at the time he was appointed to the role.

Directors' Remuneration Report ctd
Section 3: Executive remuneration

Variable pay
Annual Bonus Plan

Purpose: To reward annual delivery against stretching performance objectives. The Annual Bonus Plan applies consistently at all levels of the organisation, from executive directors through the wider workforce, using the same underlying performance measures to reinforce shared accountability for company performance.

Maximum opportunity: 150% of salary.

Performance measures: The scorecard comprises measures for customer, environment, safety and financial categories. Specific measures, weightings and targets for each year are set by the committee and, together with outcomes, are disclosed retrospectively in the annual report.

Discretion: The committee may exercise discretion in relation to specific performance areas, also considering an assessment of performance in the round.

Individual performance assessment: The Annual Bonus Plan includes an individual performance assessment for each executive director. The assessment considers the extent to which the individual has delivered against their personal objectives, demonstrated effective leadership and contributed to the organisation's culture and long-term development.

PRPP Rule: All executive director bonus outcomes are subject to Ofwat's Performance Related Pay Prohibition Rule (PRPP Rule) and Cost Recovery Mechanism. Where the PRPP Rule is triggered, no annual bonus is payable to executive directors regardless of company performance.

Long-Term Incentive Plan

Purpose: To support long-term decision making, leadership continuity and the sustained delivery of commitments across the investment period. The payment structure is weighted towards the end of the investment period, aiding retention and recognising that decisions require periods of time to see the impact on outcomes of management actions.

Long-Term Incentive Plan (2025–30)

Maximum opportunity: 150% of salary per annum. The maximum award opportunity in each year of the plan is calculated by reference to the executive's salary in that year, ensuring that the total potential opportunity reflects actual salary levels across the full investment period.

Operation: The LTIP was approved during 2025–26 and the performance period runs from 31 April 2025 to 30 March 2030. Participation is limited to executive directors and selected senior executives with direct accountability for delivery.

The plan is structured around four cumulative measurement elements, each covering a progressively longer performance period and carrying a progressively larger share of the total award opportunity.

Element	Performance period	Share of total award
Two-year element	To end of 2026–27	10%
Three-year element	To end of 2027–28	20%
Four-year element	To end of 2028–29	30%
Five-year element	To end of 2029–30	40%

Performance conditions are in place for years two through five (2026–27 to 2029–30). Targets for each element have been set to be credible and stretching in the context of Southern Water's confirmed performance baseline at the start of the investment period and its business plan, so that awards reflect genuine improvement over time.

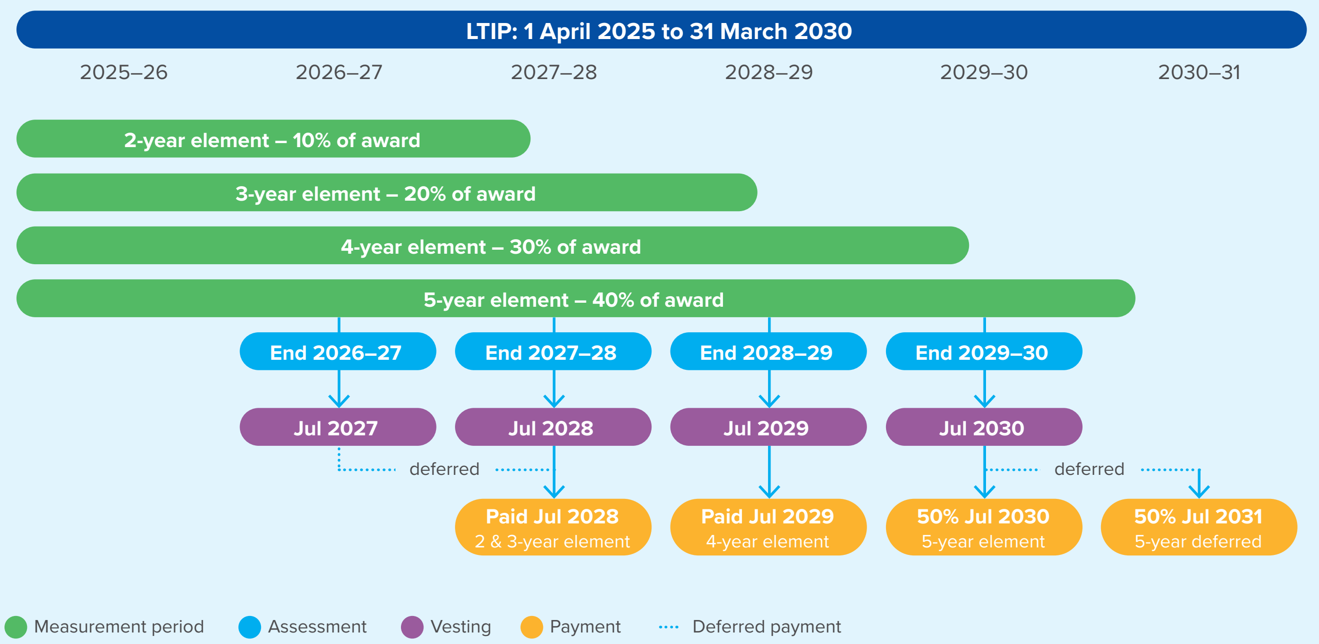
Performance measures: Each element will be assessed against a scorecard comprising four categories.

Category	Weighting
Environment	40%
Financial resilience	40%
Customer	10%
Culture	10%

Vesting and payment schedule: Awards vest in years two, three, four and five of the investment period. The two-year element vests in July 2027, following assessment of performance to the end of 2026–27, but with payment deliberately deferred to July 2028. This reflects the committee's view that a meaningful deferral period is important for retention. Executives will be informed of the amount earned in July 2027 but will not receive payment until July 2028. From 2028 onwards, vesting and payment occur in the same year, except for the final tranche. The five-year element vests in July 2030, with 50% paid in July 2030 and the remaining 50% deferred to 2031, providing a final retention mechanism at the end of the investment period. Awards are subject to the PRPP rule.

Directors' Remuneration Report ctd
Section 3: Executive remuneration

Overview of LTIP 2025–30 framework



Malus and clawback

The Annual Bonus Plan and LTIP contain malus and clawback provisions, allowing the committee to reduce, cancel or recover awards in appropriate circumstances. For incentive schemes commencing 1 April 2025 onwards, recovery may be applied for up to three years following payment in circumstances including material financial misstatement, calculation error, misconduct, significant reputational damage, regulatory censure, serious failure of governance or risk management, or corporate failure.

Service contracts

Executive directors are employed under rolling service contracts providing for 12 months' notice by either party. Where the notice period is worked in full, no termination payment is payable beyond normal contractual entitlements. Where employment is terminated earlier, payments in lieu of notice may be made up to a maximum equivalent to the contractual notice period of fixed pay, with the committee retaining discretion to apply phased payments and to require mitigation.

The treatment of variable remuneration on termination is governed by the rules of the relevant incentive plans. Good leavers, those leaving due to ill health, death, redundancy or other circumstances at the committee's discretion, may retain a pro-rated entitlement to unvested awards subject to the satisfaction of performance conditions at the normal assessment date. Bad leavers forfeit unvested awards in full. The committee retains discretion to depart from these provisions in exceptional circumstances, with any such decision disclosed in the relevant remuneration report.

New appointments

The committee will structure remuneration for new executive director appointments in line with the Executive remuneration policy. Salaries will normally be set at or below the 60th percentile of the comparator group at the time of appointment. In exceptional circumstances, the committee may approve compensation for remuneration forfeited on leaving a previous employer, reflecting the fair value of the forfeited opportunity and considering performance conditions, vesting schedules and the likelihood of those conditions being met.

Directors’ Remuneration Report ctd
Section 4: Executive remuneration review

Executive remuneration review

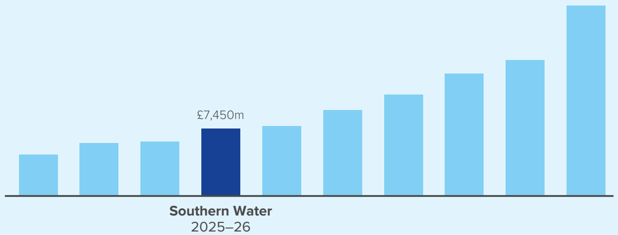
During 2025–26 the committee updated the Executive remuneration policy approved by the Board.

Following approval of the policy, the committee undertook a remuneration review supported by independent benchmarking. The charts show Southern Water’s Regulatory Capital Value (RCV) for 2024–25, base salary positioning against the comparator group and the 60th percentile target base pay position.

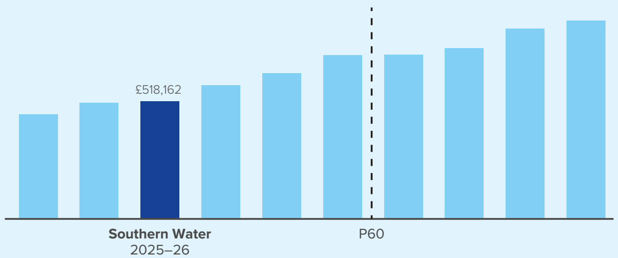
That review indicated that the competitiveness of base pay had fallen to the lower end of the comparator group range and no longer reflected the approved policy. The committee considered carefully how to respond to that evidence. In doing so, it weighed the benchmarking findings against several wider considerations:

- affordability and the cost control environment in which the business is operating;
- the 3.5% cost of living award made to the wider workforce; and
- customer and stakeholder expectations regarding executive remuneration at a time of continued performance improvement.

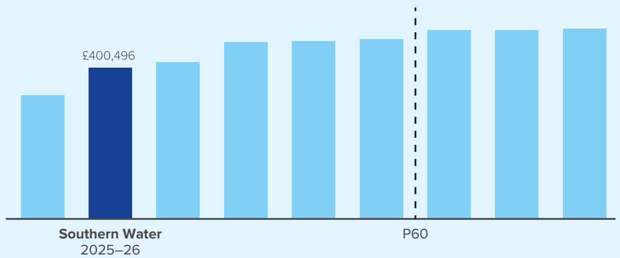
2024–25 Regulatory Capital Value, water sector comparators
(ranked low to high)



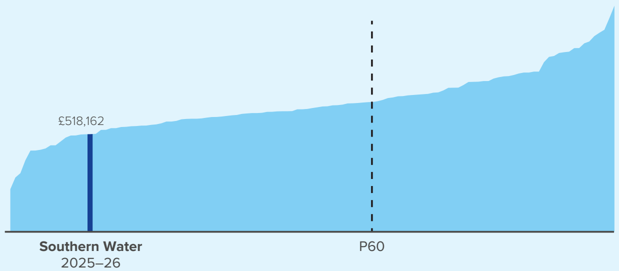
CEO salaries, water sector comparators
(ranked low to high)



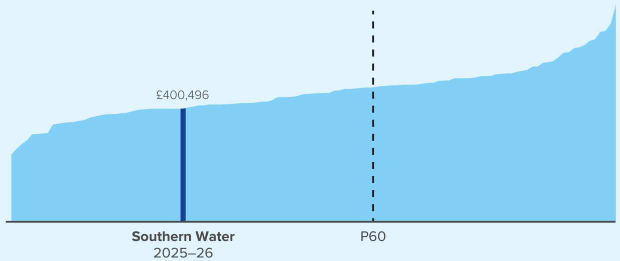
CFO salaries, water sector comparators
(ranked low to high)



CEO salaries, FTSE 250
(ranked low to high)



CFO salaries, FTSE 250
(ranked low to high)



P60 represents the 60th percentile of the comparator group

Directors' Remuneration Report ctd
Section 4: Executive remuneration review

The committee concluded that, while the benchmarking evidence supported a case for market realignment, a more cautious approach was appropriate at this stage.

With effect from 1 April 2026, the Chief Executive Officer's base salary increased from £518,162 to £536,298. This was a 3.5% increase in base pay, equivalent to the wider workforce base salary increase, and equates to a 2.9% overall increase in fixed pay.

The Chief Financial Officer's base salary increased from £400,496 to £414,513, a 3.5% increase on base pay. Overall, fixed pay increased by 4.5% owing to an increase in the mobility allowance which covers travel, temporary accommodation and subsistence.

The committee recognises that these decisions do not fully address the market positioning gap identified through the review. Both executive directors remain positioned below the desired market position, warranted by their experience and sustained contribution to, and leadership of, the company. The committee will continue to monitor talent retention risks, remuneration levels and whether further action is appropriate at the next scheduled review.

Chief Executive Officer

	2025–26	2026–27
Base salary	£518,162	£536,298
Benefits	£140,548	£140,955
Pension	£77,724	£80,445
Total fixed pay	**£736,434**	**£757,698**

Chief Financial Officer

	2025–26	2026–27
Base salary	£400,496	£414,513
Benefits	£38,533	£44,587
Pension	£44,055	£45,596
Total fixed pay	**£483,084**	**£504,696**

Pension arrangements

During the year the committee reviewed pension arrangements, supported by independent benchmarking from Ellason. Following that review, the company resolved to reduce the maximum employer pension contribution for future executive director and company colleagues from 11% to 10% of salary, with effect from 1 July 2026. This change does not affect existing contractual arrangements.

The Chief Executive Officer's pension rate of 15% of salary reflects a contractual commitment from appointment. The committee acknowledges this rate exceeds both the revised future hire rate and the workforce maximum and confirms that the workforce level will apply to all future executive director appointments.

Directors' Remuneration Report ctd
Section 5: Remuneration outcomes 2025–26

Performance assessment 2025–26

The 2025–26 Annual Bonus Plan scorecard comprised nine measures across four categories, with more than 50% of the total weighting linked directly to customer and environment outcomes. The table below summaries performance in the year.

Overview of 2025–26 performance and bonus outcome

Category	Measure	Definition	Weighting	Threshold (25% award)	Target (100% award)	Stretch (120% award)	Outturn	Outcome
Customer	**Drinking water quality (CRI)**	Compliance Risk Index measures the risk and impact of drinking water quality failures, weighted by severity, customer impact and cause.	10%	5.6	4.8	4.0	3.19	Stretch achieved
	Leakage (1-year)	Rolling three-year average of water lost from the network each day, measured in megalitres per day (Ml/d). The measure includes customer supply pipe losses.	10%	94 Ml/d	87.5 Ml/d	80.27 Ml/d	89.7 Ml/d	Threshold achieved
	Customer experience (CSS from C-MeX)	Ofwat's Customer Satisfaction Survey component of C-MeX, measuring customer experience following direct interaction with Southern Water.	10%	63.4	65.5	67	45.2	Not achieved
Environment	**Energy generation**	Volume of self-generated energy produced through anaerobic digestion of biogas from wastewater treatment, measured in gigawatt hours (GWh).	5%	65	70	75	70.39	Target achieved
	Environmental Performance Assessment (EPA)	The Environment Agency's annual assessment of environmental performance, rated on a one-to-four-star scale across multiple environmental obligations.	20%	2*	Above 2*	3*	1*	Not achieved
	Internal sewer flooding	Number of internal sewer flooding incidents impacting customer properties during the year.	10%	364	314	264	389	Not achieved
Safety	**Health, safety and wellbeing**	Performance against the Safe and Well Everyday Plan, assessed through qualitative and quantitative measures by an independent third party and reviewed by the Health, Safety and Operational Risk Committee.	10%	Satisfactory	Good	Excellent	Good	Above target
Financial	**EBITDA**	Earnings before interest, tax, depreciation and amortisation, the Company's underlying financial performance measure.	15%	£642m	£672m	£702m	£661m	Threshold achieved
	Capital investment delivery	Capital investment delivery performance against investment programme milestones.	10%	£1,240m	£1,200m	£1,160m	£1,392m	Not achieved

Directors’ Remuneration Report ctd
Section 5: Remuneration outcomes 2025–26

Adjustment factors

The committee has discretion to adjust the company performance out-turn by considering three additional measures; health and safety performance, supply interruptions and serious pollutions. For the first two measures, performance was strong and no reduction to the outcome was considered necessary.

For serious pollutions, the committee undertook a detailed review of each serious pollution incident, considering:

- the environmental impact of each incident;
- the root causes and whether incidents represented repeat failures;
- management's response and speed of remediation; and
- lessons learned and actions taken to reduce future risk.

The committee concluded that serious pollution incidents remain unacceptable and that accountability for environmental performance must be further reflected in remuneration outcomes. It also recognised that management responded promptly to incidents, implemented corrective actions and demonstrated a genuine commitment to learning and improvement. However, as a result of a Category 1 pollution event, the CEO and CFO did not receive a bonus for 2025–26 performance, in line with Ofwat’s PRPP Rule.

Single figure of total remuneration(audited)

		Fixed Pay			Variable pay		
£'000		Base salary	Benefits[1]	Pension	Annual Bonus[2]	LTIP[3]	Total inc. pension
Chief Executive Officer	**2025–26**	**518.2**	**140.5**	**77.7**	**0.0**	**0.0**	**736.4**
	2024–25	500.6	111.4	75.1	0.0	691.2	1,378.3
Chief Financial Officer	**2025–26**	**400.5**	**38.5**	**44.1**	**0.0**	**0.0**	**483.1**
	2024–25	386.9	22.9	42.6	0.0	534.2	986.7

1 Chief Executive Officer's benefits in 2025–26 comprise a housing allowance paid monthly, a car allowance and private medical insurance. The Chief Financial Officer's benefits comprise a car, mobility allowance, private medical insurance and a one-off payment for accrued annual leave.

2 No annual bonus was payable to either executive director in 2025–26 pursuant to Ofwat's PRPP Rule. The bonus outcome would otherwise have resulted in a payment of £388,622 to the Chief Executive Officer and £240,298 to the Chief Financial Officer. The equivalent foregone amounts in 2024–25 were £396,475 (Chief Executive Officer) and £335,442 (Chief Financial Officer).

3 See last year’s report for details.

Directors' Remuneration Report ctd
Section 6: Remuneration framework for 2026–27

The committee has reviewed the remuneration framework for 2026–27. The Annual Bonus Plan has been reset to align with the priorities of year two of the investment period. A new LTIP was introduced effective from 1 April 2025 and will operate from 2025 to 2030.

Annual Bonus Plan 2026–27

The Annual Bonus Plan continues to apply consistently across the organisation, from executive directors through to the wider workforce.

The maximum annual bonus opportunity for executive directors remains unchanged (150% of salary).

Changes to the scorecard for 2026–27

The committee approved targeted changes to the performance measures and reward structure for 2026–27. The changes refocus the performance measures to the areas where improvement is most needed and those which are of greatest benefit to customers and the environment.

The key changes from 2025–26 are:

- The EBITDA measure is retained from 2025–26 and its weighting has increased from 15% to 20%. The committee believes that financial sustainability is a prerequisite for delivery and a stronger focus on cost efficiency, financial resilience and disciplined execution is appropriate at this stage of the investment cycle.
- Drinking Water Quality (CRI) has been removed from the scorecard. Southern Water continues to perform strongly in this area and the committee's view is that the scorecard should focus on the areas requiring the greatest improvement. Drinking water quality standards will continue to be monitored and maintained as a core operational commitment regardless of its inclusion in the incentive framework.
- Customer Supply Interruptions is added (in prior years it was an adjustment factor), with a 15% weighting. This reflects the direct impact of water outages on customers and the importance of sustained improvement in this area.
- The Environmental Performance Assessment (EPA) measure has been removed. For 2026–27, the Environment Agency has introduced a revised EPA methodology with broader measurement criteria. The committee concluded that, during this period of transition, it was more appropriate to focus on operational measures that the workforce can directly impact, with outputs, in turn influencing the EPA measure. The focus will now be on total pollutions, external and internal sewer flooding, bathing water quality and storm overflow release reduction.
- The clean energy generation measure has been removed. While renewable energy generation remains important, the committee concluded that the financial benefits of cleaner energy generation are already captured in the financial metrics, and removing the metric provided a simplification opportunity.
- Stretch performance has increased from 120% to 125% of target. This reflects the committee's view that the existing reward range did not provide sufficient differentiation between target and stretch performance. This provides a more meaningful incentive for outstanding delivery, while payouts at threshold and target remain unchanged.

Directors' Remuneration Report ctd
Section 6: Remuneration framework for 2026–27

Annual Bonus Plan 2026–27 targets

Category	Measure	Definition	Weighting	Threshold (25% award)	Target (100% award)	Stretch (125% award)
Environmental	**Total pollutions**	All pollutions reported during the calendar year, including dry day spills, as reported under the revised EPA methodology.	5%	1,306	1,156	1,056
	Internal sewer flooding	Number of internal sewer flooding incidents impacting customer properties.	5%	349	299	274
	External sewer flooding	Number of properties flooded externally (gardens, roads and open spaces) due to sewer failures.	5%	2,508	2,360	2,162
	Bathing water quality	Number of bathing water sites with improved bathing water quality ratings.	5%	2	11	12
	Storm overflow reduction	Volume of additional equivalent storage provided to reduce storm overflows, measured in cubic metres.	5%	5,000m³	11,744m³	22,000m³
Customer	**Leakage**	Annual average of water lost from our networks, measured in megalitres per day (Ml/d). The measure includes customer supply pipe losses.	5%	83.8 Ml/d	79.8 Ml/d	76.8 Ml/d
	Customer supply interruptions	The average number of minutes lost per customer in a reporting year, for interruptions lasting three hours or more where properties are without a continuous water supply.	15%	00:07:34	00:06:00	00:05:00
	Customer complaints	Customer contacts relating to concerns, recorded at Stage 1 of the company complaints procedure (a genuine complaint received over the phone, letter, email etc), and in line with the Guaranteed Standards Scheme.	5%	12,084	11,762	11,423
Safety	**Health and safety**	Performance against the Safe and Well Everyday Plan, assessed through qualitative and quantitative measures, assessed by an independent third party and reviewed by the Health, Safety and Operational Risk Committee.	10%	Satisfactory	Good	Excellent
Financial	**EBITDA**	Earnings before interest, tax, depreciation and amortisation, the Company's underlying financial performance measure.	20%	£821m	£851m	£881m
	Capital investment delivery	Capital investment delivery performance against investment programme milestones.	20%	£1,539m	£1,499m	£1,459m

Directors' Remuneration Report ctd
Section 6: Remuneration framework for 2026–27

Adjustment factors
The committee retains discretion to reduce the overall company bonus outturn by up to 20%, if the number of serious pollutions exceeds four. The committee will continue to review health and safety performance and adjust the outturn to reflect performance against the health and safety plan.

Individual performance assessment
The individual performance multiplier, ranging from 0% to 120%, applies to executive directors for 2026–27, consistent with the framework applying to the rest of the workforce.

PRPP Rule
All executive director Annual Bonus Plan outcomes remain subject to Ofwat's PRPP Rule.

LTIP 2025–30
The LTIP 2025–30 operates across the full five-year investment period, commencing 1 April 2025. No element of the LTIP award is recoverable from customers or funded through customer bills with the plan funded by shareholders.

All targets are calibrated to represent sustained improvement against Southern Water's confirmed performance baseline at the start of the investment period. The payout scale applying to each measure in the LTIP scorecard ranges from threshold (for which 25% of that element will be paid), to target (100% payout), to stretch (120%).

Long-Term Incentive Plan 2025–30 measures

Category	Measure	Definition	Weighting
Environment	**EPA rating**	The Environment Agency's assessment of performance across multiple obligations.	20%
	WRMP delivery	The implementation of schemes and actions set out in the Water Resource Management Plan (WRMP) to maintain long-term supply/demand balance and resilience of water resources, including delivering required water available for use (WAFU) benefits within regulatory timeframes.	20%
Customer	**Blended C-MeX / D-MeX / BR-MeX**	A blended metric reflecting customer, developer and retailer experience of services provided by the company. The measure combines the Customer Measure of Experience, Developer Measure of Experience and Business Retailer Measure of Experience. Each measure is reported as a single score derived from survey-based satisfaction measures (and, where applicable, service or market performance metrics).	10%
Culture	**Women in leadership**	Number of females in leadership roles as a % of the total leadership headcount.	2.5%
	Work-related stress (% of absence)	Absence attributed to work-related mental health as a % of total absence.	2.5%
	Graduates and apprentices	The total number of graduates and apprentices employed and on a formal development programme.	2.5%
	Colleague engagement	Positive engagement from colleagues as surveyed in the annual colleague engagement survey.	2.5%
Financial	**Company Operational Return (COR)**	A measure of the return generated from the company's core operational activities, reflecting operating earnings relative to the capital employed in the business.	40%

Directors' Remuneration Report ctd
Section 6: Remuneration framework for 2026–27

Long-Term Incentive Plan 2025–30 targets

		Two-year element (measured to end 2026–27)			Three-year element (measured to end 2027–28)			Four-year element (measured to end 2028–29)			Five-year element (measured to end 2029–30)		
		10% of award opportunity			20% of award opportunity			30% of award opportunity			40% of award opportunity		
LTIP measures		**Threshold (25%)**	**Target (100%)**	**Stretch (120%)**	**Threshold (25%)**	**Target (100%)**	**Stretch (120%)**	**Threshold (25%)**	**Target (100%)**	**Stretch (120%)**	**Threshold (25%)**	**Target (100%)**	**Stretch (120%)**
Environment (40% weighting)													
EPA rating[1]	20%	2	**2+**	3	2	**2+**	3	2	**2+**	3	2	**2+**	3
Delivery of WRMP[2]	20%	On track overall	**On track all schemes**	Ahead on all schemes	On track overall	**On track all schemes**	Ahead on all schemes	On track overall	**On track all schemes**	Ahead on all schemes	On track overall	**On track all schemes**	Ahead on all schemes
Customer (10% weighting)													
C-MeX, D-MeX, BR-MeX (blended position)	10%	13.00	**11.25**	8.75	12.25	**11.00**	7.75	11.75	**11.00**	6.75	11.00	**10.00**	6.25
Culture (10% weighting)													
Fit and future-ready workforce	10%												
- women in leadership		22%	**23%**	24%	23%	**25%**	27%	26%	**28%**	30%	29%	**32%**	35%
- sickness from work-related stress		16%	**15%**	14%	15%	**14%**	13%	14%	**13%**	12%	13%	**12%**	11%
- graduates and apprentices in role		115	**127**	139	127	**141**	155	140	**155**	170	154	**171**	188
- colleague engagement		57%	**60%**	62%	60%	**63%**	65%	63%	**67%**	68%	67%	**71%**	72%
Financial resilience (40% weighting)													
Company operational return (COR)	40%	+0.87%	**+1.28%**	+1.77%	+2.01%	**+2.40%**	+3.30%	+3.46%	**+3.81%**	+4.60%	+4.08%	**+4.40%**	+5.13%

1 Any payout at threshold for the EPA element is subject to committee discretion, reflecting the Environment Agency's evolving assessment methodology.

2 WRMP delivery is assessed against the milestones set out in Southern Water's approved Water Resources Management Plan.

Incentive plans measures and targets

The committee undertook a structured review to determine the performance measures and targets for the 2026–27 Annual Bonus Plan and Long-Term Incentive Plan before recommending them to the Board for approval.

Management developed the initial proposals based on the approved annual Business Plan, the wider investment programme and the company's regulatory commitments. The committee challenged both the proposed measures and the level of performance required to satisfy itself that the resulting framework was appropriately stretching, balanced and aligned with the company's strategic priorities. The committee received advice from its independent remuneration adviser throughout the target-setting process. The committee also reviewed the overall balance of the scorecard to ensure customer, environmental, people and financial measures were appropriately represented and that no single measure disproportionately influenced remuneration outcomes.

For the Annual Bonus Plan, threshold typically represents the minimum acceptable level of performance, target reflects delivery of the approved annual Business Plan, and stretch requires sustained performance that materially exceeds those commitments. Where measures are linked to regulatory or customer commitments, targets are aligned wherever practicable to those commitments. Financial measures are aligned to the Board-approved budget, while measures without externally defined targets are informed by historic performance, external benchmarking and committee judgment.

The Long-Term Incentive Plan is designed to encourage sustained delivery over the investment period. Its targets focus on progressive improvement across the period, recognising that many of the company's most significant customer, environmental, operational and financial outcomes require consistent delivery over a number of years rather than within a single performance year.

The committee concluded that the resulting framework provides an appropriate balance between challenge, achievability and alignment with the company's long-term strategy.

Directors' Remuneration Report ctd
Section 7: Chair and non-executive director fees

Non-executive director fees

The Chair and non-executive directors do not participate in any performance-related arrangements.

The base non-executive director fee during 2025–26 was £55,000, with supplemental fees payable for additional responsibilities as set out in the table below.

Responsibility supplements paid during 2025–26

Role	Director	Supplement
Audit Committee Chair	Malcolm Cooper	£15,000
Health, Safety and Operational Risk Committee Chair	Neil McArthur (from 1 October 2024)	£10,000
Remuneration Committee Chair	Christèle Delbé (from 1 December 2024)	£10,000
Senior Independent Non-Executive Director	Malcolm Cooper (from 1 April 2025)	£10,000

Non-executive director fees for 2025–26 (audited)

£'000	2025–26			2024–25		
	Fees	Other[1]	Total	Fees	Other[1]	Total
Keith Lough (Chair)	**290.0**	**2.2**	**292.2**	290.0	17.5	307.5
Malcolm Cooper (Senior Independent Non-Executive Director)	**80.0**	**1.3**	**81.3**	76.7	1.6	78.3
Christèle Delbé (Independent Non-Executive Director)	**65.0**	**1.6**	**66.6**	58.3	3.0	61.3
Kerensa Jennings (Independent Non-Executive Director)	**55.0**	**1.0**	**56.0**	55.0	2.3	57.3
Neil McArthur (Independent Non-Executive Director)	**65.0**	**9.7**	**74.7**	32.5	6.4	38.9
Neil Corrigall (Investor-nominated Non-Executive Director)	**55.0**	**6.7**	**61.7**	55.0	3.7	58.7
Will Price (Investor-nominated Non-Executive Director)[2]	**–**	**–**	**–**	–	–	–
Steve Fraser (Investor-nominated Non-Executive Director)[3]	**37.9**	**0.0**	**37.9**	55.0	2.7	57.7

1 Other amounts represent taxable expenses incurred in connection with attendance at Board meetings and other company business. None of the directors who held office during the year had any disclosable interests and no payments were made to directors by any other group companies.

2 Will Price is an investor-nominated non-executive director and does not receive fees from the company.

3 Steve Fraser resigned on 8 December 2025. The fee shown represents the pro-rated amount for the period served.

Board remuneration review

The Remuneration Committee reviewed the Chair's fee during the year. Non-executive director fees were reviewed by the Nomination Committee. Both reviews were supported by independent benchmarking against the comparator group.

The reviews found that the base non-executive director fee of £55,000 sat below the lower quartile of the comparator group, with fees clustering at approximately £65,000 across the sector. Additional responsibility supplements were also at or below the lower quartile.

Following consideration of the benchmarking data, governance responsibilities and wider market positioning, the Board approved with effect from 1 April 2026:

- An increase in the base non-executive director fee from £55,000 to £60,000.
- Standardisation of all committee chair supplements at £15,000, extended to include the Major Projects and WRMP Committee given its increasing responsibilities during this investment period.
- Continuation of the Senior Independent Non-Executive Director supplement at £15,000.
- An increase in the Chair's fee from £290,000 to £300,000, effective from the appointment of the incoming Chair.

The revised fee structure continues to position Southern Water below the sector median, maintaining a prudent approach to governance costs.

Fee structure from 1 April 2026

Role	Annual fee
Chair	£300,000
Non-Executive Director base fee	£60,000
Audit Committee Chair supplement	£15,000
Remuneration Committee Chair supplement	£15,000
Health, Safety and Operational Risk Committee Chair supplement	£15,000
Major Projects and WRMP Committee Chair supplement	£15,000
Senior Independent Non-Executive Director supplement	£15,000

Directors' Remuneration Report ctd
Section 8: Chief Executive Officer pay ratio

From 2020 onwards, the Companies (Miscellaneous Reporting) Regulations 2018 require all publicly listed companies with more than 250 UK employees to publish the ratio between their CEO's full-time equivalent remuneration and that of employees at the 25th, 50th and 75th percentile when total remuneration is calculated and ranked from lowest to highest.

Although not a listed company, Southern Water has chosen to publish this information in line with our commitment to providing information about pay diversity and fairness within our organisation.

The regulations set out three options for calculating the pay ratio.

- Option A – takes into account all forms of remuneration and payments (pension etc).
- Option B – uses the gender pay calculation figures.
- Option C – uses some other method.

The Chief Executive Officer pay ratios for 2025–26 are set out below, using Option A. The methodology applied has been updated since 2024–25 to better reflect the pay ratio trend over time and the trend in Chief Executive Officer reported total remuneration.

To facilitate meaningful comparison from year to year, the pay ratio has been restated for prior years.

The significant reduction in calculated pay ratio for 2025–26 compared with 2024–25 reflects the lower variable pay outcomes for the Chief Executive Officer relative to the wider workforce.

The committee considers the pay ratios alongside the wider remuneration outcomes for both the Chief Executive Officer and the workforce when assessing year-on-year movements.

Year I Method	25th percentile ratio	50th percentile ratio	75th percentile ratio
2025–26 I A	**19.8**	**16.0**	**12.7**
2024–25 I A	37.8	30.9	24.2
2023–24 I A	21.4	17.4	13.7
2022–23 I A	14.7	11.8	9.4
2021–22 I A	38.8	31.6	24.6
2020–21 I A	30.7	25.0	19.6
2019–20 I A	31.5	25.2	20.1

Directors’ Remuneration Report ctd
Section 9: Gender pay and inclusion

2025 gender pay gap results (unaudited)

Southern Water publishes its gender pay gap data annually in accordance with the Equality Act 2010. The data below is based on a snapshot date of 5 April 2025.

The gender pay gap measures the difference in average pay between men and women across the whole organisation. It is not a measure of equal pay.

Metric	2025	2024
Mean hourly rate gap	**-2.6%**	0.01%
Median hourly rate gap	**-6.8%**	-0.03%
Mean bonus gap	**25.7%**	56.4%
Median bonus gap	**-1.7%**	23.4%
Proportion of men receiving a bonus	**87.9%**	87%
Proportion of women receiving a bonus	**87.6%**	82%

A negative figure indicates that women's pay or bonus is higher than men's for that metric.

Hourly pay gap. The median hourly rate gap of -6.8% and mean hourly rate gap of -2.6% reflect higher female representation across several leadership and specialist roles where salaries are typically higher. Both figures also reflect a higher concentration of male colleagues in lower-paid operational and field roles, which influences the overall distribution across the organisation.

Bonus gap. The mean bonus gap has improved significantly from 56.4% in 2024 to 25.7% in 2025. The 2025 figure has been impacted by the application of the PRPP rule to executive directors. The median bonus gap of -1.7% indicates that at the mid-point of the organisation, bonus outcomes are broadly equivalent between men and women. The proportion of men and women receiving a bonus was also broadly equal at 87.9% and 87.6% respectively.

The committee monitors gender pay outcomes, representation and progression as part of its broader oversight of remuneration and organisational performance.

For full details of Southern Water's gender pay gap data and supporting narrative, see the Company's Gender Pay Gap Statement 2025.

Directors' Report

for the year ended 31 March 2026

The directors of Southern Water Services Limited (registered no. 02366670) present their report and the audited financial statements for the year ended 31 March 2026.

Read more about going concern on **page 189**

Principal activities

The principal activities of Southern Water Services Limited, herein after referred to as 'the company', also referred to as SWS, are the provision of water supply and wastewater services in the South East of England. The company is regulated by the Water Services Regulation Authority (Ofwat) and supplies water to over 2.7 million people and provides wastewater services to over 4.8 million people.

Strategic Report

The information that fulfils the requirement of the Strategic Report can be found in our

Annual Report on pages 8 to 126 including the Section 172 (1) Statement on pages 86 to 87.

Future developments

The information regarding future developments of the company can be found in our Strategic Report on pages 8 to 126.

Post-balance sheet events

On 14 May 2026 subsidiary company SW Finance I Plc issued a new £300 million bond with a 6.875% coupon and final maturity of 14 November 2034 and advanced an equal amount to Southern Water Services Limited on identical terms. On the same day Southern Water Services repaid £181.0 million of intercompany debt to SW Finance I Plc. SW Finance I Plc subsequently purchased for cancellation £181.0 million of the Class A £300m 1.625% Fixed Rate bond with a final maturity of 30 March 2027 by way of a public tender offer.

On 22 June 2026, Southern Water announced that it had secured a further £300 million of committed equity from Sandstone Bidco Limited to be drawn down on or around 31 March 2027.

Subject to EU Merger Regulation clearance, the majority of this Equity Commitment is being funded by subscriptions for new shares in the Southern Water group by Asterion Industrial Partners (Asterion), an independent European infrastructure investment manager headquartered in Madrid, with the balance being funded by further subscription for shares in the Southern Water group by funds managed by Macquarie Asset Management (MAM).

Following completion, Asterion will become a new indirect minority shareholder in the Southern Water group, with MAM-managed funds remaining the majority shareholder.

Results and dividends

The income statement on page 191 shows the company's results and loss for the year. Further details are also available in the Annual Report on pages 90 to 100.

No dividends to external shareholders were paid during the year (2025: £nil). No final dividend has been declared or paid for the year ended 31 March 2026.

Directors' Report ctd

for the year ended 31 March 2026

Directors and their interests

Directors during the year ended 31 March 2026 and up to the date of signing the financial statements, unless otherwise stated, were as follows (details on pages 133 to 136):

Keith Lough
Chair

Lawrence Gosden
(Executive director – Chief Executive Officer)

Stuart Ledger
(Executive director – Chief Financial Officer)

Andrew Davies
(Independent non-executive director and Chair Designate)
(Appointed 6 May 2026)

Malcolm Cooper
(Senior independent non-executive director)

Christèle Delbé
(Independent non-executive director)

Kerensa Jennings
(Independent non-executive director)

Neil McArthur
(Independent non-executive director)

Stephen Fraser
(Investor-nominated non-executive director)
(Resigned 8 December 2025)

Neil Corrigall
(Investor-nominated non-executive director)

Will Price
(Investor-nominated non-executive director)

None of the directors who held office during the financial year had any disclosable interests in the shares of the company or the group.

Research and development

Improvement of existing services and processes, together with the identification and development of new technology and solutions, are important aspects of the company's strategy to enhance the quality of service to customers and improve ways of working. Research and development expenditure charged to the income statement for the year amounted to £0.7 million (2025: £0.7 million).

Financial risk management

The financial risk management policy is included in the Strategic Report which can be found in the Annual Report on page 118.

Corporate governance

A description of the company's corporate governance arrangements for the purposes of Part 8 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as introduced by regulation 14 of the Companies (Miscellaneous Reporting) Regulations 2018 can be found in the Annual Report on pages 137 to 185.

Colleagues

The company recognises the importance of its colleagues and is committed to effective two-way communication and consultation.

The company has an established Employee Voice group to facilitate meaningful consultation between company management and colleagues through elected colleague representatives. The group meets regularly at both a functional and company-wide level.

The company undertakes regular colleague engagement surveys to help develop management action plans and provide insight into the views of colleagues. The company also conducts further surveys throughout the year on specific matters, the results of which are reported to management and/or the Board, as appropriate.

The company recognises the rights of every colleague to join a trade union and participate in its activities. Southern Water has a single union agreement with Unison.

General information is posted on the company intranet and regular team briefing sessions are also held. The information in these publications and briefings covers a wide range of subjects that affect the business, including progress on business and capital projects, the impact of regulatory issues and wider financial and economic issues.

Read more about health and safety performance on **page 61**

Directors' Report ctd
for the year ended 31 March 2026

The company's executive directors and Executive Committee members as well as, occasionally, individual non-executive directors hold monthly 'Company Conversations', using video conferencing, to inform and engage with colleagues about the company's priorities, purpose and values. These sessions afford colleagues an opportunity to put questions to the Executive and Senior Leadership about anything regarding the business.

In line with the UK Corporate Governance Code, one of the company's independent non-executive directors, Neil Corrigall, has been given the remit of communicating the views of the company's workforce to the Board.

Further details of the company's colleagues and the company's engagement activities, as well as how the directors have had regard to colleague interests, can be found in the Strategic Report on pages 61 to 66 and in the corporate governance section on pages 148 to 149.

Equal opportunity: The company's policy is to promote equality of opportunity in recruitment, employment continuity, training and career development. It takes full account of the needs of people with disabilities and follows set policies and procedures to support reasonable adjustments.

Health, safety, security and wellbeing: The health, safety, security and wellbeing of our people is our priority and colleagues are encouraged to challenge anything they believe may be wrong or potentially dangerous.

Empowerment forms a crucial part of our safety strategy, as does making safety the first thing we consider when conducting any activity. Our policy statement provides clear direction from the CEO on how we approach health, safety, security and wellbeing within the business.

Our focus on prioritising safety is linked to the delivery of our Health, Safety, Security and Wellbeing Transformation Plan, which concluded in April 2025. This has delivered a step change in our approach by embedding cultural, behavioural, process and system improvements. As we start the next investment period, we have set out a five-year 'Safe and Well Every Day' plan. It is tracked and regularly reviewed by the Executive Safety Committee to ensure our position, ambitions and initiatives are achieving our goal for all our colleagues, supply chain partners and everyone affected by our activities.

We continue to ensure that every colleague receives training, instruction and supervision to deliver their role, proportionate to the specific level of risk. These requirements are frequently reviewed with the delivery of accredited NEBOSH and IOSH health and safety training, and the development of modern site safety instructions and supply chain training courses are recent examples of this.

Our well-established forums, including Employee Voice and our monthly Company Conversations, are used to share safety information and we distribute regular cascades and immediate safety alerts to ensure our colleagues are appraised of incidents and mitigations. In 2023 we implemented an online Safety Reporting System to further improve the flow of information.

The company provides an internal occupational health service for colleagues, including the provision of physiotherapy and support through the Employee Assistance line.

Disabled colleagues: Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of an colleague becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other colleagues.

Speak Up: Colleagues are actively encouraged to Speak Up if they see things that are not quite right. This helps foster a culture where we ensure that we're always doing the right thing for each other, our customers, the environment and other stakeholders.

Engagement with customers, suppliers and others

The company recognises the importance of its suppliers to ensure the company's ability to continue to deliver an essential public service.

Further details of the company's engagement with its suppliers during the year can be found on page 64.

Due to the nature of its business and the regulatory framework in which the company operates, engagement with its customers is of key importance. The company undertakes extensive customer engagement activities throughout the year. Further details can be found on pages 22 to 23.

As a private limited company, Southern Water Services Limited is not required to hold an annual general meeting.

The company, its senior executives and Board, regularly engage with the company's regulators, with local and national government as well as with relevant industry groups through meetings and other events.

The company's statement explaining how the directors have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006, and which provides further detail in respect of how the directors have taken into account the interests of the company's colleagues, suppliers, customers and others during the year, can be found on pages 86 to 87.

Directors' Report ctd
for the year ended 31 March 2026

Environmental issues

The company is committed to meeting or improving upon legislative and regulatory environmental requirements and codes of practice and aims to contain the environmental impact of its activities to a practicable minimum.

The company is subject to ongoing investigations by the Environment Agency regarding wastewater performance and further details are disclosed in note 33 to the accounts.

The company's environmental performance for 2025–26 is reported on pages 27 to 41. The company recognises its responsibility to operate within a framework that supports sustainable development and has established, where possible, indicator targets which are measurable. Performance against these targets is monitored and reported regularly.

Streamlined Energy and Carbon Report (SECR)

The Streamlined Energy and Carbon Report is included within the climate-related financial disclosures section of the Strategic Report on pages 84 to 85.

Political donations

No political donations were made (2025: nil).

Land and buildings

In the opinion of the directors, the market value of land is significantly more than its book value. However, it would not be practicable to quantify the difference precisely.

Going concern

The company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on pages 8 to 126.

The directors have undertaken a detailed review of the company's liquidity requirements compared with the cash and facilities available, which includes cash on hand of £1,158.8 million (2025: £557.0 million), cash on deposit of £125.0 million (2025: £nil), committed undrawn bank facilities of £422.0 million (2025: £72.0 million) and a committed undrawn bond backstop facility of £500 million, totalling £2,205.8 million at 31 March 2026 (2025: £629.0 million), the financial covenant position including projections based on future forecasts, the current credit ratings and financial risk.

When determining whether it is appropriate to adopt the going concern basis, the directors also consider whether there is a material uncertainty regarding whether the company has sufficient resources for its present requirements.

In the interim report for the six months ended 30 September 2025, the company concluded that there was a material uncertainty in respect of going concern which existed, relating to the possibility of a future downgrade to a second sub investment grade credit rating. Since then, the assumptions driving this material uncertainty have been significantly addressed as follows:

- Equity funding of £0.9 billion has been received with a further £0.3 billion commitment received on 22 June 2026.
- A simplification of the corporate holding structure through reduced holding company debt.
- A reduction of the derivative portfolio's mark to market valuation.
- After moving into the new regulatory period with new revenue allowances, further supplemented by the redetermination from the Competition and Markets Authority, which was published on 10 March 2026, there is significantly higher headroom to the company's forecast debt covenants than previously.
- The company's debt documentation was amended during the year to remove an Event of Default if two investment grade ratings are not held.
- Finally, the company has issued an additional £1.5 billion in debt funding, with terms ranging from five to eight-and-a-half years, further supplementing the company's liquidity profile.

The company has a significant level of planned expenditure to improve operational performance, the resilience of its assets, and reduce the impact on the environment from the treatment and processing of water and wastewater as part of continuing to deliver its plans for the 2025–30 investment period. As a result, the company has forecast net cash outflows (pre financing) for every month throughout the going concern assessment period.

On the basis of their assessment of the company's financial position, and the Board-approved latest cash flow forecast, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the approval of these financial statements. This assessment includes consideration of the forecast cash flows over the going concern period, and the capital structure of the company and financing needs for the period. For this reason, they continue to adopt the going concern basis of accounting in preparing the annual financial statements, further details can be found on pages 196 to 198.

Read more about operational performance on **pages 24 to 85**

Directors' Report ctd
for the year ended 31 March 2026

Long-term viability statement

In accordance with Provision 31 of the UK Code and Ofwat's Information Notice IN 19/07, the Board has assessed the prospects of the company over a longer period than the 12 months required by the 'Going Concern' provision. Details of its assessment and the associated viability statement can be found on pages 123 to 126 of this report.

Qualifying third-party indemnity

Following shareholder approval, the company has also provided an indemnity for its directors and the Company Secretary, which is a qualifying third-party indemnity provision for the purposes of the Companies Act 2006.

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgments and accounting estimates that are reasonable and prudent.
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company.
- The Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

Statement of disclosure of information to auditor

Each of the persons who is a director at the date of approval of this report confirms that:

1. so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware
2. they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

Deloitte LLP has indicated its willingness to continue in office and will be re-appointed for the year ending March 2027.

Approved by the Board of Directors and signed by order of the Board.

Richard Manning
Company Secretary

15 July 2026

Read more about forecast cash flows on **page 196**

Income statement

For the year ended 31 March 2026

	Note	2026 £m	2025 £m
Continuing operations			
Revenue	5	**1,443.2**	964.2
Amortisation of regulatory settlement	5	**–**	28.5
Total revenue		**1,443.2**	992.7
Other operating income	5	**1.6**	1.6
Operating costs			
– before allowance for expected credit losses on trade and other receivables, depreciation and amortisation		**(679.0)**	(618.5)
– allowance for expected credit losses on trade and other receivables		**(65.3)**	(24.7)
Operating costs before depreciation and amortisation		**(744.3)**	(643.2)
Depreciation and amortisation	6	**(396.3)**	(368.5)
Total operating costs		**(1,140.6)**	(1,011.7)
Operating profit/(loss)	6	**304.2**	(17.4)
Operating loss before regulatory settlement		**304.2**	(45.9)
Amortisation of regulatory settlement	25	**–**	28.5
Operating profit/(loss)		**304.2**	(17.4)
Other income	5	**–**	–
Profit on disposal of fixed assets	6	**1.7**	0.8
Finance income – interest income	5, 9	**36.6**	30.0
Finance costs	9	**(343.5)**	(273.5)
Fair value (losses)/gains on derivative financial instruments	9	**(138.4)**	170.7
Net finance costs	9	**(445.3)**	(72.8)
Loss before taxation		**(139.4)**	(89.4)
Taxation	10	**11.1**	(9.6)
Loss for the financial year		**(128.3)**	(99.0)

The notes on pages 195 to 233 form part of these financial statements.

Statement of other comprehensive income

For the year ended 31 March 2026

	Note	2026 £m	2025 £m
Loss for the financial year		**(128.3)**	(99.0)
Other comprehensive income/(expense):			
Items that cannot be reclassified to profit or loss:			
Actuarial gains on pension scheme	24	**59.1**	27.7
Movement on deferred tax relating to retirement benefit obligations	23	**(14.8)**	(6.9)
Total other comprehensive income/(expense) for the year, net of tax		**44.3**	20.8
Total comprehensive expense for the year attributable to the owner of the company		**(84.0)**	(78.2)

Statement of financial position

As at 31 March 2026

	Note	2026 £m	2025 £m
Non-current assets			
Intangible assets	12	**74.3**	88.7
Property, plant and equipment	13	**8,986.8**	8,201.7
Investments	14	**0.2**	0.2
Derivative financial instruments	22	**133.6**	129.2
Net defined benefit asset	24	**7.4**	–
Other non-current assets	15	**44.8**	23.0
		9,247.1	8,442.8
Current assets			
Inventories	16	**25.5**	18.9
Trade and other receivables	17	**417.9**	326.2
Contract assets	17	**133.0**	96.8
Investments	32	**125.0**	–
Cash and cash equivalents	32	**1,158.8**	557.0
		1,860.2	998.9
Total assets		**11,107.3**	9,441.7
Current liabilities			
Trade and other payables	18	**(651.8)**	(649.9)
Contract liabilities	18	**(43.0)**	(38.0)
Borrowings	19, 20	**(315.5)**	(363.6)
Lease liabilities	21	**(7.2)**	(6.0)
Derivative financial instruments	22	**–**	(84.8)
Regulatory settlement liability	25	**–**	–
Provision for liabilities	26	**(5.3)**	(3.8)
		(1,022.8)	(1,146.1)
Net current (liabilities)/assets		**837.4**	(147.2)

	Note	2026 £m	2025 £m
Total assets less current liabilities		**10,084.5**	8,295.6
Non-current liabilities			
Borrowings	20	**(6,678.8)**	(5,366.5)
Lease liabilities	21	**(39.0)**	(35.7)
Derivative financial instruments	22	**(1,299.0)**	(1,532.4)
Deferred tax liabilities	23	**(394.1)**	(390.5)
Retirement benefit obligations	24	**–**	(48.9)
Provision for liabilities	26	**(2.0)**	(1.6)
Other non-current liabilities	27	**(61.8)**	(48.6)
		(8,474.7)	(7,424.2)
Total liabilities		**(9,497.5)**	(8,570.3)
Net assets		**1,609.8**	871.4
Equity			
Called-up share capital	28	**37.9**	37.6
Share premium account	29	**1,591.3**	769.2
Non-distributable reserve	30	**107.4**	106.8
Retained losses	31	**(126.8)**	(42.2)
Total equity		**1,609.8**	871.4

The financial statements of Southern Water Services Limited (Registered no. 02366670) on pages 191 to 233 were approved by the Board and authorised for issue on 15 July 2026. They were signed on its behalf by:

Stuart Ledger
Chief Financial Officer

Statement of changes in equity

For the year ended 31 March 2026

	Note	Called-up share capital (note 28) £m	Share premium account (note 29) £m	Non-distributable reserve (note 30) £m	Retained earnings (note 31) £m	Total £m
Balance at 1 April 2024		**37.6**	**769.2**	**100.2**	**42.6**	**949.6**
Profit/(loss) for the financial year		–	–	8.6	(107.6)	(99.0)
Other comprehensive income/(expense) for the year:						
Actuarial gain on pension scheme	24	–	–	–	27.7	27.7
Movement on deferred tax relating to retirement benefit obligations	23	–	–	–	(6.9)	(6.9)
Total comprehensive income/(expense) for the year		**–**	**–**	**8.6**	**(86.8)**	**(78.2)**
Reserves transfer*		–	–	(2.0)	2.0	–
Equity dividends paid	11	–	–	–	–	–
Balance at 31 March 2025		**37.6**	**769.2**	**106.8**	**(42.2)**	**871.4**
Profit/(loss) for the financial year		–	–	2.7	(131.0)	(128.3)
Other comprehensive income/(expense) for the year:						
Actuarial gain on pension scheme	24	–	–	–	59.1	59.1
Movement on deferred tax relating to retirement benefit obligations	23	–	–	–	(14.8)	(14.8)
Total comprehensive income/(expense) for the year		**–**	**–**	**2.7**	**(86.7)**	**(84.0)**
Issue of shares		0.3	822.1	–	–	822.4
Reserves transfer*		–	–	(2.1)	2.1	–
Equity dividends paid	11	–	–	–	–	–
Balance at 31 March 2026		**37.9**	**1,591.3**	**107.4**	**(126.8)**	**1,609.8**

* The non-distributable reserve arose upon adoption of IFRS 15 and relates to deemed revenue on adoption of assets from customers and is being amortised to reserves in line with the depreciation of the related assets.

Statement of cash flows

For the year ended 31 March 2026

	Note	2026 £m	2025 £m
Cash from operations	32	**590.0**	271.0
Tax paid		**–**	–
Net cash from operating activities		**590.0**	271.0
Investing activities			
Interest received		**35.8**	29.1
Purchase of property, plant and equipment		**(1,091.0)**	(792.7)
Purchase of intangible assets		**(14.5)**	(11.1)
Proceeds on disposal of property, plant and equipment		**1.3**	0.2
Acquisition of short-term investments		**(620.0)**	(607.0)
Maturity of short-term investments		**495.0**	707.0
Net cash used in investing activities		**(1,193.4)**	(674.5)
Financing activities			
Equity dividends paid		**–**	–
Interest paid		**(352.4)**	(277.2)
Net settlements on derivative financial instruments		**(461.0)**	89.8
Repayment of borrowings		**(715.5)**	(21.3)
Repayments of principal on leases		**(7.2)**	(5.3)
Proceeds of new loans		**1,924.7**	763.8
Issue costs of new loans		**(8.1)**	(2.8)
Proceeds from share issue		**824.7**	–
Net cash generated from financing activities		**1,205.2**	547.0
Net increase in cash and cash equivalents		**601.8**	143.5
Cash and cash equivalents at beginning of the year		**557.0**	413.5
Cash and cash equivalents at end of the year	32	**1,158.8**	557.0

Notes to the financial statements

For the year ended 31 March 2026

1 Material accounting policies

The material accounting policies, which have been applied consistently throughout the current and preceding year, are set out below.

Basis of preparation

Southern Water Services Limited (SWS) is a company incorporated in the United Kingdom under the Companies Act 2006. The company is a private company limited by shares and is registered in England and Wales. The address of the registered office is given on page 1. The nature of the company's operations and its principal activities are set out in the Strategic Report on pages 8 to 126.

The company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'.

The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative instruments and retirement benefit obligations) at fair value through profit and loss or other comprehensive income.

Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services at initial recognition.

Fair value is the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or liability, as if market participants would take those characteristics into account, when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except leasing transactions that are within the scope of IFRS 16 'Leases', and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 'Inventories' or value in use in IAS 36 'Impairment of Assets'.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The financial statements contain information about SWS as an individual company and do not contain consolidated financial information as the parent of subsidiary companies. The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertaking are included by full consolidation in the consolidated financial statements of Greensands Junior Finance Limited. The group financial statements of Greensands Junior Finance Limited are available to the public and can be obtained at southernwater.co.uk/about-us/investors

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to: standards not yet effective, financial instruments, fair value measurement, revenue from contracts with customers, leases, capital management, related party disclosures and impairment of assets. Where required, equivalent disclosures are given in the group financial statements of Greensands Junior Finance Limited.

The company has elected not to take advantage of the exemption regarding the requirements of IAS 7 'Statement of Cash Flows' in order to align with regulatory reporting requirements and provide additional transparency for users of the financial statements.

Separate line items on face of income statement

When assessing whether an event should be presented separately on the face of the income statement, management considers the nature, frequency, materiality and the facts and circumstances of each event. It considers whether there is any precedent, and ensures consistent treatment for both favourable and unfavourable transactions.

Adoption of new and revised accounting and financial reporting standards

There are no new major standards or amendments effective for periods beginning from 1 January 2025 applicable for the year ended 31 March 2026.

Notes to the financial statements ctd
For the year ended 31 March 2026

1 Material accounting policies ctd

Going concern

The directors believe, after due and careful consideration, that it is appropriate to adopt the going concern basis in preparing the financial statements for the 12 months to 31 March 2026 as they have a reasonable expectation that the company will continue in existence for the next 12 months from the date of approval of the financial statements (the ‘assessment period’).

Background to and basis of preparation of the going concern assessment

For the 12 months to 31 March 2026, the company made an operating profit of £307.1 million (2025: loss of £17.4 million). As of 31 March 2026, to fund a significant level of planned expenditure over at least the next 12 months to continue to enhance its assets, the company had cash on hand of £1,158.8 million (2025: £557.0 million), cash on deposit for over three months of £125.0 million (2025: £nil), committed undrawn bank facilities of £422.0 million (2025: £72.0 million) and a committed undrawn bond backstop facility of £500.0 million (2025: £nil), totalling £2,205.8 million at 31 March 2026 (2025: £629.0 million). The company also had borrowings totalling £6,994.3 million at 31 March 2026 (2025: £5,730.1 million), for which the earliest material repayment is £300.0 million in March 2027, with the next material maturity not being until May 2028 (£375.0 million). This is a significant improvement as compared to 31 March 2025 when there were £1,466.7 million of scheduled maturities payable within two years of the balance sheet date.

In the interim report for the six months ended 30 September 2025, the company concluded that there was a material uncertainty in respect of going concern relating to the possibility of a future downgrade to a second sub investment grade credit rating due to uncertainty regarding future financing with the Final Determination not being agreed and the need to refinance £350 million of bond finance in March 2026. Depending on the circumstances and the approach of Ofwat, this might have resulted in a breach of the company’s Instrument of Appointment, which could possibly result in a consequent event of default under the terms of the company’s financing arrangements. It was also concluded in the interim report that, while potential additional ratings downgrades, and any consequential event of default and/or breach of Instrument of Appointment would not directly impact on the company’s ability to operate as a going concern during the forecast period, due to the standstill period, there was a risk that, without remedy, the longer term consequences could limit the company’s ability to attract equity and debt funding and hence operate as a going concern in the future. Since then, the assumptions that led to these conclusions have been significantly addressed as follows:

- Equity funding of £0.9 billion has been received with a further £0.3 billion commitment received on 22 June 2026.
- A simplification of the corporate holding structure through reduced holding company debt.
- A reduction of the derivative portfolio’s mark to market valuation.
- After moving into the new regulatory period with new revenue allowances, further supplemented by the redetermination from the Competition and Markets Authority, which was published on 10 March 2026, there is significantly higher headroom to the company's forecast debt covenants than previously.
- The company’s debt documentation was amended during the year to remove an Event of Default if two investment grade ratings are not held.
- Finally, the company has issued an additional £1.5 billion in debt funding, with terms ranging from five to eight-and-a-half years, further supplementing the company's liquidity profile.

As a result of the above and their assessment of the business forecast when compared to published rating agency metric thresholds, the directors believe this indicates a remote likelihood of a downgrade from a second rating agency to below investment grade.

In assessing the going concern position of the company, the directors considered the forecast cash flows over the going concern period, the capital structure of the company and financing needs for the period. The directors have considered a base case and various sensitivities, as set out in the sections below, as well as considering the funding needs, and are satisfied that there are sufficient committed resources currently in place.

Forecast cash flows for the going concern period and beyond for the period to 2030 (known as AMP8) are based on the company’s latest Board approved business plans, which in turn are based on the PR24 Final Determination (as updated by the CMA on 10 March 2026).

Forecast liquidity

The company has a significant level of planned expenditure over at least the next 12 months to continue to enhance its assets, improve operational performance and continue delivering its plans for AMP8. As a result, the company has forecast net cash outflows (pre-financing outflows) for every month throughout the going concern assessment period. In preparing the forecasts, management has considered:

- The company’s business activities, together with the factors likely to affect its future development, performance, and position. In particular, the company has considered the significant level of expenditure it has committed to and allowed under the Final Determination and the impact, where possible, of ongoing regulatory investigations (see contingent liability note 21).
- The financial position of the company, its forecast monthly cash flows (including scheduled debt maturities), committed liquidity position, covenants and borrowing facilities.
- The effects of potential higher levels of inflation on costs such as energy, chemicals, and materials.
- Investment needed to continue the improvement of its operational performance, and reduction of the impact on the environment from the treatment and processing of water and wastewater, while mitigating the effects of climate change.

Notes to the financial statements ctd
For the year ended 31 March 2026

1 Material accounting policies ctd

Going concern (ctd)

The forecasts show more than sufficient liquidity headroom for the whole of the going concern period. Downside sensitivities to the cash flows have identified that if total expenditure, over the going concern period, would need to exceed forecasted expenditure by more than £780 million for, the company would to not have sufficient liquidity for the going concern period.

The company does not foresee total expenditure exceeding this, due to the detailed 'bottom-up' forecasting processes that occur which are regularly reviewed by management, and the fact that costs have remained under the projected forecast in the financial year ending 31 March 2026. This rolling forecasting provides additional rigour to spending plans and takes into account the principal risks and uncertainties as set out on pages 112 to 122. The company also notes that management has control over the timing of spend commitments and additional contingency included in the budget, with regular management reviews conducted to ensure any variances are identified with sufficient time to employ mitigant action.

Financing needs

The first requirement for additional debt after the going concern period is in April 2028 to pre-fund the following year's capital expenditure forecast, (to maintain a strong look forward liquidity profile). The directors anticipate being able to finance this new funding requirement, based on a history of highly successful fundraising in the past year and following discussions with advisors.

In planning for the future financing needs of the company, the directors have also considered the following information in their liquidity requirements::

- Bonds totalling £1.925 billion were issued by subsidiary company SW Finance I Plc and advanced to Southern Water Services Limited on identical terms during the financial year ending 31 March 2026 and a further £300.0 million have been issued since the balance sheet date.
- The £300 million debt maturity in March 2027.
- The availability of a £500.0 million bond backstop facility that expires in December 2026.
- Borrowings are generally at fixed interest rates but include certain inflation-linked loans and derivatives. The inflation-linked instruments are subject to inflation risk which is expected to be offset by the inflationary movement of the RCV and revenues.
- Financing costs are forecast to increase in 2026–27 due to higher volumes of debt, with the newer debt raised attracting higher interest charges. Average monthly cash interest expense is forecast to be c.£24 million across the going concern period (2024–25: £23.0 million), inclusive of derivative interest payments or receipts.
- Equity funding of £0.9 billion has been received with a further £0.3 billion commitment received on 22 June 2026.
- A simplification of the corporate holding structure through reduced holding company debt.
- A reduction of the derivative portfolio's mark to market valuation.
- After moving into the new regulatory period with new revenue allowances, further supplemented by the redetermination from the Competition and Markets Authority which was published on 10 March 2026, there is significantly higher headroom to the company's forecast debt covenants than previously.
- The company's debt documentation was amended during the year to remove an Event of Default if two investment grade ratings are not held.

Forecast covenant compliance

The borrowings are subject to financial ratio covenants measured against full year financial projections/actual performance each year in March, (such reporting is updated semi-annually). A breach of these covenants can result in either a trigger event (which among other things prevents the company from making distributions – the company has been in trigger event since July 2023 and is forecast to continue to be so throughout the going concern period) or a default event.

The adjusted interest cover ratio has positive headroom, which is expected forecasted to remain throughout the AMP until March 2030. As a result of the initial downgrade from Fitch Ratings in July 2023, the company is in a trigger event. The company obtained a waiver from its lenders in August 2023 which allows full use of available borrowing facilities, plus the raising of new finance, during a trigger event related to either a credit rating downgrade or a breach of a financial ratio. This waiver is in place until 2035, and the company also increased the associated debt/RCV limit to 75% while in a trigger event.

There is positive financial headroom across all default debt covenant ratios for the going concern period in the base case. The Post-Maintenance Interest Cover Ratio (PMICR) has significant headroom as explained below.

The Debt /RCV ratio has improved due to the equity injections meaning a breach is considered to be extremely remote.

- The PMICR covenant for 2026–27. The PMICR covenant requires that net cash flow from operating activities less capital maintenance expenditure divided by interest be greater than 1. It would be breached in FY27 if net cash flow from operating activities less capital maintenance expenditure were to exceed plan by £340 million (53% of the forecast operating costs in the base case); the consequences of this would be a default event. The company does not foresee net cash flows exceeding this due to the very material nature of the overspend required. Further, management has some ability to control cash flows by varying payment terms with suppliers over the short term, and rephasing capital maintenance spend.
- The debt/RCV ratio which is required to be under 75%. There would need to be an increase in net debt of £1.1 billion by 31 March 2027 to cause a breach which is deemed very remote due to the very significant volume of overspend within the business that this would imply, with management controls in place to manage this risk and various mitigation options being available which would be applied well in advance of such a breach.

Notes to the financial statements ctd
For the year ended 31 March 2026

1 Material accounting policies ctd

Going concern (ctd)

- Regulatory licence compliance. A future downgrade of either of the two current investment grade credit ratings which if enforced could represent a breach of the company's Instrument of Appointment. If the company were not able to agree appropriate undertakings with Ofwat to bring itself back into compliance within a period of standstill, then an event of default under the terms of the company's financing arrangements might occur. The directors consider this scenario to be unlikely based on all actions taken to support the credit strength of the business as detailed more fully earlier, but summarised as:-
  - Additional equity support.
  - Corporate restructuring and deleveraging.
  - Reduced derivative valuation.
  - Improved outcome from the CMA leading to better debt covenant headroom and supporting requisite credit rating agency thresholds.
  - Debt document amendments.
  - £1.5 billion of additional liquidity raised.

Mitigations

The directors have the following actions available to them to manage cash flows during the going concern period, to avoid a covenant or liquidity breach:

- Rephasing capital spend.
- Rephasing other spending, in particular:
  - Capital maintenance spend.
  - Non-essential operating costs.
  - Working with suppliers on payment terms.
- Further debt issuance through public or private capital markets
- Further equity support.

The directors could seek to renegotiate the interest terms or use derivatives to vary the net interest payable amount and hence support cashflow, although their ability to do this is not completely within their control.

In addition, there is current market precedent for other water companies, not meeting their Instrument of Appointment requirements to hold two investment grade ratings, agreeing undertakings in lieu of enforcement action by Ofwat. Ofwat has a stated intention that it intends to act consistently in similar circumstances to achieve similar results.

Conclusion

In assessing whether the company has adequate resources, for a period of at least 12 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due, the directors have taken into consideration all the factors set out above. Further, management's assessment of its business forecast, when compared to published rating agency metric thresholds indicates a remote likelihood of a downgrade from a second rating agency to below investment grade. Accordingly, the directors have concluded it is reasonable to assume that actions can be taken such that the company has adequate resources, for a period of 12 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due.

Segmental reporting

The company's revenue arises from the provision of services within the United Kingdom. It has a large and diverse customer base and is not reliant on any single customer.

The Southern Water Executive team is considered to be the company's chief operating decision maker. It reviews all internal management information on a single segment basis and, accordingly, no segmental information is provided in this report.

Revenue recognition

Revenue represents the income receivable (net of value added tax) in the ordinary course of business for goods and services provided. In respect of unbilled charges, revenue includes an estimate of the consumption between the date of the last meter reading and the period-end. The revenue accrual is estimated using a defined methodology based upon historical billing, consumption information and the applicable tariff.

Revenue from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration due.

The company recognises revenue when it transfers control over a product or service to a customer.

Revenue is recognised when the amount of revenue can be measured reliably, the performance obligation has been satisfied, and it is highly probable that the economic benefits associated with the transaction will flow to the company. Revenue is not recognised when it is considered highly probable that economic benefits will not be received. In these circumstances revenue is only recognised when collectability is reasonably certain. Payments received in advance of revenue recognition are recorded as deferred income.

Notes to the financial statements ctd
For the year ended 31 March 2026

1 Material accounting policies ctd

Revenue recognition (ctd)

Water and wastewater services

The company supplies water and wastewater services to customers in Sussex, Kent, Hampshire and the Isle of Wight. The performance obligation is the supply of services over the contractual term and is considered to be satisfied as the customer consumes based on the volume of water supplied. This is the point at which revenue is recognised over time.

For provisioning purposes, revenues and outstanding arrears are segmented based on customer characteristics. Charges are set via the periodic review price-setting process, regulated by Ofwat. Since the company is under a statutory obligation to provide water and wastewater services to its domestic properties, these services could be provided to customers who are unlikely to pay. Should a group of current customers attract a provision rate of 100%, i.e. assessed as not generating economic benefit, revenue would not be recognised. In 2025–26 no segment of customers met this criteria and so revenue relating to the provision of water and wastewater services has been recognised in full.

Unmetered income is based on either the rateable value of the property or on an assessed volume of water supplied. Metered income is based on actual or estimated water consumption. Customer rebates are shown as a reduction in revenue.

Water and wastewater services also include the treatment of cesspool and trade effluent waste, as well as the provision of bulk water supplies to other water companies.

Services to developers and third parties

Grants and contributions are also received from developers and third parties in relation to the provision of new infrastructure and/or new connections to the water and/or sewerage network. These grants and contributions received are treated as either revenue or deferred income in line with IFRS 15 as defined by the nature of the receipt. The significant components of grants and contributions, and their treatment, are as follows:

New connections

The company considers that the developer requesting the new connection is the customer and that under IFRS 15, the performance obligation is satisfied at the point of provision of the new connection to the network, when the customer is deemed to have obtained control, so fees received in respect of the connection are recognised at this point.

Income received in advance of the new connection being made is held on the statement of financial position as a receipt in advance.

Infrastructure charges

Infrastructure charges are a developer's contribution to fund future general network reinforcement resulting from the incremental growth in the number of customers served. These charges must be paid by the developer at the point of connection and do not relate to any specific network reinforcement activity.

The company considers that the developer requesting the new connection associated with the infrastructure charge is the customer and that under IFRS 15, the performance obligation is satisfied at the point of provision of the new connection to the network, when the customer is deemed to have obtained control, so fees received in respect of infrastructure charges are recognised at this point.

Requisitions

The company receives contributions from developers towards requisitions of new water mains and public sewers.

The company has determined that the performance obligation is satisfied at the point of completion of the requisition works and connection of the water main or lateral drain. The contribution receivable is held on the statement of financial position as deferred revenue and subsequently recognised in full as revenue on completion of the requisition works.

Diversions

The company receives contributions from third parties to divert existing water mains and public sewers.

The company considers the requesting party to be the customer in these contracts, and the contribution received towards the cost of undertaking the diversion is held on the statement of financial position as deferred revenue and subsequently recognised as revenue on completion of the performance commitment in the contract, in this case on completion of the diversion of the water main or sewer.

Fair value of assets adopted

Infrastructure assets, constructed by a developer, which are contributed to the company for £nil consideration, in exchange for relieving the developer of any future liability, are recognised at fair value of the asset upon adoption. The fair value is based on a valuation provided on the vesting certificate when the asset is transferred into the company's ownership.

At the point of legal transfer of the asset, the company has concluded that the performance obligation to the developer, adopting the asset, has been satisfied and the fair value of the asset is recognised as a contribution through revenue at this point.

These contributions from the transfer of non-current assets from customers are recognised as revenue through non-distributable reserves and released to retained earnings over the life of the asset.

Notes to the financial statements ctd
For the year ended 31 March 2026

1 Material accounting policies ctd

Revenue recognition (ctd)

Other contributions

Grants and contributions receivable in respect of other non-current assets, where the performance commitment is also delivered over the life of the asset, are treated as deferred income and released to other operating income over the useful economic life of those fixed assets.

Grants and contributions that are given in compensation for expenses incurred with no future-related performance commitment are recognised in revenue in the period that they become receivable.

Provision for impairment of trade receivables

The company recognises lifetime expected credit losses (ECL) for trade receivables and contract assets. The ECL on these financial assets are calculated by applying estimated recovery rates to various categories of trade receivables, reflecting historical credit loss experience and expectations of future recovery of outstanding receivables at each reporting date.

This assessment generates an expectation for the level of recovery of the outstanding receivables balance and therefore the lifetime ECL.

The model considers current and forward-looking macroeconomic events to the extent that the past response of customers to changes in the economy is built into the expected future cash collection performance for each customer segment.

Taxation

Taxation in the income statement represents the sum of the tax currently payable and deferred tax.

Current taxation is based on the result for the year as adjusted for disallowable and non-taxable items and items of income or expense that are taxable or deductible in other years. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred taxation is net tax expected to be payable on temporary differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is provided on all temporary differences that have originated, but not reversed, by the end of the reporting period. It is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is regarded as probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Where recovery of assets in future periods is not probable, and future forecasts and projections are unable to confirm whether assets will be recovered in future years, these assets are not recognised in the statement of financial position. At the reporting date the Company has unrecognised interest restricted under Corporate Interest Restriction legislation of £737.6 million (2025: £656.4 million) with potential deferred tax assets of £184.4 million (2025: £164.1 million).

Intangible assets

Intangible assets comprise:

i. Assets in development, generally implementation of IT software.
ii. Other assets – comprising software and development projects.

Intangible assets are measured at cost less subsequent amortisation and any impairment.

Cost

Software acquired separately, or internally generated where a separate resource that is controlled by the company is created, are capitalised at cost.

Capitalised development costs are for plant installed on sites or work undertaken by suppliers to test new processes for performance data and scalability. The data is used to identify innovative and efficient future assets and processes to meet higher environmental or quality standards. Development costs can relate to projects or can be more general such as network modelling or catchment management. General development costs that are capitalised are amortised over five years. Where a development project concludes that there is insufficient chance of success of the related investment, it is amortised in full in the same year.

Costs in respect of development costs are capitalised as an intangible asset where the following criteria are met:

- It is technically feasible to create and make the asset available for use or safe;
- There are adequate resources available to complete the development and to use or sell the asset;
- There is the intention and ability to use or sell the asset;
- It is probable that the asset created will generate future economic benefits; and
- The development costs can be measured reliably.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Notes to the financial statements ctd
For the year ended 31 March 2026

1 Material accounting policies ctd

Intangible assets (ctd)

Finite life intangible assets are reviewed for impairment where indicators of impairment exist.

Useful economic lives

Amortisation of intangible assets is calculated on a straight-line basis over the estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Assets in development are not amortised and are transferred to other intangible assets at the point at which they are operational.

Software is amortised over the length of the licence, generally three to five years.

Development costs relating to specific projects are amortised over the life of the related scheme.

Property, plant and equipment

Property, plant and equipment comprises:

i. Freehold land and buildings – comprising land and non-operational buildings.
ii. Plant and machinery – comprising structures at sites used for water and wastewater treatment; pumping or storage, where not classed as infrastructure, along with associated fixed plant.
iii. Infrastructure assets – comprising a network of systems consisting of mains and sewers, impounding and pumped raw water storage reservoirs, sludge pipelines and sea outfalls.
iv. Assets under construction – prior to completion/commissioning, all capital investment projects are classified as assets under construction.
v. Other assets – comprising vehicles, computers, mobile plant, meters and other.

All property, plant and equipment is stated in the statement of financial position at cost or at deemed cost on transition to FRS 101, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of assets includes directly attributable labour and overhead costs, which are incremental to the company.

The costs of repairs to the infrastructure network are recognised in the income statement as they arise.

Expenditure that results in replacement or renewal of infrastructure or enhancements to the operating capability of the infrastructure network is capitalised.

Items of property, plant and equipment that are transferred to the company from customers or developers are initially recognised at fair value in accordance with IFRS 15 'Revenue from Contracts with Customers'.

The corresponding credit is recorded as revenue through non-distributable reserves and released to retained earnings over the expected useful lives of the related assets.

Borrowing costs directly attributable to the construction of qualifying assets, that necessarily take a substantial period of time to get ready for their intended use, are capitalised during the period of time that is required to complete and prepare the asset for its intended use. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete. Other borrowing costs are expensed.

Subsequent costs are included in the asset's carrying amount or recognised as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement as incurred.

Assets are depreciated on a straight-line basis over their estimated operating lives, which are principally as follows:

		Years
Land and buildings:	– Land[1]	Not depreciated
	– Buildings	10–60
Plant and machinery:	– Operational structures[2]	15–80
	– Fixed plant	10–40
Infrastructure assets:	– Water mains	100–120
	– Sewers	80–200
	– Reservoirs	200
	– Ancillary structures	10–70
Assets under construction[1]:		Not depreciated
Other:	– Vehicles, computers and mobile plant	3–10

1 Freehold land is not depreciated, nor are assets in the course of construction until they are commissioned. Commissioning is deemed to occur when a new works is officially taken over from the contractor, following completion of performance and take-over tests.

2 Operational structures are assets used for wastewater and water treatment purposes. These include water tanks and similar assets.

Notes to the financial statements ctd
For the year ended 31 March 2026

1 Material accounting policies ctd

Property, plant and equipment (ctd)

The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

Impairment of tangible and intangible assets

At the end of each reporting period, the company reviews the carrying amounts of its tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Leases

The company as lessee

The company assesses whether a contract is, or contains, a lease, at inception of the contract. The company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (£5,000 or less). For these leases, the company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments.
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date.
- The amount expected to be payable by the lessee under residual value guarantees.
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options.
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Notes to the financial statements ctd
For the year ended 31 March 2026

1 Material accounting policies ctd

Leases (ctd)

The company did not make any such adjustments during the year.

Right-of-use assets are presented separately from other assets in the notes to the financial statements and comprise the initial measurement of the corresponding lease, lease payments made at or before the commencement day and any direct initial costs and restoration costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. Depreciation starts at the commencement date of the lease. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

The company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the Property, Plant and Equipment policy.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The company has used this practical expedient with respect to the maintenance element associated with vehicle leases.

The company as lessor

The sale of income rights relating to aerial masts and sites owned by the company to third parties is treated as an operating lease. Income received from such sales is received entirely in advance and is therefore taken to deferred revenue and credited to the income statement over the life of the lease.

Non-current asset investments

Investments held as non-current assets, including investments in subsidiaries, are stated at cost, less, where appropriate, provision for any impairment in value. The carrying values of non-current asset investments are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits.

Current asset investments

Current asset investments comprise cash on deposit with a maturity of more than three months from the date of acquisition.

Inventories

Inventory is held for use in the production of water supply and treatment of wastewater. Raw materials and work in progress are valued at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price, less further costs expected to be incurred to completion and costs to be incurred in marketing, selling and distribution.

Deferred revenue

Deferred revenue includes monies received from customers where the related service has not yet been provided.

Amounts are deferred to the statement of financial position and released to the income statement in line with the period of the service provided.

Provisions

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, and it is probable that the company will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

An environmental provision is made for the costs relating to decommissioned or dormant assets that have been identified as having an environmental impact where there is an obligation to restore the environment.

Executory contracts

Executory contracts are contracts under which neither party has performed any of its obligations, or both parties have partially performed their obligations to an equal extent. Provisions are not recognised for executory contracts unless they are onerous.

Notes to the financial statements ctd
For the year ended 31 March 2026

1 Material accounting policies ctd

Retirement benefits

SWS operated a defined benefit pension scheme, which closed to future accrual on 31 March 2020, the assets of which are held separately from those of the company in independently administered funds. An independent actuary conducts a valuation of this pension scheme every three years.

The asset recognised in the statement of financial position in respect of the defined benefit pension scheme is the fair value of plan assets at the end of the period less the present value of the defined benefit obligation. The net interest on the scheme's net assets/(liabilities) is included in other finance charges. Actuarial gains and losses are recognised in the statement of other comprehensive income.

The pension cost under IAS 19 'Employee Benefits' is assessed in accordance with the advice of a firm of actuaries based on the latest actuarial valuation and assumptions determined by the actuary. The assumptions are based on information supplied to the actuary by the company, supplemented by discussions between the actuary and management. The assumptions are disclosed in note 24.

Profit before taxation and net assets are affected by the actuarial assumptions used. The key assumptions include: discount rates, pay growth, mortality and increases to pensions in payment and deferred pensions, and may differ from actual results due to changing market and economic conditions and longer or shorter lives of participants.

The company also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. Company contributions to the scheme are charged to the income statement in the period to which they relate. Differences between contributions charged and actually paid are shown as either accruals or prepayments in the statement of financial position.

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are measured initially at fair value, except for trade receivables that do not have a significant financing component which are measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value through profit or loss (FVTPL).

The company does not currently have any financial assets that are measured at amortised cost.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship.

Derecognition of financial assets

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Financial liabilities measured subsequently at amortised cost

Fixed-rate interest-bearing borrowings are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the amortised cost of a financial liability.

Notes to the financial statements ctd
For the year ended 31 March 2026

1 Material accounting policies ctd

Financial liabilities and equity (ctd)

Financial liabilities at FVTPL

A financial liability, other than a financial liability held for trading, may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise. As such, index-linked and variable rate bonds are subsequently measured at FVTPL.

Transaction costs that are directly attributable to the acquisition of index-linked and variable rate bonds are separately disclosed within financial liabilities, and amortised at a constant rate over the expected life of the related liability.

The carrying value of index-linked debt instruments is adjusted for the annual movement in the retail price index. The change in value arising from indexation is charged or credited to the income statement in the year in which it arises.

Premiums and proceeds such as those from gilt-lock agreements received on issue of debt instruments are credited to the income statement over the term of the debt at a constant rate on the carrying amount.

Derecognition of financial liabilities

The company derecognises financial liabilities when, and only when, the company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative financial instruments

The company enters into a variety of derivative financial instruments to manage its exposure to inflation and interest rate risk in line with the company's risk management policy and no speculative trading in financial instruments is undertaken. Further details of derivative financial instruments are disclosed in note 22.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in the income statement immediately.

Certain derivative instruments, principally index-linked swaps, do not qualify for hedge accounting and, as such, the company does not currently apply hedge accounting.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Embedded derivatives

In accordance with IFRS 9, the company has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit and loss.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Trade and other payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost.

2 Critical accounting judgments and key sources of estimation uncertainty

In the application of the company's material accounting policies, which are described in note 1 above, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgments

Critical judgments, apart from those involving estimations, that are applied in the preparation of the financial statements are discussed below.

Revenue recognition in relation to new connections, infrastructure charges, requisitions, diversions and adoptions

As described in note 1 'Material accounting policies', the company receives income from developers and third parties for new connections, infrastructure charges, requisitions, diversions and adoptions either in cash or, for adoptions, in the form of infrastructure assets.

Notes to the financial statements ctd
For the year ended 31 March 2026

2 Critical accounting judgments and key sources of estimation uncertainty ctd

Critical accounting judgments (ctd)

In selecting its accounting policy for the recognition of revenue from these services, the company uses judgment to determine:

- The customer of each contract.
- The performance obligation.
- Whether the service is distinct from the ongoing provision of water and wastewater services.

The company considers that these services are contracts with the developer and not the future occupiers of the property and, as such, the developer is considered the customer for these services.

The promise to undertake the activity is separately identifiable from any other services that may be being provided to the developer as there is a separate application process and contract for each of these items and once they have been provided the obligation to the developer is complete. The performance obligation is therefore considered to be the completion of the new connection, requisition, diversion or adoption.

As the future network services are readily available to the occupiers of the property, without the need for them to have made the earlier connection-related transactions, the revenue for these services is deemed to be distinct from revenue from the ongoing provision of water and wastewater services and is therefore recognised on completion of the connection-related service.

The future provision of water services are separate contracts with the owner/occupiers of the property at a later date, and the income for these is recognised as that service is consumed.

During the period, the company recognised income from adoptions of infrastructure assets with a fair value of £2.7 million (2025: £8.6 million), new connections amounting to £3.7 million (2025: £4.7 million), infrastructure charges amounting to £11.9 million (2025: £9.9 million) and requisitions and diversions amounting to £6.5 million (2025: £7.1 million).

Amortisation of regulatory settlement

In 2018–19, an accrual of £135.5 million was recognised for rebates to be made to customers through bills, over the period from 2020 to 2025, as part of a regulatory settlement agreed with Ofwat following its investigation into wastewater treatment compliance.

There is no clear accounting standard guidance for the income statement treatment of this regulatory settlement. It was considered whether the settlement should be recognised as an expense; however, given that it was an agreed reduction in customer bills in the future, with a requirement to show separately on invoicing as required by Ofwat, the most appropriate treatment was concluded to be to treat the invoice reductions as a reduction in revenue in 2018–19. The rebates were made and recorded through revenue, and the accrual made in 2018–19 unwound on the face of the income statement, also through revenue, in line with the annual profile of the rebates made, and was reassessed annually to account for the impact of inflation. The provision was fully released in the year to 31 March 2025. See note 25 for more detail.

Provisions and contingent liabilities

The company evaluates its exposures to contingent liabilities relating to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation. A provision is made when it is judged that it is probable that an obligation exists for which a reliable estimate can be made. Individual matters are considered carefully to assess the likelihood that a pending claim will succeed, or a liability will arise, and the point of recognition for the associated liability. Furthermore, not all outcomes result in fines; some, as previously discussed, involve regulatory settlements handled through revenue adjustments or ongoing monitoring.

Matters that are judged to be either possible obligations or do not meet the recognition criteria for a provision are disclosed as contingent liabilities in note 33, unless the possibility of transferring economic benefits is remote.

For all the matters set out in note 33, management judges that it is either not possible to measure reliably the outflow of economic benefit or that settlement is not probable.

Right to receive water from Portsmouth Water

In February 2021, the company entered into a contractual arrangement with Portsmouth Water Limited (Portsmouth Water), under which Portsmouth Water will obtain planning permission, design, build, finance, and operate a reservoir in Havant (the Havant reservoir). Once the construction is complete, and Southern Water has laid a pipe, Portsmouth Water will supply, on the request of Southern Water Services Limited, up to 21 million litres of treated water per day. Following a detailed review of the complex contractual arrangement, and with a better understanding of the contractual terms of the agreement, which require both parties to complete certain activities to enable the water to be provided, the company has formed the judgment that this contract should be accounted for as an executory contract until such time that both parties have fulfilled their obligations and the right to water can be met. The contract runs for the period from 2021 to 2100 and comprises fixed capacity charge payments as well as volumetric charges for the water to be supplied. The fixed contractual payments over the period from 2021 to 2100 total £2,563 million and the volumetric charge will be recognised as water is supplied. An annual review of the performance obligations of both parties will be performed to assess whether the contract is an executory contract.

Notes to the financial statements ctd
For the year ended 31 March 2026

2 Critical accounting judgments and key sources of estimation uncertainty ctd

Critical accounting judgments (ctd)

Property, plant and equipment

The company recognises property, plant and equipment (PPE) on its water and wastewater infrastructure assets where such expenditure enhances a significant length of the network or increases the capacity of the network, whereas any expenditure classed as maintenance is expensed in the period it is incurred. Determining enhancement from maintenance expenditure is a subjective area, particularly when assessing whether the length of network replaced enhances the network. In addition, management capitalises time and resources incurred by the company's support functions on capital programmes based on judgments made in respect of the proportion of capital work performed by these functions.

Key sources of estimation uncertainty

The key assumptions about the future and other key sources of estimation uncertainty at the reporting period end that may have a risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Derivative financial instruments

The company enters into a variety of derivative financial instruments to manage its exposure to inflation and interest rate risk in line with the company's risk management policy. The value of derivatives is highly sensitive to assumptions of inflation and interest rates, and the following scenarios indicate the impact of a 1% movement in the respective rate structures on the fair value of the derivatives portfolio as at 31 March 2026. These values have been obtained by recalculating the entire portfolio value by shifting the interest rate curve and the inflation curve by +/-1%.

Event	+1% increase £m	-1% increase £m
Interest rates	231.9	(273.6)
Inflation rates	(727.2)	613.5

Multiple inflation-linked derivatives contain an inflation floor optionality. These floors take effect in the event of a deflation (e.g. less than 0% inflation) over periods specified on a derivative level.

Provisions

Provisions determined may change in the future due to new developments and as additional information becomes available. Reflecting the inherent uncertainty in this evaluation process, actual costs may be different from the estimated provision. Details of provisions are disclosed in note 26 and the value provided at 31 March 2026 was £7.3 million (2025: £5.4 million) based on an agreed schedule of works required. The company estimates that actual costs could vary up to +/- 10% due to fluctuations in prices.

Measured income accrual

The measured income accrual is an estimation of the amount of water and wastewater unbilled at the period end. The accrual is estimated using a defined methodology based upon historical billing and consumption information and the applicable tariff. The calculation is sensitive to estimated consumption for measured customers. Actual consumption may differ from the estimate made which could impact future operating results positively or negatively. Given the nature of the balance it is not practical to assess how this estimate will change in the next 12 months.

Sensitivity analysis shows that the measured accrual would vary by £3.4 million and £10.3 million if consumption estimates were between 1% and 3% above or below those predicted. The sensitivities of 1% and 3% illustrate the impact expected to be seen from a change in the level of consumption.

Measured accrual sensitivity analysis	31 March 2026				Sensitivity
		1%	3%	–1%	–3%
Measured accrual balance (£m)	**400.8**	3.4	10.3	–3.4	–10.3

The value of household billings raised in the year ended 31 March 2026 for consumption in prior years was £295.8 million. The value of these billings was higher than the accrual made at 31 March 2025. The estimation difference was £9.5 million (3.3%) and this has been recognised in the current year's turnover.

Impairment of trade receivables

The impairment of trade receivables at each reporting date is calculated by segmenting customer debt based on historic debt collection and payment performance, demographic information and the age of debt outstanding. In general, for each segment, forecast cash collection rates are estimated using this range of data and other macroeconomic assumptions, which then determines a corresponding provision percentage. This assessment generates an expectation for the level of recovery of the outstanding receivables balance and therefore the lifetime expected credit loss.

The model considers current and forward-looking macroeconomic events to the extent that the past response of customers to changes in the economy is built into the expected future cash collection performance for each customer segment.

At March 2025, a £3.0 million provision was maintained to reflect the expected impact of unprecedented rises in water bills on customers' ability to pay. This was released in full as realised impact during 2025–26. At March 2026, a separate additional charge of £3.0 million was maintained to reflect the expected impact that the Iran war and cost of living would have on the macroeconomic environment.

Notes to the financial statements ctd
For the year ended 31 March 2026

2 Critical accounting judgments and key sources of estimation uncertainty ctd

Key sources of estimation uncertainty (ctd)

The value of the provision for doubtful debts as at 31 March 2026 was £246.8 million (2025: £255.8 million). The actual level of receivables collected may differ from the estimated levels of recovery, which could impact future operating results positively or negatively.

Sensitivity analysis shows that the impairment provision would vary by £2.4 million and £7.2 million if cash collections estimates were between 1% and 3% above or below those predicted.

The sensitivities of 1% and 3% illustrate the impact expected to be seen from a change in the level of cash collection. The company's experience is that cash collection in general could vary by 3.5% from expectations.

Impairment provision sensitivity analysis	31 March 2026				Sensitivity
		–1%	–3%	1%	3%
Impairment provision estimate (£m)	**246.8**	2.4	7.2	–2.4	–7.2

Retirement benefit obligations

The company operates a defined benefit scheme as well as a defined contribution scheme. Under IAS 19 'Employee Benefits' the company has recognised an actuarial gain of £51.7 million (2025: £27.7 million).

The pension cost and liabilities under IAS 19 are assessed in accordance with directors' best estimates using the advice of an independent qualified actuary and assumptions in the latest actuarial valuation. The assumptions are based on member data supplied to the actuary and market observations for interest rates and inflation, supplemented by discussions between the actuary and management. The mortality assumption uses a scheme-specific calculation based on the CMI 2023 model with a smoothing factor of 7.0 and a 1.25% p.a. allowance for future longevity improvement.

The major assumptions used to measure schemes' liabilities, along with sensitivities to changes in those assumptions and future funding obligations are set out in note 24 to the financial statements.

Climate change

Climate change is one of our principal risks, and the company is continually developing its assessment of the impact this risk has on the assets and liabilities presented in the financial statements.

As set out in the Strategic Report, which includes the 'risk' section on pages 112 to 122 and the 'improving our performance' section on pages 67 to 83, the natural environment in which the company operates is constantly changing and this influences how water and wastewater services will be delivered in the future and our long-term strategy is focused on identifying, managing and mitigating climate-related risks.

In preparing the financial statements, the directors have considered the impact of climate change, in the context of the risks identified in the Strategic Report and the sustainability disclosures as referenced above. There has been no material impact identified on the financial reporting judgments and estimates or forecasts. In particular, the directors considered the impact of climate change in the following areas:

- The carrying value and useful economic life of property, plant and equipment.
- The value of inventory held.
- Provisions and liabilities.

The estimated useful lives of property, plant and equipment and the depreciation charged are reviewed at the end of each reporting period, for assets impacted by climate change, environmental legislation or changes in operational strategy. This may result in the acceleration of depreciation for any assets deemed to have shorter useful economic lives than originally planned. No material changes to asset lives and depreciation were made in the current financial year. The company does not view the uncertainty around the potential future impact of climate change to indicate that the current useful life policy needs revising.

The company is exposed to potential asset write-downs as a result of extreme weather events, most notably through flooding or subsidence. In these circumstances, any assets identified as having been damaged beyond repair would be fully written down. No such charges were required in the current year.

Climate change, and the environment in general, are heavily embedded in the planning stage of asset construction to mitigate future risk. This planning process considers the scenarios as described in the climate-related financial disclosures in the Strategic Report. It is expected that any material impact identified through these processes would materialise over a longer period of time, rather than a single year; no impact from this was identified in the current year.

3 Changes in significant accounting policies

There are no new major standards or amendments effective for periods beginning from 1 January 2025 applicable for the year ended 31 March 2026.

Notes to the financial statements ctd
For the year ended 31 March 2026

4 Segmental analysis
The directors believe that the whole of SWS's activities constitute a single class of business. The company's revenue is generated wholly from within the United Kingdom. The Southern Water Executive Committee is considered to be the company's chief operating decision maker. The Executive Committee reviews all internal management information on a single segment basis and, accordingly, no segmental information is provided in this report.

5 Income
An analysis of the company's income is as follows:

	2026 £m	2025 £m
Water and sewerage services:		
Household – measured	**939.2**	612.6
Household – unmeasured	**194.7**	130.4
Non-household – measured	**229.3**	147.3
Non-household – unmeasured	**6.6**	4.6
Total water and sewerage services	**1,369.8**	894.9
Bulk supplies	**13.8**	8.8
Infrastructure charge receipts	**11.9**	9.9
Trade effluent	**15.1**	10.3
Cesspools	**5.5**	6.0
New connections	**3.6**	4.7
Adoptions (see note (a) below)	**2.7**	8.6
Other services (see note (b) below)	**20.8**	21.0
Total revenue before amortisation of regulatory settlement	**1,443.2**	964.2
Amortisation of regulatory settlement (see note (c) below)	**–**	28.5
Total revenue	**1,443.2**	992.7
Other operating income (see note (d) below)	**1.6**	1.6
Profit on disposal of fixed assets	**1.7**	0.8
Interest receivable (note 9)	**36.6**	30.0
Total income	**1,483.1**	1,025.1

a. Revenue associated with the adoption of assets from customers is treated as non-distributable upon recognition, and amortised to retained earnings in line with the depreciation of the related assets.

b. Other services is largely comprised of income from developer-related activity of £8.7 million (2025: £8.9 million), electricity generation of £4.3 million (2025: £4.4 million) and property searches of £3.3 million (2025: £3.1 million).

c. The company co-operated with Ofwat in relation to its investigation into the management, operation and performance of its wastewater treatment works.

   To ensure that customers are not disadvantaged as a result of these matters, the company has agreed to make direct customer rebates totalling £135.5 million in forecast outturn prices (£122.9 million in 2017–18 prices) over the period 2020–25. This reflects the seriousness of the breaches identified in the investigation.

   These rebates were made and recorded through the water and sewerage services revenue shown above. The provision for these rebates made in the financial statements for 2018–19 was also released through revenue in line with the annual profile of the rebates to be made.

   Amortisation of £28.5 million in the year ended 31 March 2025 was the final year of amortisation, resulting in the full amount of the provision released to revenue.

d. Other operating income in the current year relates to the release of deferred grants and contributions relating to non-current assets from the balance sheet, as amortised in line with the useful economic life of the related assets, and rents receivable.

Notes to the financial statements ctd
For the year ended 31 March 2026

6 Operating loss for the year

Profit/(loss) for the year has been arrived at after charging/(crediting):	2026 £m	2025 £m
Depreciation on:		
– Owned assets	**363.2**	337.8
– Leased assets	**7.2**	5.2
	370.4	343.0
Amortisation of intangible assets	**25.9**	25.5
Depreciation and amortisation	**396.3**	368.5
Profit on disposal of fixed assets	**(1.7)**	(0.8)
Research and development expenditure	**1.1**	0.7
Rentals under operating leases (see note (a) below):		
– Properties	**0.2**	0.1
– Vehicles	**4.8**	5.4
Employee costs (note 7)	**111.3**	97.6
Amortisation of grants and contributions (see note 27)	**(1.3)**	(1.5)
Fees payable to the company's auditor in respect of:		
– statutory audit of the company's financial statements	**1.1**	0.9
– other services pursuant to legislation (see note (b) below)	**0.1**	0.1
– all other services	**0.3**	0.1

a. Rentals under operating leases comprise payments on leases that have been assessed as short-term (12 months or less) agreements and leases of low-value assets (£5,000 or less) (see note 1 'Material accounting policies' for more information on the company's approach to IFRS 16 'Leases').

b. Other services pursuant to legislation and other non-audit services primarily relate to regulatory assurance fees.

7 Employee information

		2026 £m	2025 £m
(a) Employee costs (including directors' emoluments):			
Wages and salaries		**170.9**	143.3
Social security costs		**23.1**	15.9
Pension costs	– Defined contribution	**23.2**	19.0
	– Defined benefit	**–**	–
Total employee costs		**217.2**	178.2
Less: charged as capital expenditure		**(105.9)**	(80.6)
Charged to the income statement		**111.3**	97.6

Employee costs that are charged as capital expenditure are those directly related to the construction or acquisition of assets.

(b) Average number of persons employed by activity

The average monthly number of persons (including Executive directors) employed by the company during the year was:

	2026 Number	2025 Number
Operations	**1,668**	1,497
Customer services	**55**	42
Corporate centre	**1,386**	1,202
	3,109	2,741

Notes to the financial statements ctd
For the year ended 31 March 2026

8 Directors' emoluments

	2026 £'000	2025 £'000
Aggregate emoluments (including benefits in kind)	1,873	3,188

No retirement benefits accrued to directors (2025: nil) under a SWS defined benefit scheme. No retirement benefits accrued to directors under a SWS defined contribution scheme (2025: £nil).

Further details can be found in the Directors' Remuneration Report on pages 168 to 185.

Details of emoluments and benefits for the highest paid director:

	2026 £'000	2025 £'000
Highest paid director's aggregate emoluments and benefits	735	1,378

During the year, the company made contributions of £nil (2025: £nil) to a money purchase pension scheme in respect of the highest paid director's qualifying services.

9 Net finance income/(costs)

	2026 £m	2025 £m
Finance income		
Deposit income on short-term bank deposits	**36.6**	30.0
	36.6	30.0
Finance costs		
Interest payable on other loans	**(22.6)**	(18.0)
Interest paid on loans from subsidiary companies	**(339.4)**	(259.9)
Indexation of index-linked debt	**(55.8)**	(46.6)
Amortisation of issue costs	**(1.5)**	(1.5)
Amortisation of gilt lock proceeds	**0.1**	0.1
Amortisation of bond premium	**0.7**	0.7
Amortisation of bond discount	**(0.4)**	(0.4)
Interest on lease liabilities	**(1.6)**	(1.4)
Other finance expense (note 24)	**(2.8)**	(3.6)
Dividends on preference shares – see note (a) below	**(4.5)**	(4.5)
	(427.8)	(335.1)
Amounts capitalised on qualifying assets	**84.3**	61.6
	(343.5)	(273.5)
Fair value losses on derivative financial instruments		
Movements on derivative financial instruments (note 22)	**(138.4)**	170.7
Net finance (costs)/income	**(445.3)**	(72.8)

The interest revenue from Southern Water Services Group Limited relates to the long-term loan disclosed in note 15.

Borrowing costs included in the cost of qualifying assets during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.37% to expenditure on such assets (2025: 6.02%).

Dividends on preference shares

Dividends due to Class B preference shareholders of £70 per share totalled £4.5 million (2025: £4.5 million). No amounts were paid during the year (2025: £nil) with £4.5 million accrued at 31 March 2026 (2025: £4.5 million). The cumulative balance sheet liability for unpaid preference share dividends at 31 March 2026 was £18.1 million (2025: £13.5 million).

Notes to the financial statements ctd
For the year ended 31 March 2026

10 Taxation

	2026 £m	2025 £m
Current tax:		
Current year	–	–
Total current tax charge	–	–
Deferred tax:		
Origination and reversal of timing differences	(15.5)	9.4
Adjustment in respect of prior years	4.4	0.2
Total deferred tax (credit)/charge	(11.1)	9.6
Total tax (credit)/charge	(11.1)	9.6

The tax assessed for the year is different to the standard rate of corporation tax in the UK due to the following factors:

	2026 £m	2025 £m
(Loss) before tax	(139.4)	(89.4)
Tax at the UK corporation tax rate of 25% (2025: 25%)	(34.9)	(22.3)
Permanent differences	19.3	31.7
Differences between current and deferred tax rates	–	–
Adjustment in respect of prior years:		
Current tax	–	–
Deferred tax	4.4	0.2
Total tax (credit)/charge for year	(11.1)	9.6

The main reason for the rate impacting items is the Corporate Interest Restriction disallowance of £64.4million (2025: £113.2 million) on which deferred tax of £16.1 million (2025: £28.3 million) is not recognised.

Factors that may affect future tax charges:

Under the Finance (No.2) Act 2024 the main rate of corporation tax remains at 25% and therefore all deferred assets and liabilities have been calculated at 25% rate.

Based on current capital investment plans, the company expects to continue to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

The company has not made any adjustments to super deductions in the year. Amounts that have been claimed over the applicable two years (1 April 2021 – 31 March 2023) will remain fixed. Any adjustments to the main rate and long-life pools have been accounted for at the previously applicable writing down rate and not at a First Year Allowance Full Expensing.

In addition to the amount recognised in the income statement, the following amounts relating to tax have been recognised in the statement of other comprehensive income:

	2026 £m	2025 £m
Deferred tax		
Arising on income and expenses recognised in other comprehensive income:		
Tax charge relating to retirement benefit obligations	14.8	6.9
Deferred tax movement due to rate change	–	–
Total deferred tax charge recognised in other comprehensive income	14.8	6.9

Notes to the financial statements ctd
For the year ended 31 March 2026

11 Dividends

	2026 £m	2025 £m
Dividends available for distribution to investors in the ultimate parent company:		
Current year dividend	–	–
	–	–
Dividends not available for distribution to investors in the ultimate parent company:		
Current year dividend (2025: £nil per share)	–	–
	–	–

No dividend has been declared for the year ended 31 March 2026 (2025: £nil).

12 Intangible assets

	Externally generated		
	Assets in development £m	Other £m	Total £m
Cost			
At 1 April 2025	11.0	281.8	**292.8**
Additions	11.5	–	**11.5**
Transfers	(21.0)	21.0	**–**
Disposals	–	–	**–**
At 31 March 2026	1.5	302.8	**304.3**
Amortisation			
At 1 April 2025	–	204.1	**204.1**
Charge for the year	–	25.9	**25.9**
Disposals	–	–	**–**
At 31 March 2026	–	230.0	**230.0**
Net book amount			
At 31 March 2026	**1.5**	**72.8**	**74.3**
At 31 March 2025	11.0	77.7	**88.7**

Intangible assets, which generally relate to the implementation of computer software, are transferred from assets under development to other intangible assets at the point at which they are deemed operational.

Other intangible assets consist of IT software with a net book value of £72.7 million (2025: £77.7 million), and development projects with a net book value of £0.2 (2025: £nil).

The company does not currently have any internally generated intangible assets.

Included within additions above is £nil (2025: £nil) of interest that has been capitalised on qualifying assets in accordance with IAS 23 'Borrowing Costs'. The cumulative net book value of the borrowing costs capitalised amount to £1.9 million (2025: £3.0 million).

Notes to the financial statements ctd
For the year ended 31 March 2026

13 Property, plant and equipment

	Land & buildings £m	Plant & machinery £m	Infra-structure assets £m	Assets under construction £m	Other £m	Total £m
Cost						
At 1 April 2025	1,631.1	5,306.5	3,609.5	1,206.7	874.2	**12,628.1**
Additions	–	–	–	1,155.6	–	**1,155.6**
Transfers	17.5	577.6	305.9	(949.7)	48.7	**–**
Disposals	–	(18.2)	(2.1)	–	(37.5)	**57.8**
At 31 March 2026	1,648.6	5,865.9	3,913.3	1,412.6	885.4	**13,725.8**
Depreciation						
At 1 April 2025	1,011.0	2,367.7	357.4	–	690.2	**4,426.3**
Charge for the year	40.0	237.2	45.3	–	47.9	**370.4**
Disposals	–	(18.2)	(2.1)	–	(37.4)	**(57.7)**
At 31 March 2026	1,051.0	2,586.7	400.6	–	700.7	**4,739.0**
Net book amount						
At 31 March 2026	**597.6**	**3,279.2**	**3,512.7**	**1,412.6**	**184.7**	**8,986.8**
At 31 March 2025	620.1	2,938.8	3,252.1	1,206.7	184.0	**8,201.7**

Freehold land is stated at a cost of £69.7 million at 31 March 2026 (2025: £68.7 million) and is not depreciated.

The company's interests in land and buildings are almost entirely freehold.

Other property, plant and equipment consists of the following net book values for vehicles £23.8 million (2025: £16.3 million), and computer hardware and IT infrastructure with a net book value of £112.8 million (2025: £109.1 million), meters £12.8 million (2025: £9.3 million), mobile plant £20.8 million (2025: £33.3 million) and other £14.4 million (2025: £16.0 million).

Included within additions above is £84.3 million (2025: £61.6 million) of interest that has been capitalised on qualifying assets in accordance with IAS 23 'Borrowing Costs'. The cumulative net book value of the borrowing costs capitalised amounts to £432.5 million (2025: £368.1 million).

Leased assets

Right-of-use assets included in the table above are as follows:

	Land & buildings £m	Infrastructure assets £m	Other £m	Total £m
Net book amount at 31 March 2025	11.5	13.1	16.2	40.8
Additions	–	0.2	12.8	13.0
Disposals	–	–	–	–
Depreciation charge for the year	(1.6)	(0.2)	(5.5)	(7.3)
Net book amount at 31 March 2026	**9.9**	**13.1**	**23.5**	**46.5**

Notes to the financial statements ctd

For the year ended 31 March 2026

14 Investments

Shares in subsidiaries	2026 £m	2025 £m
At 1 April	**0.2**	0.2
Additions	**–**	–
Disposals	**–**	–
At 31 March	**0.2**	0.2

The company has the following direct investments in subsidiary undertakings at 31 March 2026:

	Registered office	Class of share capital	Activity
SW (Finance) I PLC	Southern House, Yeoman Road, Worthing	Ordinary (100%)	To raise debt finance
SW (Finance) II Limited	Southern House, Yeoman Road, Worthing	Ordinary (100%)	To raise debt finance
Southern Water Executive Pension Scheme Trustees Limited	Southern House, Yeoman Road, Worthing	Ordinary (100%)	Dormant
Southern Water Pension Trustees Limited	Southern House, Yeoman Road, Worthing	Ordinary (100%)	Dormant

The directors are satisfied that the carrying value of investments is supported by the underlying assets and activities of the subsidiaries.

15 Other non-current assets

Non-current receivables	2026 £m	2025 £m
Prepayments	**43.8**	22.0
Other debtors	**1.0**	1.0
	44.8	23.0

Non-current prepayments include a balance of £35.2 million (2025: £15.0 million) in relation to capacity charge payments made to Portsmouth Water Limited in respect of the Havant Thicket reservoir as described in note 1 'Material accounting policies', note 2 'Critical judgments' and note 34 'Financial commitments'.

16 Inventories

	2026 £m	2025 £m
Raw materials	**21.1**	14.1
Work in progress	**4.4**	4.8
	25.5	18.9

17 Trade and other receivables and contract assets

	2026 £m	2025 £m
Trade receivables	**381.3**	373.8
Provision for impairment	**(237.5)**	(249.7)
Net trade receivables	**143.8**	124.1
Loan to subsidiary	**196.5**	146.5
Other amounts owed by group undertakings	**0.2**	11.1
VAT recoverable	**25.9**	22.5
Other amounts receivable	**29.6**	2.9
Prepayments	**21.9**	19.1
Total trade and other receivables	**417.9**	326.2
Net contract assets	**133.0**	96.8
	550.9	423.0

Trade receivables comprise balances from contracts with customers where the company has performed some or all of its contractual obligations.

The loan to subsidiary represents debt service payment bank accounts held by the company's financing subsidiary Southern Water Finance PLC (SWF) into which SWS is required by financial covenants to make monthly transfers in order to meet its scheduled short-term future interest obligations on the intercompany loans described in note 20. Up until the obligations on the intercompany loans and the equivalent external debt held by SWF become due, the balances held in these bank accounts are classed as a loan to subsidiary.

Other amounts owed by group undertakings are unsecured, interest-free and settled regularly. All entities are wholly owned within the group.

Notes to the financial statements ctd
For the year ended 31 March 2026

17 Trade and other receivables and contract assets ctd

Contract assets (previously referred to as 'Accrued Income') at 31 March 2026 includes accrued capital contributions of £7.2 million (2025: £5.0 million). The balance relates to services provided to customers and is shown net of allowances for impairment of £9.3 million (2025: £6.0 million). More details can be found in the tables below.

The directors consider that the carrying values of trade and other receivables are reasonable approximations of their fair values.

Provision for impairment

Movements on the impairment provision were as follows:

	2026 £m	2025 £m
At 1 April	**(255.7)**	(247.7)
Net impairment charge	**(65.3)**	(24.7)
Net amounts written back during the year	**74.2**	16.7
At 31 March	**(246.8)**	(255.7)

At each reporting date, the company evaluates the recoverability of trade receivables and records allowances for impairment of receivables based on experience. These expected credit loss charges are recognised in the income statement under 'Operating costs'.

The following table provides information regarding the ageing of receivables that are specifically provided for:

	2026 £m	2025 £m
Current	**0.1**	–
1–2 years	**–**	–
2–3 years	**–**	–
3–4 years	**–**	–
More than 4 years	**1.5**	5.6
	1.6	5.6

A collective provision is recorded against assets that are past due but for which no specific provision has been made. This is calculated based on historical experience of levels of recovery.

The aged analysis of receivables that were overdue at the reporting date but not individually provided for is as follows:

	2026 £m	2025 £m
Current	**147.3**	103.4
1–2 years	**73.5**	45.2
2–3 years	**26.1**	35.8
3–4 years	**21.4**	32.6
More than 4 years	**69.3**	122.4
	337.5	339.4

The amounts above are reconciled to gross and net receivables in the tables below:

At 31 March 2026	Gross £m	Provision £m	Net £m
Contract assets			
Accrued income – not due	**142.3**	**(9.3)**	**133.0**
Trade receivables			
Not due	**42.2**	**–**	**42.2**
Overdue and not specifically provided	**337.5**	**(235.9)**	**101.6**
Overdue and specifically provided	**1.6**	**(1.6)**	**–**
	523.6	**246.8**	**276.8**

At 31 March 2025	Gross £m	Provision £m	Net £m
Contract assets			
Accrued income – not due	102.8	(6.0)	96.8
Trade receivables			
Not due	28.8	–	28.8
Overdue and not specifically provided	339.4	(244.1)	95.3
Overdue and specifically provided	5.6	(5.6)	–
	476.6	(255.7)	220.9

Notes to the financial statements ctd
For the year ended 31 March 2026

18 Trade and other payables and contract liabilities

	2026 £m	2025 £m
Trade payables	**59.2**	83.2
Amounts owed to group undertakings	**177.0**	115.7
Capital creditors and capital accruals	**274.8**	312.1
Taxation and social security	**5.5**	3.9
Accruals	**121.2**	118.7
Deferred revenue	**14.1**	16.3
Total trade and other payables	**651.8**	649.9
Contract liabilities	**43.0**	38.0
Total trade and other payables and contact liabilities	**694.8**	687.9

The directors consider that the carrying values of trade and other payables are not materially different from their fair values.

All amounts owed to group undertakings due within one year are unsecured, interest-free and repayable on demand. All entities are wholly owned within the group.

Contract liabilities (previously included in Deferred revenue) at 31 March 2026 includes £36.6 million (2025: £31.9 million) of receipts in advance from customers for water and wastewater charges. The remaining amount relates to payments in advance in relation to consideration received for infrastructure charges, including deposits and other fees for service connections, diversions and requisitions.

19 Current borrowings

	Note	2026 £m	2025 £m
Loan from subsidiary: Class A £350m – 6.640% fixed rate 2026	20(iii)	**–**	349.8
Loan from subsidiary: Class A £300m – 1.625% fixed rate 2027	20(iii)	**299.1**	–
Reserve Facility Agreement – SONIA + margin		**13.0**	–
Unamortised debt issuance costs	20(iii)	**(1.5)**	(1.5)
Bond premium deferred		**0.7**	0.7
Bond discount deferred		**(0.4)**	(0.4)
Deferred gilt lock proceeds	20(iv)	**0.1**	0.1
Class A £60m – 0.000% index linked 2025	20(v)	**–**	6.2
Class A £40m – 0.000% index linked 2026	20(v)	**4.5**	8.7
Current borrowings excluding lease liabilities		**315.5**	363.6
Lease liabilities		**7.2**	6.0
Total current borrowings including lease liabilities		**322.7**	369.6

Notes to the financial statements ctd
For the year ended 31 March 2026

20 Total borrowings

	Note	2026 £m	2025 £m
Loans from subsidiaries:	20(i)		
Class A £350m – 6.192% fixed rate 2029	20(ii)	**349.5**	349.3
Class A £150m – 3.706% index linked 2034	20(ii)	**341.9**	326.2
Class A £35m – 3.706% index linked 2034	20(ii)	**70.5**	67.3
Class A £350m – 6.640% fixed rate 2026	20(ii)	**–**	349.8
Class A £150m – 5.000% fixed rate 2041	20(ii)	**147.6**	147.5
Class A £200m – 4.500% fixed rate 2052	20(ii)	**197.5**	197.4
Class A £300m – 5.125% fixed rate 2056	20(ii)	**293.2**	293.1
Class A £375m – 2.375% fixed rate 2028	20(ii)	**373.5**	372.8
Class A £450m – 3.000% fixed rate 2037	20(ii)	**445.3**	444.9
Class A £300m – 1.625% fixed rate 2027	20(ii)	**299.1**	298.1
Class A £550m – 7.375% fixed rate 2041	20(ii)	**541.0**	540.8
Class A £72m – 3.315% index linked 2043	20(ii)	**76.5**	74.2
Class A £20m – 4.123% index linked 2043	20(ii)	**21.3**	20.6
Class A £600m – 7.000% fixed rate 2040	20(ii)	**590.6**	590.3
Class A £400m – 7.750% Fixed Rate 2031	20(ii)	**381.3**	272.7
Class A £750m – 6.875% Fixed Rate 2032	20(ii)	**741.3**	–
Class A £625m – 5.750% Fixed Rate 2030	20(ii)	**624.3**	–
Class A £450m – 6.125% Fixed Rate 2033	20(ii)	**445.2**	–
Class A £175m – 2.780% fixed rate 2031	20(ii)	**174.5**	174.4
Class A £75m – 2.960% fixed rate 2036	20(ii)	**74.7**	74.7
Artesian £165m – 4.076% index linked 2033	20(ii)	**376.1**	358.8
Artesian £156.5m – 3.635% index linked 2032	20(ii)	**348.1**	332.1
Total Class A debt from subsidiaries		**6,913.0**	5,285.0
Unamortised debt issuance costs	20(iii)	**(2.7)**	(4.1)
Bond premium deferred		**4.2**	4.9
Bond discount deferred		**(6.4)**	(6.8)
Deferred gilt lock proceeds	20(iv)	**3.9**	4.0
Total loans and other borrowings from subsidiaries		**6,912.1**	5,283.0
Class A £60m – 0.000% index linked 2025	20(vi)	**–**	6.2
Class A £40m – 0.000% index linked 2026	20(vi)	**4.5**	13.2
Class B preference shares	20(vii)	**64.7**	64.7
Reserve Facility Agreement – SONIA + margin		**13.0**	13.0
Term Loan Facility Agreement – SONIA + margin		**–**	350.0
Lease liabilities	21	**46.2**	41.7
Total borrowings		**7,040.5**	5,771.8

	Note	2026 £m	2025 £m
Included in:			
Current liabilities			
Borrowings	19	**315.5**	363.6
Lease liabilities	21	**7.2**	6.0
		322.7	369.6
Non-current liabilities			
Borrowings		**6,678.8**	5,366.5
Lease liabilities	21	**39.0**	35.7
		6,717.8	5,402.2

These loans (excluding the preference shares) are guaranteed and secured pursuant to a guarantee and security agreement (the Security Agreement). The agreement is over the entire property, assets, rights and undertakings of each of SWS, SW (Finance) I PLC, SW (Finance) II Limited, SWS Holdings Limited and SWS Group Holdings Limited. In the case of SWS, this is to the extent permitted by the Water Industry Act 1991 and Licence.

Notes in respect of the specific instruments above:

i. Under the loan agreements between SWS and SW (Finance) I PLC and SW (Finance) II Limited, SWS was advanced an amount equal to each bond or other debt raised at the same interest rate plus an annual fee of £10,000 and £5,000 to each lender respectively.

ii. Fixed rate borrowings are recognised net of issue costs and discounts on issue and are carried at amortised cost using the effective interest rate method.

   The value of the capital and interest elements of the index-linked loans is linked to movements in inflation. The increase in the capital value of index-linked loans during the year of £55.8 million (2025: £46.6 million) has been taken to the income statement as part of finance costs.

Notes to the financial statements ctd
For the year ended 31 March 2026

20 Total borrowings ctd

iii. Unamortised debt issuance costs represent issue fees paid that are not otherwise accounted for within the amortised cost of specific loans. Where these costs are attributable to a specific instrument they are being amortised over the life of that instrument. The remaining costs are being amortised over the weighted average life of the loans advanced at the time the costs were incurred. As at 31 March 2026, unamortised debt issuance costs amounted to £4.2 million of which £1.5 million represents the short-term amount which is disclosed separately in note 19.

iv. Prior to the issue of the Class A £300.0 million bond in the year to 31 March 2008, SWSF entered into a gilt lock agreement, resulting in the receipt of £6.3 million, which was advanced to SWS along with the proceeds of the bond issue. The proceeds have been deferred in the financial statements of SWS and are being released to the income statement over the life of the loan.

v. The Class A £60 million loan is index linked with an interest rate of 0.00% until August 2025.

The Class A £40 million loan is index linked with an interest rate of 0.00% until May 2026.

Amounts for scheduled repayments due in the year to 31 March 2026 have been shown as current borrowings in the year to 31 March 2025 (note 19).

vi. The Class B preference shares are redeemable at the option of SWS at any time. At the date of signing these accounts, no plans have been made to redeem these shares.

The shares, which do not carry voting rights, were issued on 23 July 2003, and are redeemable at their nominal value plus the share premium paid on 31 March 2038 or at the company's option any time earlier. The shares were issued at £1,000 per share. Shareholders are entitled to receive dividends at £70 per share.

These dividends are payable on 31 March and 30 September each year.

No dividends were paid to the shareholders in the year and at 31 March 2026 the cumulative accrual for unpaid dividends due was £18.1 million (2025: £13.5 million).

The maturity profile of borrowings disclosed within this note is given below:	2026 £m	2025 £m
Borrowings excluding leases:		
Between one and two years	**(1.1)**	301.5
Between two and five years	**1,343.8**	1,081.8
After five years	**5,336.1**	3,983.2
	6,678.8	5,366.5
On demand or within one year	**315.5**	363.6
	6,994.3	5,730.1
Leases:		
Between one and two years	**6.5**	5.4
Between two and five years	**18.7**	13.2
After five years	**13.8**	17.1
	39.0	35.7
On demand or within one year	**7.2**	6.0
	46.2	41.7
Borrowings including leases:		
Between one and two years	**5.4**	306.9
Between two and five years	**1,362.5**	1,095.0
After five years	**5,349.9**	4,000.3
	6,717.8	5,402.2
On demand or within one year	**322.7**	369.6
	7,040.5	5,771.8

The company leases various offices and vehicles and has a lease on its outfall pipes.

Vehicle leases have terms of between four and five years. Leases on office buildings have terms of between 15 and 99 years from commencement date. The outfall lease had an initial term of 99 years and commenced on 1 April 1997.

Obligations relating to vehicle leases include some commercial vehicle leases with optional residual value balloon payments due at the end of the lease period, where the minimum lease payments (including finance charges) have been prepaid at the start of the lease. If the company opts not to pay the balloon payment, it must return the vehicle to the lessor.

Notes to the financial statements ctd
For the year ended 31 March 2026

20 Total borrowings ctd
All lease obligations are denominated in sterling.

The fair value of the company's lease obligations is approximately equal to their carrying amount.

Interest rates are fixed at the contract date. All leases (except outfalls (see note 21)) are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The company's lease obligations are secured by the lessors' rights over the leased assets disclosed in note 13.

21 Leases
This note provides information for leases where the company is a lessee.

(i) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

	2026 £m	2025 £m
Right-of-use assets within property, plant and equipment:		
Buildings	**10.0**	11.5
Infrastructure	**13.1**	13.1
Other	**23.6**	16.2
	46.7	40.9
Lease liabilities		
Current	**7.2**	6.0
Non-current	**39.0**	35.7
	46.2	41.7

Additions to right-of-use assets during the financial year to 31 March 2026 were £0.2 million (2025: £12.0 million).

(ii) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	2026 £m	2025 £m
Depreciation charge of right-of-use assets		
Buildings and infrastructure	(1.8)	(1.8)
Other	(5.4)	(3.4)
Interest expense (included in finance costs)	(1.6)	(1.4)
Expense relating to short-term leases (included in operating costs)	(5.0)	(5.5)

(iii) Amounts recognised in the statement of cash flows

	2026 £m	2025 £m
Repayments of principal	**7.3**	5.3
Interest element included in interest paid	**1.6**	1.4
Total cash outflow for leases	**8.9**	6.7

(iv) The company's leasing activities and how these are accounted for

The company leases various offices and vehicles.

Rental contracts are typically made for fixed periods, but may have extension options.

Contracts may contain both lease and non-lease components. For leases of vehicles for which the company is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The company has a lease on its outfall pipes which contains variable lease payments. These payments will increase by RPI every 10 years. The next review date is on 1 April 2032 and the lease expires on 31 March 2096.

For further information please see the accounting policy for leases in note 1 Material accounting policies.

Notes to the financial statements ctd
For the year ended 31 March 2026

22 Derivative financial instruments

Categories of financial instruments at fair value	2026 £m	2025 £m
Derivative assets carried at fair value through profit or loss (FVTPL):		
Inflation swaps – not hedge accounted	**133.6**	129.2
Total derivative financial assets	**133.6**	129.2
Derivative liabilities carried at fair value through profit or loss (FVTPL):		
Inflation swaps – not hedge accounted	**(1,299.0)**	(1,617.2)
Total derivative financial liabilities	**(1,299.0)**	(1,617.2)
Included in:		
Non-current assets	**133.6**	129.2
Current liabilities	**–**	(84.8)
Non-current liabilities	**(1,299.0)**	(1,532.4)
Net derivative financial instruments	**(1,165.4)**	(1,488.0)

There are no liabilities offset against assets and no assets offset against liabilities where there is no legal right to do so.

Changes in value of financial instruments at fair value	2026 £m	2025 £m
Movements on derivative financial assets at FVTPL	**(134.9)**	29.6
Movements on derivative financial liabilities at FVTPL	**(3.5)**	141.1
Total movements on derivative financial instruments at FVTPL	**(138.4)**	170.7
Realised movements on derivative financial assets in the period	**139.3**	(5.1)
Realised movements on derivative financial liabilities in the period	**321.7**	(84.7)
Total movements on derivative financial instruments	**322.6**	80.9

The company enters into RPI inflation-linked derivative financial instruments to manage its exposure to CPIH inflation risk in its revenues. Under inflation swap contracts, the company agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the company to mitigate inflation risk on issued fixed rate debt held.

Interest rate swaps that are due to be repaid in the next 12 months have been included in current liabilities. Interest rate swaps that are not due for repayment in the next 12 months have been included in non-current assets and non-current liabilities, as shown in the table above.

The nominal value of the interest rate swaps held at 31 March 2026 are shown in the table below:

Counterparty	Notional £m	Start date	Maturing in	Mandatory break
Lloyds Bank	99.3	2016	2036	–
ING Bank	77.8	2016	2037	–
SMBC Nikko	75.0	2016	2037	–
UBS	75.0	2016	2037	–
Bank of America	50.0	2016	2037	–
National Australia Bank	44.1	2016	2037	–
Banco Santander	20.0	2016	2037	–
JP Morgan	50.0	2017	2056	2029
Lloyds Bank	150.0	2016	2041	–
Alum Bay & NatWest SPV*	89.4	2016	2041	–
Lloyds Bank	50.0	2016	2031	–
NatWest SPV*	9.5	2016	2031	–
BNP Paribas	200.0	2016	2051**	–
Alum Bay & NatWest SPV*	185.4	2016	2051	–
Morgan Stanley	250.0	2015	2055	–
Morgan Stanley ILCA***	250.0	2015	2055	2028
Alum Bay & NatWest SPV*	206.0	2015	2055	–
Alum Bay & NatWest SPV*	31.9	2041	2046	–
Alum Bay & NatWest SPV*	37.7	2031	2046	–
JP Morgan	441.2	2037	2046	–
Alum Bay & NatWest SPV*	185.1	2037	2046	–
Lloyds Bank	100.0	2023	2028	–
SMBC Nikko	300.0	2023	2028	–
BNP Paribas****	400.0	2023	2030	–
Bank of America****	150.0	2023	2030	–
Bank of America****	100.0	2023	2030	–
Morgan Stanley	175.4	2026	2039	–
Sandown Bay	175.4	2026	2039	–
JP Morgan	150.0	2026	2036	–
Bank of America	200.0	2026	2035	–

* Series of future inflation payments have been stripped from the bank swaps with the result that nominal to real cash flows occur between company and bank, and the residual inflation cash flows are paid to the SPV. Investors into the SPV are established pension and insurance companies.

** After the balance sheet date, as a result of a restructure of the cash flows on the BNP 2051 swap, the maturity is now 2030.

*** This agreement ranks pari passu with other swaps that are super senior.

**** The company has entered into a number of RPI to CPI wedge trades with a total notional value of £650 million to better align inflation exposure across cash flows and RCV, which is now predominantly linked to CPIH. In the absence of a CPIH swap market, CPI inflation swaps are the closest match.

Notes to the financial statements ctd
For the year ended 31 March 2026

23 Deferred tax liabilities

Deferred tax is provided as follows:

	Accelerated tax depreciation £m	Revaluation of financial instruments £m	Retirement benefit obligations £m	Other – timing differences* £m	Total £m
At 1 April 2024	**706.5**	**(258.9)**	**(23.1)**	**(50.6)**	**373.9**
(Credit)/charge to income statement	(27.4)	32.5	4.0	0.3	9.4
Prior year adjustment:					
Charge to income statement	0.2	–	–	–	0.2
Credit to other comprehensive income	–	–	6.9	–	6.9
At 1 April 2025	**679.3**	**(226.4)**	**(12.2)**	**(50.3)**	**390.5**
Charge/(credit) to income statement	6.4	(21.3)	(0.7)	0.1	(15.5)
Prior year adjustment:					
Charge to income statement	4.2	–	–	0.2	4.4
Credit to other comprehensive income	–	–	14.7	–	14.7
At 31 March 2026	**690.0**	**(247.7)**	**1.8**	**(50.0)**	**394.1**

* Other timing differences include claims as a result of available super deductions plus other small, short-term differences relating to provisions and deferred income.

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so.

The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2026 £m	2025 £m
Deferred tax liabilities	**691.8**	679.3
Deferred tax assets	**(297.7)**	(288.9)
	394.1	390.5

24 Retirement benefit obligations

The value associated with retirement benefit obligations has improved to a surplus of £7.4 million (2025: deficit of £48.9 million). The improvement in the funding position over the year is due to the increase in AA corporate bond yields, which leads to a higher discount rate and therefore a lower value of liabilities, updated mortality assumption, which results in lower future life expectancy compared to the previous disclosures, and the use of updated cash flows based on updated member data from the 31 March 2025 actuarial valuation to calculate the liabilities. These impacts have been offset to a lesser extent due to an increase in expectations of future inflation.

The company has recognised a net defined benefit asset of £7.4 million in respect of the Scheme surplus. In accordance with IAS 19 and IFRIC 14, the asset recognised is limited to the present value of economic benefits available to the company.

The company has concluded that an economic benefit is available through a refund of surplus assets following the settlement of all scheme liabilities. In reaching this conclusion, management considered the scheme trust deed and rules, relevant legislation and legal advice regarding the rights of the company and the powers of the trustees.

The trustees do not have an unconditional right to utilise the surplus for member benefit enhancements or other purposes that would prevent the company from ultimately obtaining a refund. Accordingly, management has concluded that the company has an unconditional right to a refund of surplus on winding-up of the Scheme and therefore the surplus is recoverable.

Pension schemes operated

The company principally operates one defined benefit pension scheme (final salary) and one defined contribution scheme, details of which are shown below:

1. Southern Water Pension Scheme (SWPS), a funded defined benefit scheme, was closed to new members on 31 December 1998, reopened in July 2003 and closed once more to new entrants on 1 April 2005. This scheme has one professional Trustee. The Southern Water Services Executive Pension Scheme (SWEPS) was also closed to new entrants and merged with the SWPS on 1 April 2005.

   The scheme closed to accrual with effect from 31 March 2020.

   The Trustee is responsible for administrating the fund which is held separately from the company. Legal and General and Schroders are unit registrars for SWPS unit holdings and appoint custodians at individual pooled fund level (not client holding level). The directors of SWS are responsible for setting the accounting assumptions for the fund for inclusion in these financial statements.

Notes to the financial statements ctd
For the year ended 31 March 2026

24 Retirement benefit obligations ctd

As part of the company's interactions with both the Trustee and, when required, The Pensions Regulator, the company looks to agree a long-term funding and risk management strategy for the pension liability. Following on from regular dialogue with the Trustee, and discussions and correspondence with The Pensions Regulator regarding the deficit, the Board agreed a long-term funding solution for the scheme in 2018.

The main risks of the scheme are as follows:

a. Asset volatility:

For the purpose of setting the contribution requirements, the calculation uses a discount rate set with reference to government bond yields, with allowance for additional returns to be generated from the investment portfolio – whereas under FRS 101, the defined benefit obligation is calculated using a discount rate set with reference to AA-rated corporate bond yields.

The schemes hold a proportion of their assets in growth assets. The returns on these assets may be volatile and are not correlated to the value placed on the liabilities. This means that the deficit may be volatile in the shorter term, which may result in an increase in the contribution requirements and an increase in the net defined benefit liability recorded on the statement of financial position.

However, the company believes that return-seeking assets offer an appropriate level of return over the long term for the level of risk that is taken. Furthermore, the scheme's other assets are well-diversified by investing in a range of asset classes, including liability driven investments, government bonds and corporate bonds.

b. Changes in bond yields:

A fall in bond yields increases the value placed on the liabilities for reporting purposes and for setting the company's contribution requirements. However, in this scenario the scheme's investment in corporate bonds, government bonds and liability driven investments is expected to increase and therefore offset some of the increase in the value placed on the liabilities. Overall, the scheme's exposure to bond yield changes is roughly 90% hedged.

c. Life expectancy:

The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the scheme's liabilities. This is particularly significant where the longer duration and inflation-linked nature of the payments result in higher sensitivity to changes in life expectancy. The scheme does not contain a hedge against increases in future life expectancy.

d. Inflation risk:

The majority of the scheme's benefit obligations are linked to inflation and higher outturn inflation will lead to a higher benefit obligation (although in most cases caps on the level of inflationary increases are in place to protect the scheme against extreme inflation). The majority of the scheme's assets do not provide a direct hedge against changes in inflation as they are either fixed-interest in nature e.g. corporate bonds and government bonds, or have an indirect link to inflation, e.g. equities. However, liability driven investments are used to ensure that the majority of inflation-related risks are hedged. Overall, the scheme's exposure to changes in long-term inflation expectations is roughly 90% hedged.

2. A second company stakeholder scheme, which is a defined contribution scheme, is available to all employees.

Contribution payments made to the defined contribution scheme for the year ended 31 March 2026 amounted to £23.3 million (2025: £20.5 million). At the balance sheet date, no contributions were outstanding for payment (2025: £nil).

Members of all schemes receive an annual statement of their accrued benefits.

The latest actuarial valuation of the SWPS was carried out as at 31 March 2025 using the projected unit method.

The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on investments, and the level of inflation, which drives pension increases in the SWPS.

The principal assumptions in the valuation were as follows:

	2022 SWPS % per annum
Discount rate (assumed asset return) to 31 March 2031	Fixed interest gilts curve + 0.75%
The margin will reduce on a straight-line basis to 0.50% by 31 March 2036	
Discount rate (assumed asset return) from 31 March 2036	Fixed interest gilts curve + 0.50%
Pension increases on the excess over guaranteed minimum pensions (where capped at 5% per annum)	In line with RPI assumption (uncapped), with an allowance for the impact of the floor calculated using the Black formula and assuming an inflation volatility of 2% per annum

Notes to the financial statements ctd
For the year ended 31 March 2026

24 Retirement benefit obligations ctd

The assets of the scheme had a market value of £542.7 million at 31 March 2025. This was sufficient to cover 93.2% of the scheme's liabilities.

Following discussions with the Trustee, and while the triennial valuation was undertaken, the company made the deficit recovery payments previously agreed for 2025–26 by monthly instalments into a Reservoir Trust. At 31 March 2026 a total of £21.4 million had been paid into the Reservoir Trust. In addition, payments of £1.0 million were made into the Reservoir Trust and the Scheme in April 2026.

As there were insufficient assets to cover the scheme liabilities at the valuation date, the Trustee and the company are required to agree a recovery plan. The Trustee and company have agreed that this shortfall should be removed by the payment of a series of deficit contributions. The timing and quantum of future contributions in relation to the deficit were agreed with the Trustee, and updated on 25 June 2026.

Updated future deficit contributions have been agreed as follows:

a. A payment of £5.0 million will be made, from the Reservoir Trust, into the scheme by 31 August 2026.
b. From 1 July 2026 to 31 March 2029, monthly contributions of £0.5 million, of which up to half can be paid into the Reservoir Trust, with this proportion to be reviewed based on a valuation test at 31 March 2028.
c. An amount of £5.8 million, in April 2029, of which up to half can be paid into the Reservoir Trust, with this proportion to be reviewed based on a valuation test at 28 February 2029.
d. Funding tests will be undertaken on agreed dates in the period from 31 March 2030 to 31 March 2036 to assess whether funds held in the Reservoir Trust should be transferred to the scheme.

Under certain circumstances, principally relating to funding tests showing that the scheme has adequate assets to cover its liabilities, part of the Reservoir Trust may be returned to company in the 2030s.

The High Court's June 2023 ruling in Virgin Media Limited v NTL Pension Trustees has potentially cast doubt on the validity of previous amendments made to pension scheme rules. Following a high-level legal review of the amendments made to the SWPS over the period 6 April 1997 to 5 April 2016 the company does not consider there to be any changes to the scheme's governing documentation in relation to the benefit structure that could cause a material liability in light of the Virgin Media case. The disclosures are based on the assumption that all scheme documents were validly implemented.

IAS 19 – assumptions, asset, liability and reserves disclosures

The company has employed an independent actuary to approximately update this valuation allowing for differences between the actuarial assumptions used by the scheme for funding purposes and those adopted by the company to measure the scheme's liabilities in the financial statements, as well as adjusting for benefit accrual and benefits paid by the scheme.

The major assumptions used by the actuary are set out in the table below:

	2026 % per annum	2025 % per annum
Price inflation (RPI)	**3.32**	3.16
Price inflation (CPI)		
– RPI less 1% per annum up to 2030	**2.32**	2.16
– Equal to RPI after 2030	**3.32**	3.16
Rate of increase of pensions in payment:		
– MIS* members only***	**2.32#**	2.16#
– Old section** members only***	**3.32**	3.16
– New section and ex-FSLP (RPI max 5%)***	**3.12**	3.00
– Post-5 April 1988 GMP (CPI max 3%)***	**1.92#**	1.84#
– All sections post-31 March 2013 service (RPI max 2.5%)***	**2.07**	2.02
Rate of increase for deferred pensions:		
– MIS* members only***	**2.32#**	2.16#
– Old section** members only***	**3.32**	3.16
– New section and ex-FSLP (RPI max 5%)***	**3.32**	3.16
– All sections post-31 March 2013 service (RPI max 2.5%)***	**2.50**	2.50
Discount rate	**6.04**	5.66

* MIS refers to the Southern Water Mirror Image Pension Scheme. Pensions in payment and deferment for this section will be indexed in line with the Consumer Price Index.

** For this section the Trustee will endeavour to meet any indexation of excess pension above the 5% per annum cap on increases that apply to other sections of the scheme.

*** Pension increase assumptions allow for caps and floors, where appropriate, based on a statistical model (the Black-Scholes model).

Rates shown apply up to 2030. Higher rates apply post 2030 as the CPI assumption is set equal to RPI.

Notes to the financial statements ctd
For the year ended 31 March 2026

24 Retirement benefit obligations ctd

Assumptions regarding future mortality experience are set based on advice, published statistics and experience.

The base mortality tables reflect the best estimate basis from the Trustees' 2025 Actuarial Funding Valuation. Improvement rates have been updated to use the latest available Continuous Mortality Investigation (CMI) model at the time of calculation, using the same long-term improvement rate of 1.25% as used in 2025.

Assumed future life expectancy at age 65	2026 Years	2025 Years
Currently aged 45:		
Male	**22.9**	23.3
Female	**24.9**	25.7
Currently aged 65:		
Male	**21.6**	22.0
Female	**23.5**	24.3

The assets and IAS 19 liabilities in the scheme and the expected rates of return at 31 March 2026 and 31 March 2025 were:

	Value at 2026 £m	Value at 2025 £m
Equities and other growth assets	**90.2**	76.0
Government bonds	**176.7**	212.0
Non-government bonds	**229.0**	242.5
Cash	**42.6**	12.6
Total market value of plan assets	**538.5**	543.1
Total value of plan liabilities	**(531.1)**	(592.0)
Net pension asset/(liability) before deferred tax	**7.4**	(48.9)
Related deferred tax (liability)/asset	**(1.8)**	12.2
Net retirement benefit obligations	**5.6**	(36.7)

The equity investments and bonds which are held in plan assets are quoted and are valued at the current bid price. The equity holding quoted includes a number of small holdings in other return-seeking assets (such as hedge funds, DGF, etc). The government bond and cash allocation set out above includes £204.3 million held in a liability-driven-investment (LDI) portfolio to mitigate interest rate risks and inflation risks arising from the liabilities.

Reconciliation of the present value of the scheme liabilities	2026 £m	2025 £m
At 1 April	**592.0**	672.3
Past service cost	**–**	–
Interest expense	**32.5**	31.1
Experience (gain)/loss on liabilities	**(25.4)**	2.4
Actuarial gain on liabilities:		
– due to changes in demographic assumptions	**(14.9)**	(0.4)
– due to changes in financial assumptions	**(15.5)**	(74.7)
Benefits paid	**(37.6)**	(38.7)
Scheme liabilities at 31 March	**531.1**	592.0

Sensitivity analysis of the scheme liabilities

The sensitivity of the present value of the scheme liabilities to changes in the major assumptions used is set out below:

	Change in assumption	Impact on scheme liabilities £m
Discount rate	+0.1% p.a.	(5.4)
	-0.1% p.a.	5.6
Price inflation (RPI measure)*	+0.1% p.a.	4.3
	-0.1% p.a.	(4.1)
Life expectancy	+1 year	18.3
	-1 year	(17.6)

* These movements have been calculated assuming that changes in the inflation assumption affect all inflation-linked assumptions.

Notes to the financial statements ctd
For the year ended 31 March 2026

24 Retirement benefit obligations ctd

The above sensitivity analysis illustrates the impact expected to be seen from reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Reconciliation of the value of the scheme assets	2026 £m	2025 £m
At 1 April	**543.1**	594.3
Interest income	**29.7**	27.5
Return on assets greater/(less) than discount rate	**3.3**	(45.0)
Employer contributions	**–**	5.0
Benefits paid	**(37.6)**	(38.7)
Bid value of scheme assets at 31 March	**538.5**	543.1

The net return on scheme assets was a gain of £33.0 million (2025: loss of £17.5 million).

Total cost recognised as an expense	2026 £m	2025 £m
Past service cost	**–**	–
Net interest cost	**2.8**	3.6
Total income statement expense before deduction for tax	**2.8**	3.6

Analysis of the amounts recognised in other comprehensive income	2026 £m	2025 £m
(Gain)/loss due to liability experience	**(25.4)**	2.4
Gain due to changes in demographic assumptions	**(14.9)**	(0.4)
Gain due to changes in financial assumptions	**(15.5)**	(74.7)
Return on plan assets (greater)/less than discount rate	**(3.3)**	45.0
Total gain recognised in OCI before adjustment for tax	**(59.1)**	(27.7)

The cumulative value of actuarial losses recognised in other comprehensive income is £182.4 million (2025: £241.5 million).

Analysis of the movement in the scheme deficit during the year	2026 £m	2025 £m
Deficit in the scheme at 1 April	**(48.9)**	(78.0)
Employer's contributions	**–**	5.0
Employer's past service cost	**–**	–
Financing charge	**(2.8)**	(3.6)
Actuarial gain/(loss)	**59.1**	27.7
Deficit in the scheme at end of year	**7.4**	(48.9)

Notes to the financial statements ctd
For the year ended 31 March 2026

25 Regulatory settlement liability

	2026 £m	2025 £m
At 1 April	–	28.5
Settlements in year	–	(28.5)
Reassessment of provision for changes in future inflation estimates	–	0.3
At 31 March	–	–

Included in:	2026 £m	2025 £m
Current liabilities	–	–
Non-current liabilities	–	–
	–	–

In 2018–19 Ofwat concluded its investigation in relation to the management, operation and performance of the company's wastewater treatment works. That investigation resulted in Ofwat taking enforcement action. Ofwat issued Southern Water with a financial penalty amounting to £3.0 million as published on its website. To ensure that customers were not disadvantaged as a result of these matters, the company agreed to make direct customer rebates totalling £122.9 million in 2017–18 prices over the period 2020–25, reflecting the seriousness of the breaches identified in the investigation. These amounts were provided for in the financial statements at outturn prices and were reassessed each year to account for the impact of inflation. The provision was fully released in the year to 31 March 2025.

The final profile of release was as follows:

Year ending:	2020–21	2021–22	2022–23	2023–24	2024–25	Total
AMP6 Bill Rebate (2017–18 CPI real)	33.54	22.33	22.33	22.33	22.33	122.86
Inflation	2.21	1.60	2.70	5.05	6.19	17.75
Provision (nominal)	35.75	23.93	25.03	27.38	28.52	140.61

The company has given a number of formal undertakings to Ofwat in relation to the numerous measures that have been put in place and are being put in place to ensure that the issues identified in the investigation have ceased and cannot be repeated. The 2019 undertakings have now been released by Ofwat.

26 Provisions for liabilities

	Environmental obligations £m	Other £m	Total £m
Balance 1 April 2024	4.9	–	4.9
Utilised in year	(1.5)	–	(1.5)
Increase in year	–	2.0	2.0
Balance 1 April 2025	3.4	2.0	5.4
Utilised in year	(0.5)	–	(0.5)
Increase in year	(0.1)	2.5	2.4
Balance at 31 March 2026	**2.8**	**4.5**	**7.3**

Included in:	2026 £m	2025 £m
Current liabilities	**5.3**	3.8
Non-current liabilities	**2.0**	1.6
	7.3	5.4

Notes to the financial statements ctd
For the year ended 31 March 2026

26 Provisions for liabilities ctd

The environmental provision relates to management's best estimate for the decommissioning of abandoned sites and environmental commitments made for ecology work following the South Hampshire abstraction inquiry for the period up to 2030. No reimbursement is expected.

Prosecution proceedings have been commenced by the EA in relation to several historic events, including events at Margate and Broadstairs that took place during a three-year period between 2019 and 2021. For the Margate and Broadstairs event, there are 13 charges covering both sites, some of which are 'specimen' charges and only some of which are for categorised pollution events. At a court appointment on 22 April 2025, the company pleaded guilty to the charges. The sentencing hearing is expected to take place later in July 2026.

Other cases are due to be progressed by the courts later in the year.

There is a very wide range of possible outcomes which reflects the general level of uncertainty at this time, the disputed levels of culpability and environmental harm (both being among a number of key criteria that the court uses to help determine the level of the fine), the extent of the applicability of the Sentencing Council's Guidelines for Environmental Offences to the company which vary very widely, and their timing. Further, as the company is a Very Large Organisation (as defined in the Sentencing Council's Guidelines), there is a requirement in all cases for the court to examine the financial circumstances of the organisation in the round.

However, the company does recognise that there will be a probable liability associated with the case and has therefore recognised a provision of £4.5 million reflecting an amount for possible fines and an allowance for legal costs. The court has a very broad discretion to assess how a fine is assessed and the level of fine imposed, and the provision the company has made is not intended to indicate or predict any particular level of fine. The Board will continue to review the level of provision made as more information becomes available.

27 Other non-current liabilities

	Grants & contributions £m	Deferred revenue £m	Total £m
Balance at 1 April 2025	37.3	11.3	48.6
Increase in year	14.9	–	14.9
Released to income statement	(1.3)	(0.4)	(1.7)
Balance at 31 March 2026	**50.9**	**10.9**	**61.8**

Grants and contributions received relate to property, plant and equipment.

Deferred revenue of £10.9 million (2025: £11.3 million) relates to the proceeds from the sale of income rights relating to aerial masts and sites owned by SWS. The income will be credited to the income statement evenly over the life of the lease.

Notes to the financial statements ctd

For the year ended 31 March 2026

28 Called-up share capital

Equity shares	2026 £'000	2025 £'000
Authorised: 46,050,000 ordinary shares of £1 each	**46,050**	46,050
Allotted and fully paid: ordinary shares of £1 each		
At 1 April	**37,612**	37,612
Issued for cash	**300**	–
At 31 March	**37,912**	37,612

Non-equity shares	2026 £'000	2025 £'000
Issued: preference shares		
64,665 (2025: 64,665) Class B shares of £1 each	**65**	65

On 13 November 2025, 100,000 ordinary shares with an aggregate nominal value of £0.1 million were issued at £5,050 each to SWS Holdings Limited. The premium arising on issue amounted to £504.9 million.

On 26 March 2026, 100,000 ordinary shares with an aggregate nominal value of £0.1 million were issued at £1,500 each to SWS Holdings Limited. The premium arising on issue amounted to £149.9 million. Also on 26 March 2026, 100,000 ordinary shares with an aggregate nominal value of £0.1 million were issued at £2,338.31 each to SWS Holdings Limited. The premium arising on issue amounted to £233.7 million.

The addition to share premium for the year to 31 March 2026 is shown net of costs of issue of £66.4 million in note 29.

The redeemable preference shares are presented as a liability (see note 20) at an amount of £64.7 million (2025: £64.7 million), including share premium of £64.6 million (2025: £64.6 million), and, accordingly, are excluded from called-up share capital in the balance sheet. The total statutory company share premium of £1,658.2 million (2025: £833.8 million) includes ordinary share premium of £1,593.6 million (2025: £769.2 million).

29 Share premium account

	2026 £m	2025 £m
Equity share premium		
At 1 April	**769.2**	769.2
Issued for cash	**822.1**	–
Balance at 31 March	**1,591.3**	769.2

On 13 November 2025, 100,000 ordinary shares with an aggregate nominal value of £0.1 million were issued at £5,050 each to SWS Holdings Limited. The premium arising on issue amounted to £504.9 million.

On 26 March 2026, 100,000 ordinary shares with an aggregate nominal value of £0.1 million were issued at £1,500 each to SWS Holdings Limited. The premium arising on issue amounted to £149.9 million. Also on 26 March 2026, 100,000 ordinary shares with an aggregate nominal value of £0.1 million were issued at £2,338.31 each to SWS Holdings Limited. The premium arising on issue amounted to £233.7 million.

Share premium is shown net of costs of issue of £72.2 million (2025: £5.8 million).

30 Non-distributable reserves

	£m
Balance at 1 April 2024	100.2
Profit for the financial year	8.6
Transfer to retained earnings	(2.0)
Balance at 1 April 2025	106.8
Profit for the financial year	2.7
Transfer to retained earnings	(2.1)
Balance at 31 March 2026	**107.4**

Non-distributable reserves comprise the value of sewer adoptions previously recognised at fair value, deferred and amortised to the income statement over the life of the related assets. Under IFRS 15, the company recognises the fair value upon adoption, i.e. the point at which control of the asset is obtained, through profit and loss to non-distributable reserves. This reserve is released to retained earnings in line with the amortisation of the related assets.

Notes to the financial statements ctd
For the year ended 31 March 2026

31 Retained earnings

	£m
Balance at 1 April 2024	42.6
Equity dividends paid	–
Loss for the financial year	(107.6)
Other comprehensive income for the year	20.8
Transfer from non-distributable reserve	2.0
Balance at 1 April 2025	(42.2)
Equity dividends paid	–
Loss for the financial year	(131.0)
Other comprehensive income for the year	44.3
Transfer from non-distributable reserve	2.1
Balance at 31 March 2026	**(126.8)**

32 Notes to the statement of cash flows

	2026 £m	2025 £m
Operating loss	**304.2**	(17.4)
Adjustments for:		
Fair value of sewer adoptions	**(2.7)**	(8.6)
Depreciation of property, plant and equipment	**370.4**	343.0
Amortisation of intangible assets	**25.9**	25.5
Difference between pension charge and cash contributions	**–**	(5.0)
Receipt of grants and contributions	**14.9**	6.7
Amortisation of grants and contributions	**(1.3)**	(1.5)
Operating cash flows before movements in working capital	**711.4**	342.7
Increase in inventories	**(6.6)**	(5.4)
Increase in receivables	**(99.2)**	(46.3)
Increase in payables	**(17.5)**	8.0
Decrease in regulatory settlement liability	**–**	(28.5)
Increase/(decrease) in provisions	**1.9**	0.5
Cash from operations	**590.0**	271.0
Tax paid	**–**	–
Net cash from operating activities	**590.0**	271.0

Cash and cash equivalents	2026 £m	2025 £m
Cash	**9.4**	3.5
Short-term bank deposits	**1,149.4**	553.5
Cash and cash equivalents	**1,158.8**	557.0

Cash and cash equivalents (which are presented as a single class of assets on the face of the Statement of Financial Position) comprise cash and short-term bank deposits. The carrying amount of these assets is equal to their fair value.

Notes to the financial statements ctd
For the year ended 31 March 2026

32 Notes to the statement of cash flows ctd
Analysis of net debt (including changes in liabilities from financing activities)

The table below details changes in liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities.

	Cash and cash equivalents £m	Net interest rate swaps (note 22) £m	Index-linked loans (note 20) £m	Lease liabilities (note 20, note 21) £m	Term facilities (note 20) £m	Loans from subsidiary (note 20) £m	Redeemable preference shares (note 20) £m	Net debt £m
At 1 April 2025	557.0	(1,488.0)	(19.4)	(41.7)	(363.0)	(5,283.0)	(64.7)	(6,702.8)
Cash flow changes	601.8	461.0	15.5	7.2	350.0	(1,566.6)	–	(131.1)
Fair value adjustments	–	(138.4)	(0.6)	–	–	(61.4)	–	(200.4)
Net new/disposed leases	–	–	–	(11.7)	–	–	–	(11.7)
Other non-cash changes	–	–	–	–	–	(1.1)	–	(1.1)
At 31 March 2026	**1,158.8**	**(1,165.4)**	**(4.5)**	**(46.2)**	**(13.0)**	**(6,912.1)**	**(64.7)**	**(7,047.1)**

Other non-cash changes to loans from subsidiary of £1.1 million relate to amortisation of loan issue costs, bond premium, and gilt-lock proceeds.

Balances at 31 March 2026 comprise:	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total £m
Cash and cash equivalents	–	1,158.8	–	–	1,158.8
Derivative financial instruments	133.6	–	–	(1,299.0)	(1,165.4)
Unamortised debt issuance costs	–	–	1.5	1.2	2.7
Gilt-lock proceeds	–	–	(0.1)	(3.8)	(3.9)
Borrowings due within one year	–	–	(316.9)	–	(316.9)
Borrowings due after one year	–	–	–	(6,676.2)	(6,676.2)
Leases	–	–	(7.2)	(39.0)	(46.2)
Net debt	**135.0**	**1,158.8**	**(322.7)**	**(8,028.8)**	**(7,047.1)**

Notes to the financial statements ctd
For the year ended 31 March 2026

32 Notes to the statement of cash flows ctd

Balances at 31 March 2025 comprise:	Non-current assets £m	Current assets £m	Current liabilities £m	Non-current liabilities £m	Total £m
Cash and cash equivalents	–	557.0	–	–	557.0
Derivative financial instruments	129.2	–	–	(1,617.2)	(1,488.0)
Unamortised debt issuance costs	–	–	1.5	2.7	4.2
Gilt-lock proceeds	–	–	(0.1)	(3.9)	(4.0)
Borrowings due within one year	–	–	(365.0)	–	(365.0)
Borrowings due after one year	–	–	–	(5,365.3)	(5,365.3)
Leases	–	–	(6.0)	(35.7)	(41.7)
Net debt	129.2	557.0	(369.6)	(7,019.4)	(6,702.8)

Borrowings due within one year relate to amounts that are repayable on demand or within 12 months of the balance sheet date (see note 20).

Cash and cash equivalents (which are presented as a single class of assets on the face of the statement of financial position) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less, and excludes cash on deposit with a maturity of more than three months from the date of acquisition which are shown as current asset investments in the statement of financial position.

33 Contingent liabilities

The company has continued to assist the Environment Agency (EA) in its investigation into legacy issues relating to wastewater sampling compliance for the period 2013 to 2017. The investigation stage has now concluded, and charges against the company are in train. Court proceedings are not anticipated to conclude for several years. At this time, it is not possible to reliably predict how the company will plead to charges, nor how the court would eventually deal with the environmental sentencing criteria including culpability, harm, mitigating and aggravating factors, and the company's financial position, especially as the subject matter is unique and does not relate to categorised pollution events, so there is a lack of similar precedents. Further, as the company is a Very Large Organisation (as defined in the Sentencing Council's Guidelines), there is a requirement for the court to examine the financial circumstances of the organisation in the round. The matter would likely take several years to get to a final hearing. In the circumstances, the Board, supported by external legal advice, has concluded that it is not yet possible to make a reliable estimate for the obligations that will arise from this matter.

In November 2021 the Environment Agency and Ofwat launched an investigation into sewage treatment works belonging to all combined water and wastewater companies in England and Wales. Ofwat has now concluded its investigation into Southern Water and we have agreed a new set of undertakings in relation to this. No financial penalty was imposed.

All combined water and wastewater companies remain subject to the ongoing EA investigation.

As the EA investigation is ongoing, and as the EA has not stated what its intentions are so far as the next steps in the investigation as it relates to the company are concerned, the Board has concluded that it is not yet possible to make a reliable estimate of any financial obligation that may arise from this investigation, nor its timing (which could be several months or years), but will keep the situation under review.

In December 2023, Southern Water Services experienced a criminal cyber-attack. The incident involved the theft of data from the company's IT systems, including personal data of a small proportion of Southern Water's customers and current and former employees. In December 2025, the Information Commissioner's Office indicated that the incident did not reach the requirements for regulatory action and confirmed that no such action would be taken. There are no other continuing investigations in respect of the incident and there is no expectation that a penalty will be imposed by any relevant regulator. The quantum and value of any civil claims that may arise because of this cyber incident remains uncertain. The Board has therefore concluded that it is not yet possible to make a reliable estimate for any financial obligation that may arise, nor for the timing of any outflow. As a result, no provision has been made in the financial statements.

In addition to the matters stated above, companies of the size and scale of Southern Water Services Limited are sometimes subject to civil claims, disputes and potential litigation. The directors consider that, where a liability is probable, and where it is possible to be estimated reasonably, an appropriate position has been taken in reflecting such items in these financial statements.

Contractors submit claims to the company for the estimated final cost of their works. These claims are reviewed to assess where the liability for the costs rests and the amount that will actually be settled. The expected amount is included within capital creditors and a further sum is identified as a contingent liability, representing a proportion of the difference between the contractor's claim and Southern Water Services Limited's valuation.

The company had no contingent liabilities for capital claims at the period end (2025: £nil).

Notes to the financial statements ctd
For the year ended 31 March 2026

34 Financial commitments

a. Capital commitments are as follows:

	2026 £m	2025 £m
Contracted for but not provided for in respect of contracts placed in respect of property, plant and equipment[1]	**1,264.6**	753.3
Contracted for but not provided for in respect of contracts placed in respect of intangible assets	**9.8**	1.2
Right to receive water from Portsmouth Water Limited[2]	**2,575.0**	2,563.0

1 Southern Water has committed to the development of the White Horse Reservoir (formerly SESRO), a nationally significant infrastructure project included within its WRMP and the RAPID strategic resource programme and recognised in Ofwat's PR24 Final Determination. Included in the above at 31 March 2026 is £64.7 million (2025: £nil) of committed expenditure that relates to design, environmental, land and enabling activities required to progress the scheme through regulatory gateways, including the RAPID process and Development Consent Order approval. Delivery and ultimate spend remain subject to ongoing regulatory approvals.

2 In February 2021, the company entered into a contractual arrangement with Portsmouth Water Limited (Portsmouth Water), under which, after constructing the reservoir, and Southern Water having laid a pipe, Portsmouth Water will supply Southern Water with 21 million litres of water a day as part of the development of the Havant Thicket Reservoir in Portsmouth Water's supply area. The contract runs for the period from 2021 to 2100 and comprises fixed capacity charge payments as well as volumetric charges for the water to be supplied. The present value of the fixed contractual payments, which total £2,575.0 million (2025: £2,563.0 million) over the period to 2100, using a discount rate of 6.53% (2025: 6.53%), being the nominal return on capital allowed per the PR24 (2025: PR24) Final Determination, is £440.9 million at 31 March 2026 (2025: £427.7 million). The volumetric charge will be recognised as water is supplied.

c. The company as lessee

	2026 £m	2025 £m
Lease payments under operating leases recognised as an expense in the year	**5.0**	5.5

As at 31 March 2026 and 2025, the company had no outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of vehicles and land and buildings.

Operating leases are charged to the income statement over the lease term and comprise short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets (£5,000 or less).

35 Related party transactions and ultimate controlling party

The immediate parent undertaking is SWS Holdings Limited.

On 4 July 2025, Sandstone Bidco Limited acquired the issued share capital of Greensands Junior Finance Limited and Southern Water (Greensands) Financing PLC from Greensands (UK) Limited, becoming the new ultimate indirect UK holding company of Southern Water Services Limited, replacing Greensands Holdings Limited, the previous ultimate UK holding company.

Greensands Junior Finance Limited is the parent undertaking and controlling party of the largest, smallest and only group to consolidate these financial statements.

Copies of the consolidated financial statements of Greensands Junior Finance Limited, up to 31 March 2026 may be obtained from the registered office at Southern House, Yeoman Road, Worthing, BN13 3NX, or from the Southern Water website.

Macquarie Asset Management, whose managed funds indirectly own a majority shareholding of Sandstone BidCo Limited, is considered to be a related party of the company as they have the ability to influence the financial and operating policies of both the company and the group. Other related parties comprise key management personnel.

The company has taken advantage of the exemption under FRS 101 'Reduced Disclosure Framework' in not disclosing details of transactions with other companies which are 100% wholly owned. Equivalent disclosures are given in the group financial statements of Greensands Junior Finance Limited.

36 Post balance sheet events

On 14 May 2026 subsidiary company SW Finance I Plc issued a new £300 million bond with a 6.875% coupon and final maturity of 14 November 2034 and advanced an equal amount to Southern Water Services Limited on identical terms. On the same day Southern Water Services repaid £181.0 million of intercompany debt to SW Finance I Plc. SW Finance I Plc subsequently purchased for cancellation £181.0 million of the Class A £300m 1.625% Fixed Rate bond with a final maturity of 30 March 2027 by way of a public tender offer.

On 22 June 2026, Southern Water announced that it had secured a further £300.0 million of committed equity from Sandstone Bidco Limited to be drawn down on or around 31 March 2027.

Subject to EU Merger Regulation clearance, the majority of this Equity Commitment is being funded by subscriptions for new shares in the Southern Water group by Asterion Industrial Partners (Asterion), an independent European infrastructure investment manager headquartered in Madrid, with the balance being funded by further subscription for shares in the Southern Water group by funds managed by Macquarie Asset Management (MAM).

Following completion, Asterion will become a new indirect minority shareholder in the Southern Water group, with MAM-managed funds remaining the majority shareholder.

Independent Auditor's Report

to the members of Southern Water Services Limited

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Southern Water Services Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 March 2026 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of other comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 36.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Going concern; • Valuation of Expected Credit Losses ("ECL") for trade receivables; • Valuation of capitalised overheads; • Valuation of derivative financial instruments; and • Litigation and claims associated with the Environment Agency.
Materiality	The materiality that we used in the current year was £20.1m (2025: £13.0m), determined based on 3.0% (2025: 3.7%) of earnings before interest, tax, depreciation and amortisation ("EBITDA").
Significant changes in approach	There have been no significant changes in our approach in the current year.

4. Conclusions relating to 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 Company's ability to continue to adopt the going concern basis of accounting is discussed in section 5.1.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Company has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent Auditor's Report ctd
to the members of Southern Water Services Limited

5. Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Going concern

Key audit matter description

The Company's assessment supports the use of the going concern basis of accounting and no material uncertainty has been identified. At the half year, the company had previously concluded there was a material uncertainty in respect of going concern relating to the possibility of a future downgrade to a second sub investment grade credit rating due uncertainty regarding future financing. Since then, the assumptions that led to these conclusions have been significantly addressed with additional equity funding of £0.9 billion and a further commitment of £0.3bn combined with additional £1.5 billion in debt funding, further supplementing the company's liquidity profile.

The going concern assessment remains judgemental and based upon the Company maintaining sufficient liquidity and covenant headroom, retaining and maintaining at least two investment grade credit ratings with one out of three already below investment grade. A downgrade by one of the remaining two investment grade agencies could, depending on the circumstances and Ofwat's response, result in a breach of the Company's licence. Given the significance of this judgment, we identified going concern as a key audit matter.

Further details are included within the Audit Committee report on page 158 and in note 1 to the financial statements.

5.1 Going concern

How the scope of our audit responded to the key audit matter

We have:

- Obtained an understanding of relevant controls related to the directors' assessment of going concern;
- Obtained third-party bank confirmations for the Company's bank accounts, which confirmed cash balances and borrowings, inspected facility agreements and compared to the facilities assumed in the forecasts;
- Obtained the directors' going concern assessment, including cashflow forecast, liquidity requirements and forecast covenant calculations for the going concern period and performed integrity checks including testing the mathematical accuracy;
- Assessed the forecasts used for the going concern assessment period for reasonableness and, where applicable, validated the data with information from other areas of the audit;
- Evaluated the appropriateness of key assumptions in the forecasts, and considered the historical accuracy of forecasting;
- Assessed the credit ratings from Standard Poor's (S&P), Moody's and Fitch and performed inquiries with S&P and Moody's to evaluate management's position and assess whether there is any contradictory or supporting evidence requiring disclosure within the going concern disclosures;
- Recalculated debt covenants and assessed compliance over the forecast period, considering the most recent available credit ratings of the Company to determine the impact this has on covenant compliance
- Challenged the reasonableness of management's stress tests by independently modelling scenarios and challenging their data inputs to understand the impact on the Company's liquidity and covenant ratios;
- Worked with our debt advisory specialists to evaluate the Company's ability to raise additional debt and equity considering investors' appetite in financing the water industry;
- Assessed the impact of potential fines from ongoing regulatory investigations on the Company's ability to continue as a going concern;
- Evaluated the mitigating actions available to the Company in order to manage cashflows during the going concern period to avoid a covenant or liquidity breach;
- Performed inquiries with Macquarie to understand their intentions and plans for additional equity injection into the Company;

Independent Auditor's Report ctd
to the members of Southern Water Services Limited

5.1 Going concern

How the scope of our audit responded to the key audit matter ctd

- Performed inquiries with key stakeholders (from both within and outside of the Company) and reviewing correspondence with creditor representatives, regulators and advice from the Company's external legal counsel to evaluate management's position and assess whether there is any contradictory or additional evidence requiring disclosure within the going concern disclosures; and
- Performed benchmarking of relevant financial ratios, to assess whether management's liquidity and operational metrics are consistent with the observable UK water sector as defined by the credit rating agencies; and
- Evaluated the reasonableness of the disclosures within the financial statements.

Key observations

We are satisfied that the directors' use of the going concern basis of accounting is appropriate and that no material uncertainty related to going concern has been identified.

5.2 Valuation of Expected Credit Losses ("ECL") for trade receivables

Key audit matter description

The Company has a significant domestic customer base and due to regulation, it is not allowed to interrupt water supply, including in the event of non-payment. A proportion of the Company's customers do not or cannot pay their bills, which results in the need for a provision to be made for non-payment of the customer receivables balance. Approximately 72% of the ECL provision is calculated using a Statistical Package for the Social Sciences (SPSS) analytical model which leverages historical data on cash collections, billings, and write-offs to determine the provision. This SSPS model involves limited judgment, however the computation of remaining ECL provision involves significant estimation and judgment due to the subjective interpretation and application of historical data in forecasting future cash collection trends.

Due to the high degree of estimation uncertainty associated with the recoverability of the related customer debt we consider the valuation of non-SPSS based expected credit loss provision to be a key audit matter.

As at 31 March 2026, the Company held an ECL provision of £246.8 million (2025: £255.7 million), which was made up of SPSS based provision of £177.5 million (2025: £166.5 million), non-SPSS based provision of £70.7 million (2025: £86.2 million) and manual overlay in respect of macro-economic factors of £3.0m (2025: £3.0m) which is not addressed through current year collection rates.

We have identified a potential risk of fraud in relation to this audit matter due to the level of estimation uncertainty and its influence on key metrics which management utilise to monitor and report business performance.

Further details are included within the Audit Committee report on page 158, critical accounting estimates and judgments (note 2) and in note 17 to the financial statements.

5.2 Valuation of Expected Credit Losses ("ECL") for trade receivables

How the scope of our audit responded to the key audit matter

We have:

- Obtained an understanding of the relevant controls around the determination of the ECL provision, including over the supporting data and assumptions;
- Evaluated the model used to calculate the provision and assessed its consistency with prior years;
- Utilised data analytics to recalculate, using the data inputs, the provision computed by the SPSS provisioning model;
- Tested the completeness and accuracy of the data used in the provisioning model;
- Evaluated the valuation of the provision balance through assessing the reasonableness of the provisioning rates using historical trends and checking for consistency with FY25;
- Evaluated the completeness of the provision by testing cash received in the current year against the billing and budgets;
- Assessed if the debtors have been allocated to the correct ageing bucket;
- Tested a sample of cash collections to third party evidence;
- Evaluated the reasonableness of economic data (both forecast and historical), including cash collection assumptions used within the calculation, and performed a sensitivity analysis;
- Performed stand back assessment to ensure that all the evidence supporting and contradicting management's position are considered;
- Inquired of management the impact of the increases in bills as per the final determination and evaluated the methodology of the provision in response.
- Considered external macroeconomic data and engaged our specialists in the Economic Consulting Group to understand macro-economic factors such as Real Household Disposable Income reports, as well as employment, inflation, interest rate trends to assess the potential impact on the provision held;
- Assessed the overall bad debt provision and overlay adjustment by benchmarking against peer companies and reviewing post year end cash collection performance; and
- Assessed the disclosures provided regarding the key sources of estimation uncertainty, and sensitivities disclosed.

Key observations

We are satisfied that the Company's methodology for assessing the non-SPSS based expected credit losses on trade receivables and related disclosures are reasonable and appropriate in accordance with IFRS 9: Financial Instruments. We consider the amount of non-SPSS based ECL provision recognised on trade receivables as of 31 March 2026 to be reasonable.

Independent Auditor's Report ctd
to the members of Southern Water Services Limited

5.3 Valuation of capitalised overheads

Key audit matter description

The Company has a substantial capital programme which was agreed with Ofwat and therefore incurs significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure renewal and replacement. The current financial year 2026 included transition to PR24 (AMP8), covering 2025–2030, introducing a new five-year investment cycle with a higher total expenditure allowance and capital expenditure target, with property, plant, and equipment additions of £1,155.6 million (2025: £970.4 million) in the year, which includes £164.9 million (2025: £97.4 million) of capitalised overheads.

Expenditure incurred to increase the capacity or enhance the network is treated as capital expenditure and expenditure incurred in maintaining the operating capability of the network is expensed in the year in which it is incurred. Some capital projects can contain a combination of enhancement and maintenance activity which are not distinct, and hence the allocation of costs between capital and operating expenditure is inherently judgemental and involves estimation in determining the proportion of overheads that is directly attributable to relevant capital projects. This has resulted in identification of a potential risk of fraud and a key audit matter focussed on the following:

- judgment in determining whether project expenditure considered for capitalisation of overheads is capital or operational in nature; and
- estimation in determining the proportion of overheads that is directly attributable to relevant capital projects.

Further details are included within the Audit Committee report on page 158, the critical accounting estimates and judgments (note 2) and in note 13 to the financial statements.

5.3 Valuation of capitalised overheads

How the scope of our audit responded to the key audit matter

We have:

- Obtained an understanding of the relevant controls around the valuation of capitalised overheads and capitalisation of enhancement expenditure;
- Tested a sample of additions by reviewing the capital projects, inspecting supporting documents and making direct inquiries of project managers to assess whether these are classified in accordance with the nature of the cost, the Company's policies and in accordance with IAS 16 Property, Plant and Equipment ("IAS 16");
- Tested the accuracy of a sample of overhead costs by inspecting underlying supporting documentation in respect of gross cost and capitalisation rates applied;
- Assessed the appropriateness of classification of costs and obtained an understanding of material variances in gross costs from prior year;
- Evaluated the appropriateness of the Company's capitalisation policies and its approach to determining which costs should be capitalised, and tested whether these policies are being followed, making direct enquiries of project managers, inspecting invoices;
- Evaluated the estimates used in determining what cost is directly attributable to the construction of an asset and assessed the consistency of application of the method of estimation with prior year; and
- Assessed the appropriateness of the disclosures in accordance with the requirements of IAS 16.

Key observations

We are satisfied that the estimation around the valuation of capitalised overheads is appropriate.

Independent Auditor's Report ctd
to the members of Southern Water Services Limited

5.4 Valuation of derivative financial instruments

Key audit matter description

The Company has both fixed interest rate and floating interest rate debt and the overarching aim of the inflation-linked derivative financial instruments (interest rate swaps) is to manage its exposure to inflation risk. The Company measures the derivative financial instruments at fair value through profit and loss, and the fair value is determined based on quoted prices adjusted for credit risk. Credit risk is computed in line with market practice. The fair value of the derivative assets was £133.6 million (2025: £129.2 million) and the fair value of the derivative liabilities was £1,299 million (2025: £1,617.2 million).

During the year, the Company undertook significant restructuring of its derivative portfolio. These transactions included the settlement of principal accretion, novation of certain swap arrangements to new counterparties, aggregation of existing positions and separation of balancing swaps from accretion swaps.

Given the magnitude of the derivative balances, the sensitivity of valuations to market inputs and credit valuation adjustments, and the complexity introduced by the current-year restructuring, we consider the valuation of derivative financial instruments to be a key audit matter.

We have identified a potential risk for material misstatement in the valuation of the financial instruments as the valuation requires management's judgment. Valuation of derivative financial instruments is assessed as an area involving key sources of estimation uncertainty by management and is disclosed as such in note 2 to the financial statements. Further details are included in note 22 to the financial statements.

5.4 Valuation of derivative financial instruments

How the scope of our audit responded to the key audit matter

We have:

- Obtained an understanding, of the relevant controls around valuation of financial instruments;
- Obtained the derivatives financial instruments valuation prepared by management's expert and involved our internal financial instruments specialists to recalculate the risk-free valuation of the derivative financial instruments;
- Obtained independent confirmations from external counterparties and contracts to confirm the existence and terms of all derivative contracts held. Where confirmations were not obtained, alternative audit procedures were performed to confirm existence and terms;
- Worked with our Financial Instruments and Capital Accounting Expertise team to assess management's approach in relation to the restructuring derivatives. We obtained restructured trade confirmations and performed independent valuations pre- and post-restructure to assess the accounting treatment and appropriateness of calibration adjustments. We also recalculated current year and historic calibration adjustments;
- Challenged the credit risk adjustment through determining an independent range for the credit risk adjustment and assessing whether Company's adjustment is within a reasonable range;
- Performed inquiries and discussions with management and their expert to understand and challenge assumptions, data and method used for valuation of derivatives; and
- Assessed the appropriateness of the disclosures in accordance with the requirements of IFRS 9: Financial Instruments, IFRS 17: Financial Instruments: Disclosures and IFRS 13: Fair Value Measurement.

Key observations

We are satisfied that the Company's valuations of derivative financial instruments are appropriate.

Independent Auditor's Report ctd
to the members of Southern Water Services Limited

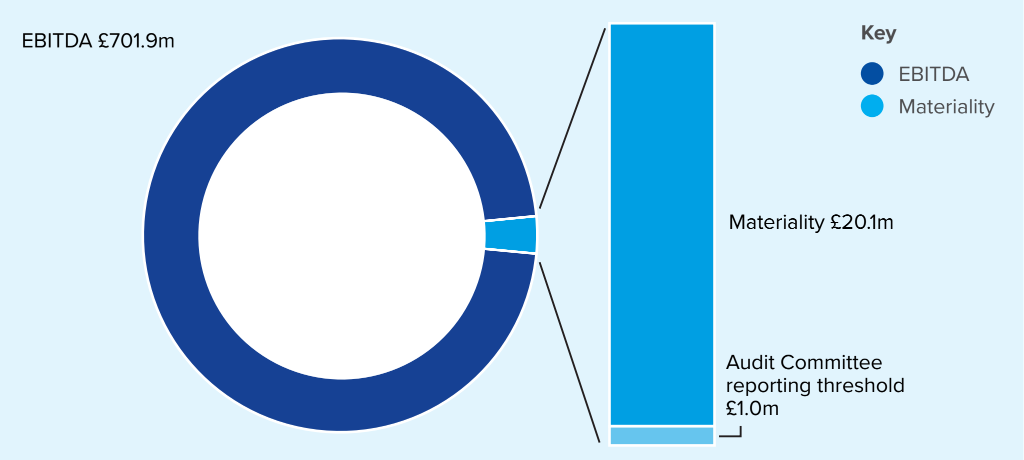
5.5 Litigation and claims associated with Environment Agency	
Key audit matter description	The Company is subject to various ongoing investigations by the Environment Agency (EA) concerning historical non-compliances with laws and regulations. These investigations are at various stages of completion, and the potential outcomes, including the likelihood and quantum of any financial penalties or remediation costs, remain uncertain. For each matter, the Company must assess whether there is a present obligation as a result of a past event, the probability that an outflow of economic resources will be required and whether a reliable estimate can be made in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. This assessment determines the accounting treatment as either a provision, contingent liability or neither. Where a provision is recognised, management considers all available information in order to estimate the provision, including estimates and advice provided by external legal counsel and historic experience. Given the judgments and complexity involved in determining whether a reliable estimate can be made with respect to a provision and the risk the disclosure provided by the company is not complete and accurate as required by IAS 37, we consider litigations and claims associated with EA a key audit matter. Further details are included within the Audit Committee report on page 158, critical accounting estimates and judgments note (note 2), Provisions for liabilities (note 26) and Contingent liabilities (note 33) to the financial statements.
How the scope of our audit responded to the key audit matter	We have: • Obtained an understanding of the relevant controls over the litigation and claims process; • Obtained and reviewed relevant recent correspondence with the EA; • Performed enquiries of management and external legal counsel regarding the status and views on the EA investigations and the charges announced so far; • Evaluated the competence, capabilities and objectivity of external lawyers, performed direct enquiries and read documentation received to understand their views and position in regard to the EA investigations and charges and assessment of expected cashflows; • Assessed whether there are any industry or legal precedents that were applicable in forming the judgments applied to identify potential inconsistencies; • Challenged management on the accounting assessment in accordance with IAS 37 and considering the determination of a probable outflow against precedent cases for similar matters, advice from legal counsel, the accounting assessment for each EA matter and the impact of the EA matter on the going concern assessment and disclosures in the financial statements; and • Assessed the completeness and accuracy of the disclosures made by the Company in respect of the regulatory matters.

5.5 Litigation and claims associated with Environment Agency	
Key observations	We are satisfied that the recognition of provisions and disclosure of contingent liabilities for litigation and claims are appropriate and in accordance with the requirement of IAS 37.

6. Our application of materiality
6.1 Materiality
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgment, we determined materiality for the financial statements as a whole as follows:

Materiality	£20.1 million (2025: £13.0 million)
Basis for determining materiality	3.0% of EBITDA (2025: 3.7%). EBITDA was £701.9 million, resulting in materiality of £20.1 million.
Rationale for the benchmark applied	EBITDA is used as the appropriate measure on which to determine materiality as this is the key metric the board used to assess the performance of the business.



Independent Auditor's Report ctd
to the members of Southern Water Services Limited

6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 60% of materiality for the 2026 audit (2025: 60%). In determining performance materiality, we considered the following factors: impact of our ability to rely on general IT controls, history of prior year errors, management's willingness to make process improvements as well as to correct errors identified.

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to them all audit differences in excess of £1.0 million (2025: £0.65 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identify when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

7.2 Our consideration of the control environment

The Company uses SAP, a financial accounting software platform. With the involvement of our Information Technology specialists, we obtained an understanding of relevant General Information Technology Controls ('GITCs') within the Company's financial accounting software platform, including access controls, change management controls and controls around segregation of duties.

Our audit for the period identified a number of control deficiencies, including access controls, precision of management review controls and controls around posting of manual journals. As described in the Corporate Governance section on page 157, the Board has commenced a review of the Company's internal controls and asked management to remediate these deficiencies.

As a result of the deficiencies in IT controls and the business process controls summarised above, we extended the scope of our substantive audit procedures in response to the identified deficiencies and performed our audit placing no reliance on controls.

7.3 Our consideration of climate-related risks

Management prepared a climate change business risk assessment demonstrating that the Company is exposed to the climate change in various areas including business disruption, brand and reputation and legal and regulatory. We reviewed management's climate change risk assessment and evaluated the completeness of the identified risks and impact on the financial statements, including relevant disclosures – see note 2 of the financial statements. We also considered climate change within our audit risk assessment process in conjunction with our assessment of the balances and did not identify any additional risks of material misstatement.

As part of our procedures, we obtained an understanding of the processes and controls around the climate change related risks identified and additionally with the involvement of our Environmental, Social and Governance ("ESG") specialists. We also evaluated financial statements disclosures and annual report's front half disclosures, including CFD disclosures, to assess whether climate change assumptions underpinning specific account balances were appropriately disclosed. Additionally, we considered whether disclosures in the strategic report are materially consistent with the financial statements and our knowledge obtained in the audit.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report ctd
to the members of Southern Water Services Limited

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Company's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management, internal audit, the directors and the Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Company's sector;
- any matters we identified having obtained and reviewed the Company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, financial instruments, pensions, IT, ESG, debt advisory, economic consulting and fraud specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in relation to the valuation of expected credit losses for trade receivables and the valuation and classification of capitalised overheads.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act 2006, UK GAAP including FRS 101, IFRS as adopted in the UK where relevant to FRS 101 measurement and disclosure, pensions legislation and UK tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty. These included the Company's operating licence conditions imposed by Ofwat and environmental regulation enforced by the Environment Agency and other relevant regulators.

11.2 Audit response to risks identified

As a result of performing the above, we identified the valuation of expected credit losses for trade receivables and the valuation of capitalised overheads as key audit matters related to the potential risk of fraud. We also identified litigation and claims as a key audit matter due to the level of judgment involved in assessing provisions and contingent liabilities. The key audit matters section of our report explains these matters in more detail and describes the specific procedures we performed in response.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee, internal legal counsel and external legal counsel, concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;

Independent Auditor's Report ctd
to the members of Southern Water Services Limited

- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, Ofwat, the Environment Agency, and the Drinking Water Inspectorate; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgments made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Corporate Governance Statement

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified;
- the directors' explanation as to their assessment of the Company's prospects, the period this assessment covers and why the period is appropriate;
- the directors' statement on fair, balanced and understandable;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems; and
- the section describing the work of the Audit Committee.

14. Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

15. Use of our report

This report is made solely to the Company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member as a body, for our audit work, for this report, or for the opinions we have formed.

Makhan Chahal FCA
Senior statutory auditor

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

15 July 2026

Glossary

Term	Definition
Abstraction licences	The Environment Agency issues abstraction licenses for water taken from a water source, such as a river, when more than 20 cubic metres are taken per day
AI	Artificial Intelligence
AMP	Asset Management Plan or five-year investment period
ARP	Adaptive Reporting Power
BNG	Biodiversity Net Gain
BSI	Business Standards Institute
Business Partnership Fund	Southern Water fund supporting businesses with innovative ideas to reduce water use
Capex	Capital expenditure
CAW	Carbon Accounting Workbook
CCW	Consumer Council for Water
CHP	Combined Heat and Power
C-MeX	Customer Measure of Experience
CRI	Compliance Risk Index
CSO	Combined Sewer Overflow
Defra	Department for Environment, Food & Rural Affairs
Distribution input	The amount of clean water we put into our network
D&I	Diversity and Inclusion
D-MeX	Developer Measure of Experience
DWI	Drinking Water Inspectorate
DWMP	Drainage and Wastewater Management Plans
EA	Environment Agency

Term	Definition
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EDM	Event Duration Monitor
Effluent	Treated wastewater, which is returned to the environment.
EPA	Environmental Performance Assessment
ERM	Enterprise Risk Management
ESG	Environment, Social and Governance
ETS	Emissions Trading Scheme
EV	Electric Vehicle
FBU	Fair, balanced and understandable
FCA	Financial Conduct Authority
FD	Final Determination
FFT	Flow to Full Treatment
FRC	Financial Reporting Council
GDPR	General Data Protection Regulation
GHG	Greenhouse Gas
GRESB	Global Real Estate Sustainability Benchmark
GWh	Gigawatt hours
Ha	Hectares of land
ICECG	Independent Climate and Environment Challenge Group
IPCC	Intergovernmental Panel on Climate Change
LTDS	Long-Term Delivery Strategy
LTIP	Long-Term Incentive Plan
Ml/d	Million litres (megalitres) per day

Glossary
ctd

Term	Definition
Natural capital	Value derived from nature and natural resources
ODI	Outcome Delivery Incentive
Opex	Operating expenditure
Outfall	Pipe that carries the treated wastewater, storm or surface water into a river or the sea.
PBIT	Profit before interest and tax
PCC	Per Capita Consumption
PCD	Price Control Deliverable
PFAS	Per- and poly-fluoroalkyl substances
PR24	Price Review 2024
PSR	Priority Services Register
RCV	Regulatory Capital Value
RMS	Risk Management Strategy
RoRE	Return on Regulated Equity
s.172	Section 172 Statement
SECR	Streamlined Energy and Carbon Reporting
SEMD	Security and Emergency Measures (Water and Sewerage Undertakers and Water Supply Licensees) Direction
SID	Senior Independent Director
SLA	Service Level Agreement
SRO	Strategic Resource Option
SSSI	Site of Special Scientific Interest
STEM	Science, Technology, Engineering and Mathematics
SuDS	Sustainable Drainage Systems

Term	Definition
tCO_2e	Tonnes of carbon dioxide equivalent
Totex	Total expenditure
TUBs	Temporary Use Bans or hosepipe bans put in place during drought conditions
UKCP18	UK Climate Projections 2018
UKWIR	UK Water Industry Research
WINEP	Water Industry National Environment Programme
WRMP	Water Resources Management Plan

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