

Sustainable Finance Impact Report 2025

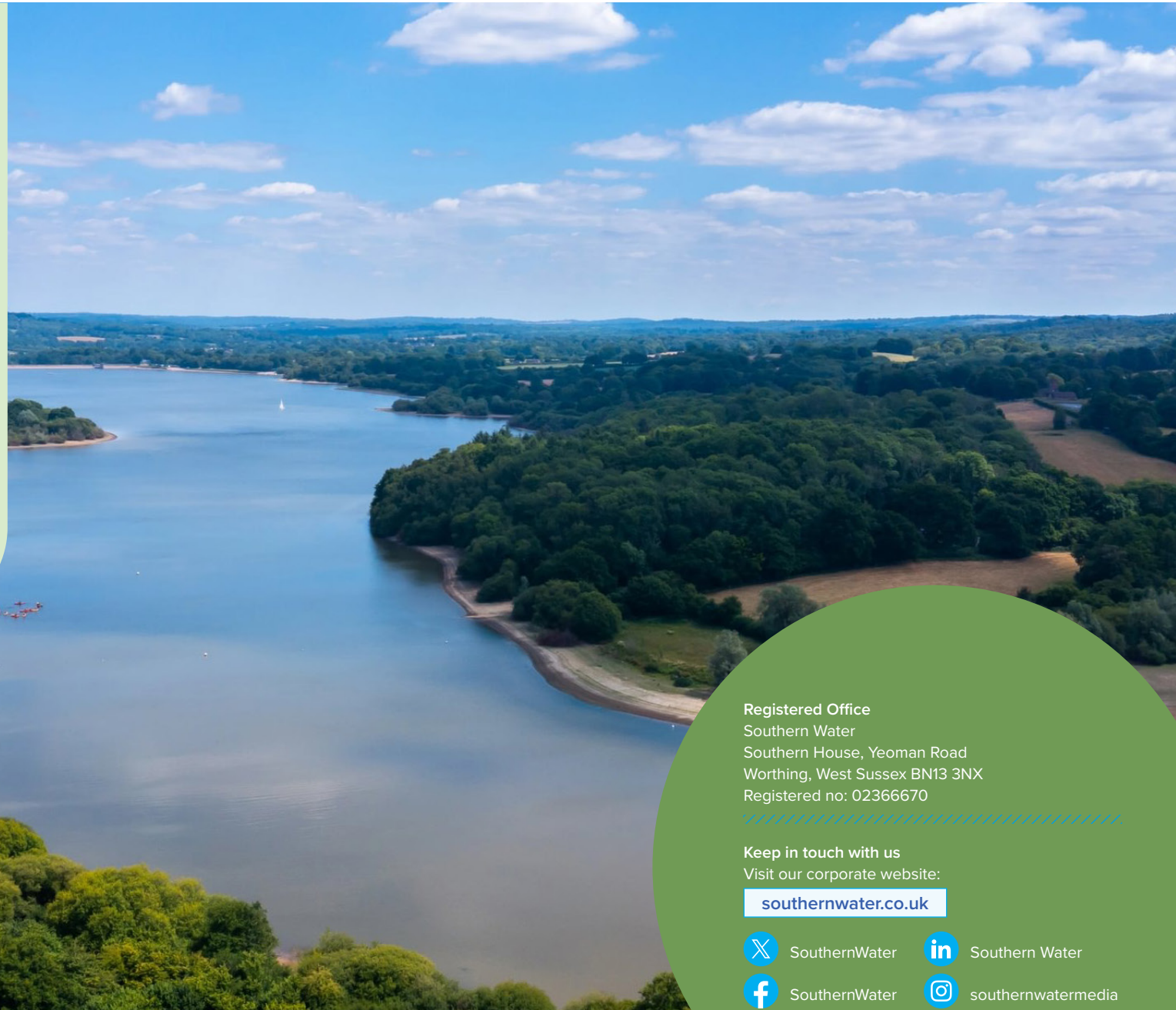


from
**Southern
Water** 



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Introduction by Stuart Ledger, CFO

Welcome to our Sustainable Finance Impact Report

We're using sustainable finance to support performance improvement, building resilience in our operations for the future.



We provide essential services to 2.7 million water customers and 4.7 million waste customers across Sussex, Hampshire, Kent and the Isle of Wight. The South East has been assessed as water stressed by the Environment Agency; and Office of National Statistics data shows that it has one of the fastest growing populations in the UK. This means the impacts of climate change – more extreme temperatures, increased flooding and storms – are felt more acutely here. It's critical that we use our sustainable bonds to target investment to reduce pollution incidents and leakage and improve compliance.

These are big challenges that can't be solved overnight; they mean making big changes, both to how we operate and our infrastructure. This requires significant investment, which our sustainable bonds help us to make. The projects they fund help us to improve performance and deliver benefits for our customers and the environment now and in the future.

The Turnaround Plan enabled us to improve our capabilities in key areas, reducing total pollutions and leakage and putting in place the foundations needed to improve compliance.

We're not stopping, and over the current investment period we plan to move further and faster towards our goals.

Our annual Pollution Incident Reduction Plan details a range of improvements made across our wastewater network. It includes the digitalisation of our networks, enabling us to track flows and see bursts and blockages before they happen. It also means we can better monitor pumping stations and rising mains, reducing pollution incidents from our own assets.

To continue to maintain world class standards of drinking water quality, we're upgrading our five strategic water supply sites, increasing the amount of water they can treat and improving treatment standards. Our water quality is measured with a score for Compliance Risk Index (CRI). Although outside our Ofwat target, performance remains strong, thanks to updates to procedure, site safety and monitoring.

Our target for treatment works compliance is 100%. During 2024 we achieved 98.23% (2023: 99.36%), with six failed works (2023: two).

A detailed action plan was put in place, as part of our 'Go-to-Green' programme – a total of 45 sites have been reviewed since the start of 2023.

Reducing leakage from our water network is a priority. Leakage reduced for the second year in a row to 97.7 ML/d (2023–24: 107.5 ML/d). This is a result of our targeted leakage programme, launched in 2023, which has reduced leakage by 9%.

In the year to 31st March 2025, we issued a Tap off of two of our existing Sustainable Bonds for a total of £150 million gross (Net Proceeds £141.3 million) and this net amount is the what we have allocated in this report.

Looking ahead, to deliver the Business Plan 2025–30, there will be a significant increase in capex scheme expenditure compared to the previous five years, financing issuance is likely to be a mixture of vanilla bonds, sustainable bonds and other instruments such as, for example, private placement and Eurobonds.

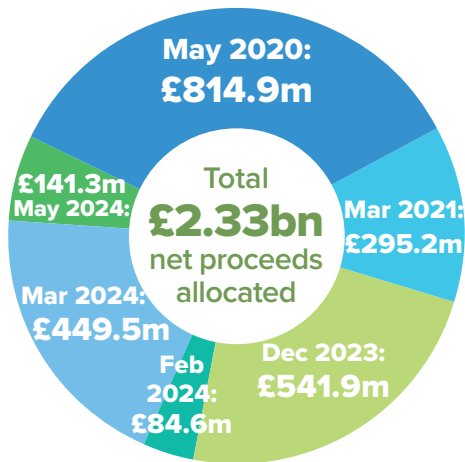
Stuart Ledger
Chief Financial Officer

Key highlights

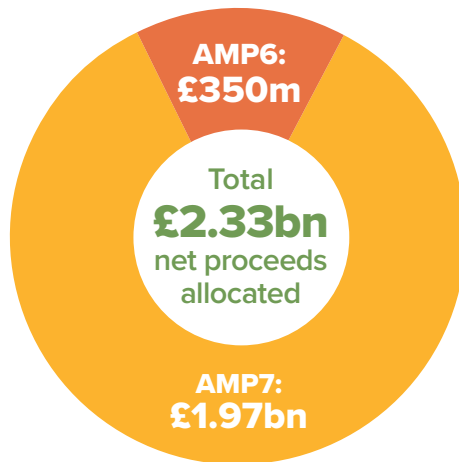
Sustainable Bonds issued to date:

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

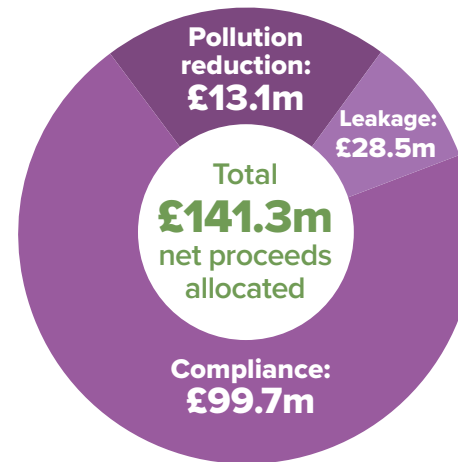
Bonds issued to date
100% allocated



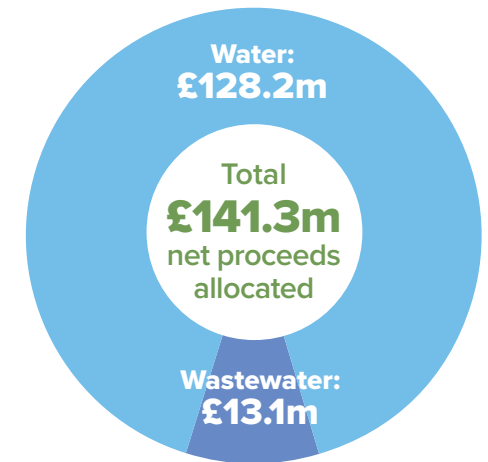
Split of funding
per investment period



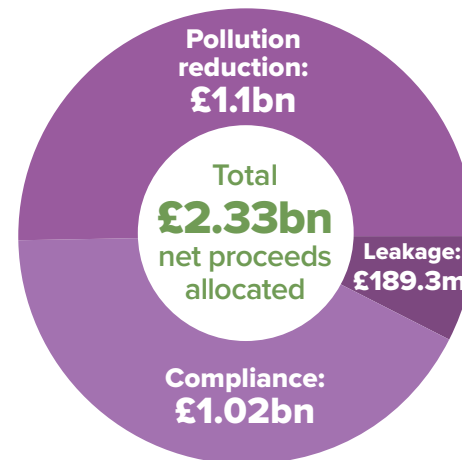
Areas of impact 2024–25



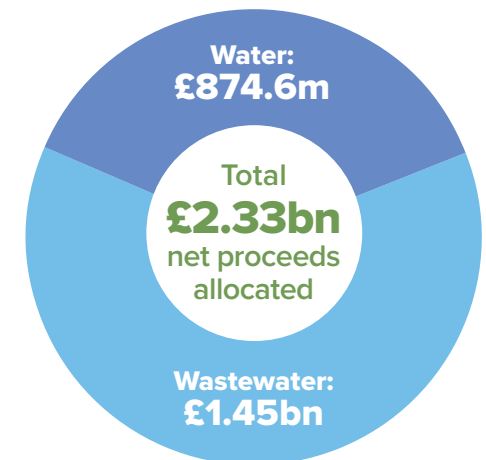
Split of water/wastewater 2024–25



Areas of impact to date



Split of water/wastewater to date



Progress in allocation of sustainable bond

Our sustainable bonds support a wide range of allocated projects reducing pollution and leakage and aiming to improve compliance.

The impact from these allocated projects shown on page 13, is covered for the period up to and including 31 March 2025.

A total of 10 new projects were allocated in the year to 31 March 2025, covering expenditure incurred in the year ended 31 March 2025. Expenditure was also previously applied to projects beginning in the earlier years of the Business Plan 2025–30 and in the previous business plan. In total since our framework began, 269 projects have now been allocated, 253 from the Business Plan 2020–25 and 16 from the previous Business Plan 2015–20.

Our performance for pollution and leakage reduction, and compliance improvement is shown on page 7. This performance is measured against our regulators' **Operational Delivery Incentives (ODIs)**.

Pollution

Funded projects to reduce pollution include: logger maintenance, sewer rehabilitation and operational asset management. Specific examples of allocated pollution projects which will run across several years, include:

- Event duration monitors
- Sewer rehabilitation schemes
- Wastewater pumping station improvements.

Compliance

Projects funded to support improved compliance include capital maintenance and effluent re-use. Examples of these are:

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

Leakage

Projects funded to reduce leakage include:

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

Use of the proceeds received to the year 31 March 2025 is covered in the following pages.

This report outlines how certain capital projects have contributed to our overall performance across three targeted areas of operation: pollution reduction, compliance and leakage.

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

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

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

- Green Loan Principles
- Sustainability Linked Loan Principles
- KPIs – reporting at a portfolio level due to the large number of projects financed.

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

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

The coupons on the sustainable bonds issued in the period are as follows. There was a Tap of the A15 7.375% Bond for £100 million and a Tap of the A18 7.000% Bond for a value of £50 million.

We engaged DNV to provide independent limited assurance over selected impact indicators and the claims and assertions related to the allocation of proceeds for the year to 31 March 2025, as disclosed in this report – [DNV's Independent Limited Assurance Report](#).

Green bond definition

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

Social bond definition

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

Sustainability bond definition

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

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

Key deliverables

Pollution prevention

No pollution is acceptable and we work hard to prevent incidents, reducing impact on the environment and our customers' properties.

Although our total pollutions number and level of serious pollutions remains outside our Ofwat targets, we continue to reduce the total number of incidents over time, with a particular focus on addressing the root cause of network failures or issues at our own sites.

For the year to 31 December 2024, there were 269 category 1-3 pollution incidents – that's a 41% reduction since 2020. In 2024, there were 67.71 category 1-3 pollutions per 10,000km. In total we've invested £23.3 million over the past five years (2020–25) to reduce pollutions from our network.



Our annual Pollution Incident Reduction Plan – published in March 2025 – set out how we're preventing, detecting and responding to incidents. Key areas of focus include:

- A focus on visibility of the condition of our assets and the true root cause of any issues, through the installation of motor and phase monitoring technologies.
- A Power Resilience programme of work that will look to survey, remediate and replace problem generators, helping to eliminate electrical root causes.
- The Rising Main capital programme which has been planned in across the AMP and will be prioritised based on pollution risk alongside other factors.
- New Sewer Maintenance contracts and the use of a risk-based model for routine maintenance and remediation.
- Improved people, processes and systems, which put in place the required learning and capacity to maximise the impact of improvement activities.

Regulatory compliance

Regulatory compliance includes both the compliance of treatment works and drinking water quality, and both these measures are calendar year measures to 31 December 2024.

The 2024 score of 3.82 for the Compliance Risk Index (CRI) increased compared to the previous year's score of 3.07. We're now achieving average performance in the UK, which is considered to have some of the best water quality in the world.

Our performance in the critical area of treatment works compliance continues to be a challenge. Our target for treatment works compliance is 100%. In 2024 we achieved 98.23% (2023: 99.36%), with six failed works (2023: two). A detailed action plan was put in place, as part of our 'Go-to-Green' programme – a total of 45 sites have been reviewed since the start of 2023.

Leakage reduction

Leakage is measured on a financial year basis, making the latest scores the measure of our 12 months to 31 March 2025 performance.

In 2024–25, leakage reduced for the second year in a row to 97.7 ML/d (2023–24: 107.5 ML/d) In 2024, there was a leakage three year average of 104.6 MI/d (2023 104.3).

Impact of schemes supported by our sustainable bond investment

Pollution reduction

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

Investing in our assets – sites and equipment – and using proactive monitoring and control technology to spot issues before they happen, continue to help us reduce total pollution incidents.

Our Turnaround Plan saw us make substantial investments to upgrade our pumping stations. Blockages and electrical or mechanical issues are the root cause of most pollution incidents. Reducing rising main bursts is another key area of focus, the aim is to clean over 700km of sewers a year while installing more remote monitoring devices.

Self-reporting of pollution incidents increased by 12% during 2024 thanks to a targeted social media advertising.

We continue to review each pollution incident. In line with our Pollution Incident Reduction Plan throughout 2024 we:

- increased resilience at wastewater pumping stations;
- put in place the next phase of rising-main calming;
- reviewed our sewer level monitors to increase their efficiency; and
- monitored our sites proactively using intelligent systems.

We also engaged face-to-face with 7,336 customers, delivering 79 presentations and attending 19 community events to raise awareness of the cause of blockages in the community.

Self-reporting of pollution incidents increased by 12% during 2024 thanks to a targeted social media advertising.

We continue to focus on the root cause of serious pollution incidents – category 1 and 2. In 2022 we had five incidents, 2023 there were 13 and in 2024 the number was 15. A root cause analysis of each incident is always carried out and informs work under our annual Pollution Incident Reduction Plan.

Impact of schemes supported by our sustainable bond investment

Compliance

We continue to take steps to improve compliance, improving water quality across the South East.

The improvement shown in our drinking water quality measure follows:

- on-going work to upgrade our largest supply works, supported by enhanced maintenance and operational checks
- ongoing supply works audits to reduce water quality risk
- targeted cleaning and inspection of our reservoirs
- improved team safety and procedural training programmes.

From a wastewater treatment perspective, we've continued site checks as part of our Go-To-Green programme. These include risk assessments and an analysis of root cause, allowing us to target site improvements and upgrades.



Impact of schemes supported by our sustainable bond investment

Leakage

Our Leakage Recovery Plan continues to improve performance.

The plan focuses on:

- find-and-fix leakage teams
 - smart networks – acoustic sensors, GIS satellite location systems and thermal imaging all help to map and pinpoint network problems
 - advanced pressure management
 - sniffer dogs, used to locate leaks along large stretches of pipeline.
- machine learning applications, helping us to better identify where leaks – including larger leaks – are most likely to occur
 - new products such as the LeakBot smart alarm device, alerting customers to leaks on the mains water supply.



Investment and the governance process

The sustainable bond allocation process is supported by a rigorous review and approval process.

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

Following Southern Water's Sustainable Financing Framework issued in 2020, funds from sustainable bonds have been primarily allocated to our capex portfolio, and the projects and programmes within it.

Our sustainable bond impact process

Evaluation

- Cost and benefit analysis of business cases
- ICMA's green bond principles applied

Measuring outcomes

- Outcomes of each area measured in performance commitments set by regulators in our Outcome Delivery Incentives (ODIs)

Reporting impact

- Sustainable Bond Impact Report
- Annual Report
- Interim Report
- Website

Approval

- Board
- Investment Committee
- Steering Groups
- Water and Waste Strategy Groups

Before funding is allocated, we identify risks, select solutions and analyse costs and benefits in the following ways:

- reviewing of all projects meeting a certain value threshold
- approval of business cases by boards or gateways – looking at details of each investment's costs and benefits
- approval of projects by our Investment Committee
- final approval by the Board.

The programmes within the Business Plan 2025–30 and the annual capex budgets are approved by the Board. All capital expenditure is approved by the relevant steering group, along with the project value and our schedule of delegated authority. This determines the level of management approval.

The whole capital programme is overseen by our water and wastewater strategy groups. Projects are monitored at each gateway throughout the whole project life cycle. This ensures that customer and environmental outcomes are delivered.

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

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

The Eligible Sustainable Portfolio's assets are financed and refinanced by Southern Water. This is done by using the debt raised from our

Sustainable Finance Framework. A second party opinion has been issued following a review of this framework by DNV.

Project selection and allocation

All projects are reviewed and assessed for their eligibility before inclusion in the portfolio.

A committee of members of the Treasury, Strategy and ESG teams looks at:

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

Projects meeting the minimum social and environmental criteria according to the assessment, are allocated to the bonds.

The project's value is also considered, as it must have a capex addition value of above £1 million in the year. This value includes an allocation of corporate overheads but does not include capitalised interest.

A further ten projects were allocated to the sustainable bond issues during the year ended 31 March 2025. As part of the process to make sure there is no duplication of use of proceeds, allocated projects are shown in the capex portfolio reporting system and unique project identifiers, and a second party review ensures there is no duplication.

The amounts raised from each Bond and the allocated amounts as at the reporting period of 31 March 2025 are shown in the table on page 13. The three main areas of impact are also indicated in the table.

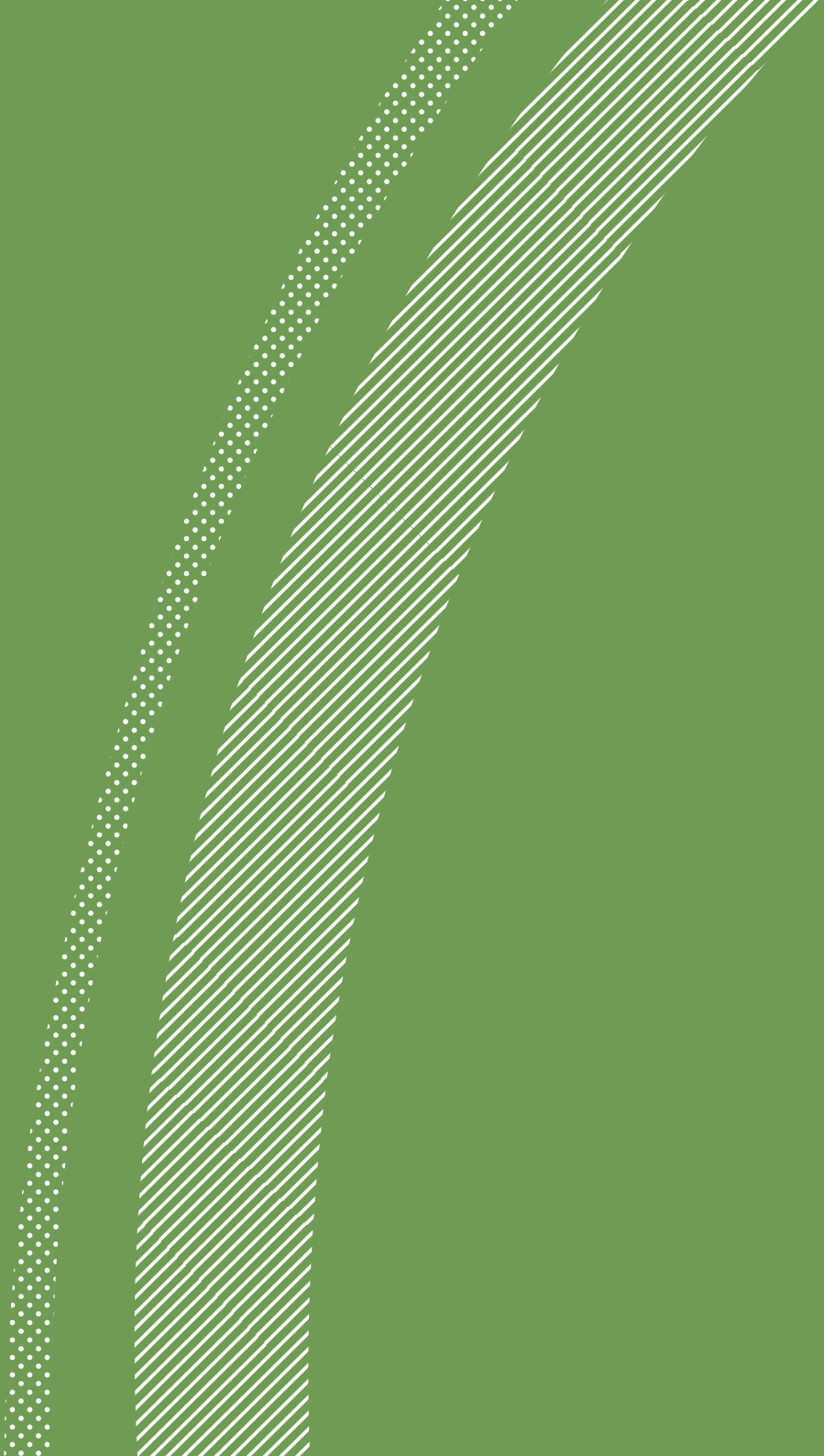
How the proceeds are managed

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

The table on page 13 shows that we have allocated all the £141.3 million of sustainable bond net proceeds received in respect of the two Taps on two existing bonds during the year ended 31 March 2025. Since the framework's inception, the bond proceeds from all seven sustainable bond issues from May 2020 to March 2025 totalling £2.33 billion have been allocated to schemes.

Sustainability Bond issues May 2020 – March 2025 – allocation of proceeds

Issued	May 2020	May 2020	March 2021	December 2023	February 2024	February 2024	March 2024	
Reference	A12	A13	A14	A15	A16	A17	A18	
ISIN	XS2180916525	XS2180916871	XS2325617939	XS2731297235	XS2771442980	XS2772125790	XS2793261301	
Nominal O/S	375m	450m	300m	450m	72m	20m	550m	
Loan type	Sustainable Bond	Sustainable Bond	Sustainable Bond	Sustainable Bond	Sustainable Bond	Sustainable Bond	Sustainable Bond	
Coupon	2.375%	3.000%	1.625%	7.375%	3.315%	4.123%	7.000%	
Maturity	May 2028	May 2037	March 2027	December 2041	February 2043	February 2043	April 2040	
	£m	£m	£m	£m	£m	£m	£m	Total £m
Net proceeds	370.6	444.3	295.2	541.8	64.6	20.0	590.9	2,327.5
Refinancing of capex projects from AMP6	350.0	–	–	–	–	–	–	350.0
New capex projects AMP7	20.6	444.3	295.2	95.8	–	–	590.9	1,446.8
Refinancing of capex projects AMP7	–	–	–	446.0	64.6	20.0	–	530.6
Total as at 31 March 2025	370.6	444.3	295.2	541.8	64.6	20.0	590.9	2,327.5
Total allocated as at 31 March 2024	370.6	444.3	295.2	446.0	64.6	20.0	545.4	2,186.2
Allocated in the year to 31 March 2025	–	–	–	95.8	–	–	45.5	141.3
Total allocated as at 31 March 2025	370.6	444.3	295.2	541.9	64.6	20.0	590.9	2,327.5
Allocated %	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Allocations by Area of Impact								
Allocated by Impact b/f at 31 March 2024								
Pollution reduction	258.7	246.4	137.4	199.0	28.8	8.9	222.8	1,102.1
Regulatory Compliance	74.6	167.8	143.8	215.5	31.2	9.7	280.5	923.1
Leakage	37.3	30.1	13.9	31.5	4.6	1.4	42.1	160.9
Total allocated b/f as at 31 March 2024	370.6	444.3	295.2	64.6	64.6	20.0	545.4	2,186.2
Allocated by Impact in the year to 31 March 2025								
Pollution reduction	–	–	–	8.9	–	–	4.2	13.1
Regulatory Compliance	–	–	–	67.6	–	–	32.1	99.7
Leakage	–	–	–	19.3	–	–	9.2	28.5
Total allocated in the year to 31 March 2025	–	–	–	95.8	–	–	45.5	141.3
Allocated by Impact as at 31 March 2025								
Pollution reduction	258.7	246.4	137.4	207.9	28.8	8.9	227.0	1,115.3
Regulatory Compliance	74.6	167.8	143.8	283.1	31.2	9.7	312.6	1,022.9
Leakage	37.3	30.1	13.9	50.8	4.6	1.4	51.3	189.3
Total allocated as at 31 March 2025	370.6	444.3	295.2	541.9	64.6	20.0	590.9	2,327.5
Allocations by Portfolio								
Allocated by Portfolio b/f at 31 March 2024								
Water	82.4	166.8	102.4	165.8	24.0	7.4	197.4	746.3
Waste	288.2	277.5	192.8	280.2	40.6	12.6	348.0	1,439.8
Total Allocated b/f as at 31 March 2025	370.6	444.3	295.2	446.0	64.6	20.0	545.4	2,186.2
Allocated by Portfolio in the year to 31 March 2025								
Water	–	–	–	86.9	–	–	41.3	128.2
Waste	–	–	–	8.9	–	–	4.2	13.1
Total Allocated in the year to 31 March 2025	–	–	–	95.8	–	–	45.5	141.3
Allocated by Portfolio as at 31 March 2025								
Water	82.4	166.8	102.4	252.7	24.0	7.4	238.7	874.6
Waste	288.2	277.5	192.8	289.1	40.6	12.6	352.2	1,453.0
Total allocated as at 31 March 2025	370.6	444.3	295.2	541.9	64.6	20.0	590.9	2,327.5



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