Annual Performance Report

Regulatory reporting 2024–25

from Southern Water

Contents

Regulatory information and annual performance report

Introduction

Our Annual Performance Report sets out the performance in 2024–25 of Southern Water's regulated business, as defined under our Licence[1], in financial terms and against our business outcome and performance commitments.

This Annual Performance Report comprises four sections:

1. Regulatory financial reporting
2. Price control and additional segmental reporting
3. Performance summary
4. Additional regulatory information – service level.

The additional information required under RAG 3.15, including a copy of all the data tables, has been published alongside this document as an appendix to the Annual Performance Report and can be found at southernwater.co.uk/about-us/our-annual-reporting.

This Annual Performance Report also includes:

- a Board statement of company direction and performance
- a compliance statement in relation to our compliance with relevant statutory, licence and regulatory obligations and how we are taking appropriate steps to manage and/or mitigate any risks we face
- a Board assurance statement on the accuracy and completeness of data and information
- a Board assurance statement on Condition P (ring fence certificate).

These are supported by the publication of a data assurance summary on our website – southernwater.co.uk/about-us/our-annual-reporting. This sets out the results of the data assurance undertaken on our reporting and other key activities for 2024–25.

Board Statement of Company Direction and Performance

In the sections below we, as the Board of Southern Water, describe how we set the direction of the company and ensure it is delivering performance that meets customers' and stakeholders' expectations. In particular, we describe how the company developed the longer-term vision and Business Plan for the period 2020–25 and how it has continued to engage with customers in the delivery phase of the plan. We describe our initial planning for the next regulatory period, 2025–30 and beyond.

We also describe how we, the Board, monitor performance and risk, how we have performed against our business plan objectives during 2024–25 and how performance affects the returns to shareholders and the pay of our executive team.

Our vision and Business Plan 2020–25

The purpose of Southern Water is to provide water for life to:

- enhance health and wellbeing,
- protect and improve the environment,
- sustain the economy.

To deliver that purpose, we have set out an ambitious vision to create a resilient water future for customers in the South East.

Our vision and purpose reflect careful consideration and analysis of the key influences on our sector and within our region including:

- future challenges facing our sector, our region and society
- the future direction of regulation and government policy
- the views of our stakeholders and customers.

Our stakeholders and customers played a key role in shaping our vision and our business plan for the period 2020–25. We carried out over 42,000 direct interviews with customers and other stakeholders to inform our strategy and develop our business plan. In the development of our business plan for 2020–25, our customers told us that as well as thinking about the challenges of the future, they have an expectation that we will continue to deliver on the basics – clean, high quality drinking water and effective wastewater systems. These twin goals of delivering the basics brilliantly and planning for the future are reflected in our plan which is built around five service-based outcomes and five transformational programmes, as shown on page 4.

In the last year we've worked directly with feedback from over 50,000 customers for over 10,000 hours. Combining this insight with over 10 million data points from other sources such as industry reports, contacts, complaints, social listening and demographic information. (For more details of how we engage with our customers see section on Customer Expectations on page 13).

[1] We operate in accordance with an Instrument of Appointment (our 'Licence') issued, by the Secretary of State, to us as a water and sewerage undertaker under the Water Industry Act 1991. The Water Services Regulation Authority (Ofwat) has a duty under the Water Industry Act 1991 to ensure compliance with the conditions of this Licence.

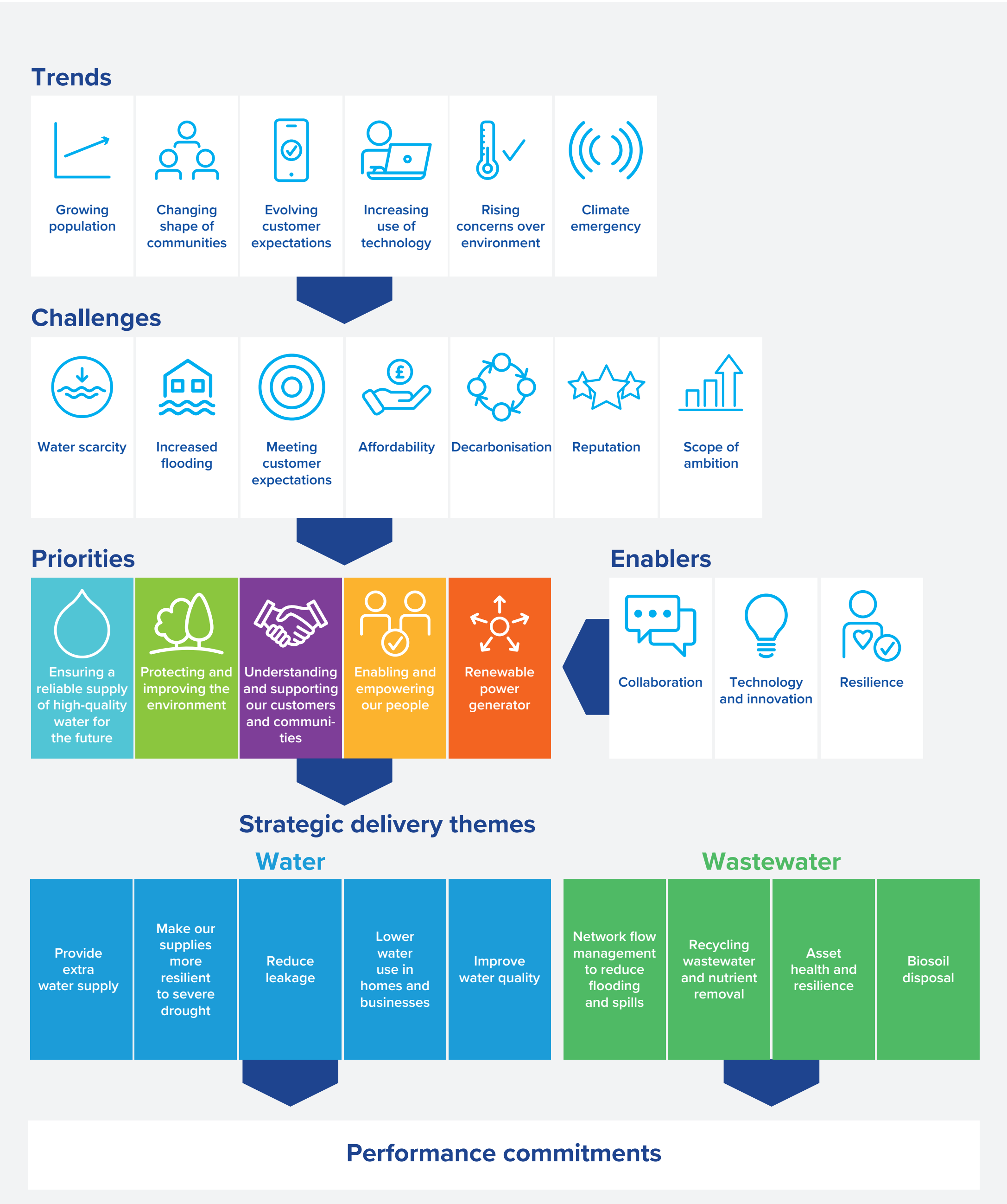
Planning for the future

In the next 25 years climate change and population growth is likely to radically alter the world we live in. Water and wastewater services need to be in the vanguard to adapt and to ensure that these essential services continue to deliver for our customers and environment.

The investments we will make will ensure we meet the short-term challenges and allow us to modify our approach, via alternative 'adaptive pathways' should we need to, in response to changing expectations or needs from the environment, stakeholders or our customers.

The next five-year regulatory period, which runs from 2025–30, begins this year. We submitted our five-year business plan for this period in October 2023 and Ofwat published their Final Determination (FD) of this plan in December 2024. We took the decision to seek a redetermination of Ofwat's FD by the Competition and Markets Authority (CMA) earlier this year. This CMA redetermination is currently underway, and we expect it to conclude by December 2025. We have sought a redetermination to ensure we have appropriate funding, targets and overall balance of risk to support the delivery of the plan for our customers and the environment. While we are only part way through the CMA redetermination process we are continuing to operate the

Figure 1. Our priorities for 2050



business and deliver in line with the FD until we receive the final decisions of the CMA. Our plan is a long-term, adaptive plan extending to 2050. In following our core pathway between 2025 and 2050, we are proposing to invest £15.5 billion on low or no-regret activities to enhance our services and protect and improve our environment.

We have also identified up to £11.5 billion of additional investment we might need, depending on which of our adaptive pathways we may need to adopt. Our plans are based on our customers' and communities' expectations.

Customers want us to be ambitious, show leadership and make the right investments for the future. They want us to invest in nature-based solutions first wherever possible, focus on delivering their priorities and support phasing investment to deliver the biggest benefits first while protecting the most vulnerable.

Alongside our Business Plan, we publish an annual Pollution Incident Reduction Plan, Bathing Water Report and bi-annual Clean Rivers and Seas Task Force update, together with an annual update of our environmental performance data online. We also publish our progress against our turnaround plan and service commitment plan twice a year.

Our Water Resources Management Plan has been developed in conjunction with the six other water suppliers operating in the South East of England, via the Water Resource South East group, ensuring our plan provides the best value for customers across the region and the best outcomes for the environment. The plan was first published for consultation in November 2022, with comments from customers, stakeholders and other interested parties being received by February 2023. The level of engagement with our draft plan is greater than ever with 3,000 customers and stakeholders engaged with in the preparation of the plan and 591 responses to the consultation received. This level of engagement ensures that our plan genuinely reflects the priorities of our customers and stakeholders. Our Statement of Response, setting out how we have responded to the feedback received and our updated revised draft plan was submitted to Defra on 31 August 2023. We republished for consultation in September 2024 and we received 1,176 responses from regulators, key stakeholders (environmental NGOs, Councils etc) and the general public.

We have just published our final draft Water Resources Management Plan (fdWRMP24), this sets out how we will balance supply and demand for water over the next 80 years and we are in the process of confirming our final WRMP. The fdWRMP24 has been updated following re-consultation on the decision to change the delivery dates of our Hampshire water recycling project and the consideration of importing water (sea tankering) as an alternative water source in drought conditions. Importing water via sea-tanker has now been removed from the plan and replaced with an extended reliance on Drought Permits and Drought Orders in Hampshire for a longer period of time.

We published our first ever Drainage & Wastewater Management Plan (DWMP) in March 2023 following extensive engagement with customers and stakeholders. The DWMP analyses the key wastewater challenges and solutions in each of our drainage catchments over the next 25 years. These detailed technical plans set out how we will deliver our long-term priorities and ambitions.

We held 33 stakeholder workshops (three in each of our 11 river basin catchments), five sets of regional webinars (including one on water company funding, run jointly with the Environment Agency), and 41 wastewater system-based meetings to discuss specific risks and agree potential solutions. In developing the plan, we worked with over 75 other organisations across the South East who also have responsibilities for water management, planning and the environment, ensuring the plan was fully integrated.

What is clear as we look across our long-term plans, including the requirements of the Drinking Water Inspectorate, is that a very significant increase in the level of investment in our infrastructure is required to meet the expectations of our customers, stakeholders and regulators. Our AMP7 plan for 2020–25 included investment of £3.9 billion in the operation, maintenance and improvement of our assets. In the next five-year period the total expenditure required is significantly larger, more than £8.5 billion, to meet all the requirements of our long-term plans.

That level of investment will require significant increases in customer bills up to 2030. We are working closely with our customers and regulators to ensure that investment is appropriately prioritised between the 2025–30 regulatory period and subsequent periods. We are also exploring innovative ways in which we can work with third parties to deliver some of the investment in a way that provides greater value and reduces the immediate impact on bills.

To ensure bills remain affordable, for the most vulnerable of our customers, we are planning to enhance the level of support that we provide and we are examining how more sophisticated pricing might help ensure bills remain affordable for all.

Our AMP8 plan for 2025–30 is currently subject to redetermination by the CMA. This is the same plan we worked with our customers to produce as part of our original submission to Ofwat in October 2023. More details on how we work with customers, to ensure we are meeting their needs, both in our plans and through the delivery of our services are provided in the section on Customer Expectations on page 13.

Delivering for our customers

We have now completed our business plan for the 2020–25 period. These five years have been extraordinarily challenging for us and our customers. Having emerged from the COVID-19 pandemic which dominated all our lives for the first two years, we have subsequently been faced with a cost-of-living crisis, caused by rapidly escalating cost of energy, food and other household goods.

We know how tough things have been for many of our customers during this period. In December 2022, as part of a £98 million package of measures, we increased the minimum level of discount we provide to customers on our Essentials tariff from an average of 20% to at least 45% (with up to a 90% reduction for those most in need).

Our business plan for 2025–30 has committed to keep the minimum discount to at least 45% and we are aiming to support 182,000 customers through our essentials tariff by 2030. We also introduced a hardship fund which we can use to help customers in several ways, for example, to pay up to 50% of a customer's bills for up to a year if they are in temporary financial difficulty. We have continued to support customers with payments through our Hardship Fund.

Our business plan for 2025–30 includes some ambitious targets to improve the service that we provide to customers. These include:

- over 70% reduction in our Compliance Risk Index score, alongside a 35% reduction customer contacts about water quality
- a 30% reduction to our annual leakage figure, with further reductions to per capita consumption and business demand to protect the environment and ensure our customers are kept in supply
- over 70% reduction to the number of pollution incidents, with 0 serious pollution incidents
- Improving our bathing water score by over 15% by increasing the number of bathing waters at good and excellent
- Increasing the biodiversity of our environment and the level water quality in our rivers.

Details of our performance against our targets for the final year of this business plan period, 2024–25, are provided in the Strategic Report section of our Annual Report and Financial Statements. In addition, details of our performance against our commitments are set out in section 3 on pages 63 to 75.

Our performance over the past year has seen a significant improvement in some areas but we have also seen deterioration in other areas. For example, there has been a 48% improvement in our internal sewer flooding performance and a 43% improvement in our unplanned outage performance. However, we have seen a 1% deterioration in treatment works compliance and external sewer flooding and a 15% increase in total pollution incidents. The increase in pollution incidents was driven by extreme weather but our performance was better than previous years with equivalent weather.

Overall, our performance has fallen short of the particularly challenging performance targets that Ofwat set within its FD for AMP7 (the basis on which our plan for 2020–25 was approved), and as a result we have incurred significant penalties under the Outcome Delivery Incentive (ODI) regime. Penalties for missing performance targets in this final year totalled £130 million[1,2], although this does include end of AMP performance penalties, where we received an £82 million penalty for not completing our long-term supply demand schemes. As part of the FD for AMP8, these penalties have been applied to future revenues and so are reflected in 2025–26 and 2026–27 bills.

We know that despite the improvements seen in a number of areas, our performance is not good enough and the rate of improvement is not fast enough. This is why, in April 2023 we published our Turnaround Plan for the last two years of this regulatory period 2023–25[3]. We have recently published a final report on our Turnaround plan[4] and our Service Commitment Plan[5]. These plans are based on detailed analysis of the root cause of our performance challenges and sets out four clear outcomes that we are promising to deliver, each with a set of associated performance measures. Our most recent publication explains how we have performed over the past years and the progress we have made against these plans and the impacts they have on our performance. The plans underline our commitment to doing better for our customers and the environment and means that stakeholders and customers can hold us to account for delivery against our promises.

The Board closely monitors the delivery of operational improvements and tracks the performance against our regulatory commitments through a performance dashboard which is focused on those performance measures that have the greatest customer, stakeholder and environmental impact. The Board is supported

[1] Including estimated penalties for C-MeX and D-MeX comparative measures
[2] All ODI penalties are expressed in 2017–18 prices, consistent with the basis of Ofwat's final determination
[3] Turnaround Plan 2023–25
[4] Turnaround Plan Update May 2024
[5] Our Service Commitment Plan May 2024

by the Executive Committee, which focuses on tracking performance through leading indicators, identifying corrective actions where necessary and driving our focused performance improvement plans.

Aligning performance and rewards

Ofwat has put in place mechanisms that provide financial and reputational incentives for us to deliver more of what our customers want for less.

We have 47 performance commitments, agreed as part of the price review process for AMP7 (2020–25), that we report on annually (see Section 3 of this report). Reporting our performance in this way to stakeholders provides a reputational incentive to meet our commitments.

In addition, 31 of our performance commitments include financial penalties and rewards associated with delivering for our customers. If we achieve our targets, delivering more of what customers want, we can earn rewards, which means shareholders receive higher returns. If we fail to meet our performance targets we can incur penalties, meaning shareholders receive a lower return. These incentive mechanisms provide a strong alignment between the interests of our shareholders and our customers. As noted, for the 2024–25 reporting year we have incurred total penalties of £130 million, including end of AMP penalties.

We are also strongly incentivised to deliver efficiently. At each price review Ofwat assesses the efficient costs for delivering our business plan. If we are able to deliver for less, we share the benefits of that outperformance with our customers. Between 2020 and 2025, for every pound that we save, around 64 pence is returned to customers via lower bills, while 36 pence is retained by the company. If we overspend, we must bear 64% of the cost, while customers share 36%.

During the year our employees were incentivised to deliver for customers through a company-wide bonus scheme, 'yourBonus'. The bonus scheme is based on company performance against seven metrics, five of which related to delivering excellent service to our customers and improving our environmental performance. The remaining two measures are based on the efficient delivery of our services and the delivery of our health and safety transformation plan. The bonus earned by each employee was dependent on the delivery of these company-wide objectives as well as their individual performance rating. The scheme aims to align the incentives for all employees with the interests of our customers.

We are committed to fully complying with Ofwat's code of practice for executive remuneration. Our executive remuneration policy closely links executive remuneration with overall company performance for customers, stakeholders and communities. For 2024–25, 45% of the measures used to determine variable annual pay were directly linked to customer outcomes, based on performance against four of our ODIs – pollution, leakage, internal sewer flooding and C-MeX. The remaining four measures focus on health, safety and wellbeing, specific water quality improvements, efficient operating expenditure and personal objectives.

Long term incentive plan objectives also focus on delivery for our customers and the environment, being based on ODI performance, environmental performance (two measures), financial performance and outcomes related to the price review, PR24.

Full details of our executive remuneration policy and details of its application in respect of 2024–25 are set out in our annual report southernwater.co.uk/our-performance/reports/annual-reporting.

As well as ensuring the right incentives are in place, it is important that we strike the right balance between providing a fair return to shareholders and investing for customers. Our dividend policy for the period to 2030 incorporates a wide range of measures, including financial and customer performance measures. It also explicitly considers the financial resilience of the company and whether any financial outperformance should be re-invested to benefit our customers.

Following the announcement by Fitch on 7 July 2023 to downgrade the Class A Unwrapped Debt of the company to BBB (negative outlook) which resulted in a credit ratings Trigger Event, the company is unable to make dividend payments until it comes out of Trigger.

We continue to be supported by our majority shareholder and we announced on 1 July 2025 that we have secured an offer of equity support from a consortium led by funds managed by Macquarie Asset Management to support its AMP8 investment programme, comprising a legally binding equity commitment of £655 million (the 'Initial AMP8 Equity Commitment') provided on the terms of an equity commitment letter and confirmation of intent to provide further equity commitments of up to a further £545 million – and with a minimum of £245 million – by December 2025. This new equity follows over £1.6 billion of equity funding into the Southern Water group since September 2021.

Following the equity injection, we intend to access the capital markets to raise the additional debt financing to enable the delivery of our plans. Part of this funding will be used to repay an existing loan with the remainder available to support the capital investment programme.

Ofwat board leadership, governance and transparency principles

In 2019 Ofwat published its Board leadership, transparency and governance principles ('Ofwat Principles'), which represented a major update of the principles published in 2014 and these incorporate many of the principles and provisions of the UK Corporate Governance Code, published by the Financial Reporting Council (FRC) in July 2018. In addition, since July 2019, meeting the objectives of the Ofwat Principles has been a requirement under Southern Water's licence. Accordingly, we seek to apply both the Ofwat Principles and the relevant principles and provisions of the UK Corporate Governance Code.

In addition, we continue the work we do to satisfy Condition P of our Licence. This requires us to demonstrate that the Board has made appropriate diligent enquiry into the activities of the business and can evidence that the company will have sufficient financial resources and facilities, management resources and methods of planning and control in place to meet our statutory duties. The Condition P requirements have also been a key part of our Section 19 Undertakings to Ofwat. Our Condition P disclosures and the material inputs into that statement are subject to significant scrutiny from our external auditors (Deloitte LLP).

During 2023–24, our licence was modified to include a new customer focused licence condition, Condition G: Principles for Customer Care in water companies' instruments of appointment.

Condition G – Principles for customer care

Our statement below explains how we are meeting the principles for customer care set out in licence condition G. Here we refer to the key policies and procedures that we have in place and examples of the learnings and improvement made in the reporting year.

G3.1 We are proactive in our communications so that customers receive the right information at the right time, including during incidents.

Proactive communications are prioritised to ensure our customers have timely and accurate information. We operate a multi-channel communication strategy, which includes SMS alerts, emails, social media updates, and our dedicated customer service website. For example, during incidents such as supply interruptions, we send out immediate notifications to affected customers with clear guidance on what's happened, when the issue will be fixed and what to expect when water returns.

Our incident management structure includes representatives from teams across the business, including communications professionals and customer leaders. The team works together to ensure the messaging is continuously updated as situations evolve. Additionally, we conduct regular customer surveys to gauge satisfaction with our communication methods and timing, enabling continuous improvement in how and when we share information.

G3.2 We make it easy for our customers to contact us and provide easy to access contact information.

We are committed to making it easy for customers to contact us by providing multiple accessible contact options. Customers can reach us via phone, email, live chat on our website, through social media channels and white mail. Our contact information is displayed on our website homepage, bills, and in customer newsletters. We have a user-friendly online portal where customers can log in to manage their accounts. Customers can easily and quickly report water and waste issues via our website and incident map. We know that some people may find it difficult to read websites for several reasons. We use the Recite Me tool to make our site as accessible as possible. Our Extra Help and Support freephone number connects customers directly to our Here to Help team, trained to offer specialist support, advice and signposting for those that need additional assistance.

G3.3 We provide appropriate support for our customers when things go wrong and help to put things right.

Support during an incident

We understand that a loss of water supply or flooding is challenging for our customers. When there is a risk of loss to a water supply, we have a process in place to quickly identify the scale of the issue and the level of support required. We operate a four-tier process according to the type of incident and the number of properties impacted to ensure our customer care responses are appropriate, proportionate, and marshalled by colleagues at a fitting level of seniority.

Communication when it's needed

When things go wrong our customers have told us their preferred channel of communication is text message. Our teams work quickly to make as much information as possible available across multiple platforms. Our customer team sends key information when it is needed, including details of the issue, its impact and a link to our website. We then continue to send out updates throughout a water supply outage or wastewater flooding incident to make sure customers are kept as informed as possible.

As part of our commitment to improving our incident process, we've introduced direct emails and tailored messages for our priority customers. We also collaborate with partners in the community to help reach customers who may not have access to our online channels or receive text messages.

During an incident:

- Our operational team keeps our interactive incident map updated to let customers know there is a problem and how they can find out more information.
- Our Communications team keeps the website, and social media channels (Facebook and X) updated with key information. While our Customer Contact Centre team is on hand to respond to any emails, webchat or social media contact.
- Our Stakeholder team reaches out to local councillors, Members of Parliament and local resilience teams to make sure communities are kept updated and our information reaches as many people as possible.

For larger incidents a dedicated page is set up on our website to provide as much information as possible. These pages offer detailed information, including photos and videos to help explain the nature of the issue and our progress, as well as details of our alternative water sites and their opening hours. Customers are also provided with clear information on how to contact us and join our Priority Services Register (PSR).

Alternative water supplies

Providing customers with an alternative supply of water during an incident is our priority. We set up strategic locations across any area impacted where customers can access bottled water for everyone in their household, including their pets.

We understand, however, that not everyone can easily access these water stations, which is why we also deliver water to those on our PSR. During an incident our customer team is focused on identifying those customers who may need additional support.

Where possible, depending on the nature of the issue we look to take precautionary measures for our priority customers and deliver alternative water prior to supply being lost.

We deliver bottled water to all our priority customers during an incident, but for larger incidents or when taking precautionary measures, certain needs may be prioritised over others and our deliveries may focus on those with critical requirements. During these incidents we prioritise our approach, based on a three-tier assessment of the significance of our Priority Services customers' needs.

As part of our vulnerability strategy, we routinely review the way we deliver bottled water during supply interruptions and how we keep priority customers informed. Our learning here is important as we want to make sure we can deliver alternative water quickly and reliably and that customers know our delivery timeframes and what to expect.

Current improvement work is underway to introduce a tracker with our delivery partners, to allow us to clearly see when a customer has received a delivery. We're also reviewing how we close our incidents, and the support offered to customers once their water supply is switched back on. We are collaborating closely with our stakeholders, partners and CCW to make sure our review achieves the best outcome for our customers.

Compensation

We offer compensation where appropriate, such as Guaranteed Standards Scheme (GSS) payments for service failures like supply interruptions or sewer flooding. We also provide tailored support for customers who experience repeated issues, including site visits from technical specialists and personal case management to ensure problems are fully resolved. Feedback from customers following incidents is actively sought to improve our response processes. We have also ensured that our GSS payments are aligned to the latest guidance published by Ofwat in June 2025.

G3.4 We learn from our past experiences and share these with relevant stakeholders. We also learn from relevant stakeholders' experiences and demonstrate continual improvement to prevent foreseeable harm to our customers.

We have established a robust mechanism for learning from past experiences and sharing lessons internally and externally. After every major incident or customer service failure, we conduct a comprehensive review and produce lesson-learned reports to share with relevant internal teams and regulators. We also conduct post incident surveys with customers to gain insight into the overall handling of the incident, bottled water stations & deliveries, and communication. The diagram overleaf shows customer satisfaction with incident management over the last three years. The results of the surveys help us shape action plans, and have helped us to improve our service offerings with a steady increase in satisfaction across the key drivers.

We participate in industry forums and collaborate with other water companies and consumer advocacy groups to exchange knowledge and best practices. Insights gained from customer complaints and stakeholder feedback directly inform our continuous improvement initiatives, such as updating alternative water response,

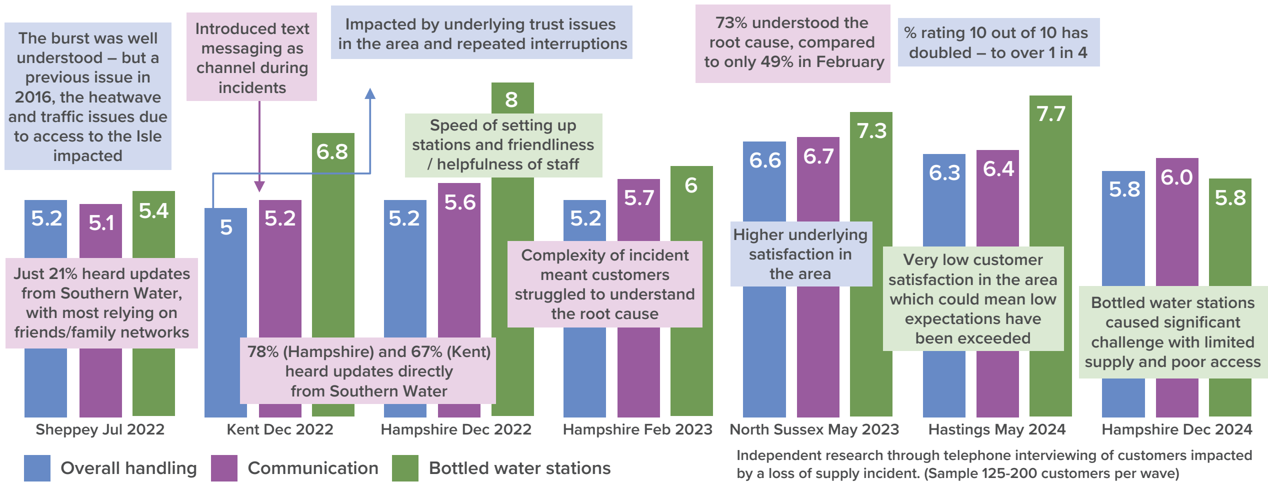
Incident Management

In the last 3 years, customer feedback on incident response has steadily been increasing. This is due to improvements across the key drivers, such as the introduction of more direct messaging (especially text messages) helping customers get direct, timely and frequent updates – helping understand the issue.

Main Drivers Impacting Customer Satisfaction:

1 Understanding of root cause
2 Source of awareness to the issue
3 Speed of response
4 Underlying satisfaction/ trust in the area
5 Direct communication and updates
6 Visibility of the face of Southern Water
7 Responsibility (i.e. has this happened before)
8 Accessibility/locations of bottled water stations
8 PSR Deliveries

Customer Satisfaction with Incident Management (scores out of 10)



Independent research through telephone interviewing of customers impacted by a loss of supply incident. (Sample 125-200 customers per wave)

communication and investment in new infrastructure to reduce the risk of future incidents.

We maintain a culture of openness and accountability to ensure these learnings translate into safer and more reliable services for our customers.

G3.5 We understand the needs of our customers and provide appropriate support, including appropriate support for customers in vulnerable circumstances, and including during and following incidents.

As part of our insight 365 programme, we regularly reach out to customers across our region, including those who live in vulnerable circumstances.

During the planning process for our latest Price Review, we ran a deliberative panel (Water Futures Vulnerable) with customers on our Priority Services Register, alongside businesses, household customers and future customers. This allowed us to make connections between audiences when reviewing customer priorities and acceptability testing.

Examples of our engagement with customers include:

- Regular waves of research looking at our incident management, which included gathering insight and case studies from vulnerable customers to better understand the support they need in an emergency.
- Independent tracking of key measures, such as customer satisfaction and awareness of services, with vulnerable customers via an annual survey (400 customers on our Priority Services Register).
- Engagement with customers on the impact of the cost-of-living crisis, to better understand what additional support and communication we need to provide.

We recognise the diverse needs of our customer base and are committed to delivering personalised support, especially for customers in vulnerable circumstances. Our Priority Services Register records tailored assistance needs such as alternative communication formats, priority reconnection of supplies, and dedicated caseworkers for customers with health conditions, disabilities, or other vulnerabilities. During incidents, our staff proactively identify and reach out to vulnerable customers to provide extra help, including arranging bottled water deliveries or temporary accommodation if necessary. Our training programmes ensure frontline teams are sensitive to vulnerability and equipped to respond compassionately and effectively.

We constantly review our customer demographics and engage with customers experiencing diverse levels of vulnerability to better understand their individual needs. Differences between groups include income level, need for distinct levels of services (bottled water), different ethnicities (relationship with water), language barriers and children in the household. We seek to make sure our services are tailored to the individual customer.

Our customers' needs

We take an 'always on' approach to insight and engagement, particularly with our customers in vulnerable circumstances.

Our pillars of customer service are key for how we engage customers:

Accessible
Choice of contact channels

Responsive
Timely, proactive and appropriate

People First
Listening to our customers as people, not numbers on a database

Resolution
Solving issues – doing what we say we will do

Accountable
Empowering staff to take ownership through knowledge and training

Genuine
Transparency and integrity always

Want to help
Caring, flexible and non-scripted

G3.6 As part of meeting principle G3.5 above, we provide support for our customers who are struggling to pay, and for customers in debt.

Our range of financial support is designed to provide options to suit the changing needs of our customers. This tailored support includes a discount of at least 45% on future bills, as well as providing grants for essential white goods.

For example, during the COVID-19 crisis, we reached out to all household customers, adjusting tariff criteria to reduce financial burdens. This was part of a support package to help those hit hardest by the rising cost of living, showing our commitment to water affordability through discounts and support mechanisms. This initiative included increasing discounts on bills for 104,000 households from 20% to 45%, providing at least £200 in annual savings on dual service bills for an additional 21,000 households, and offering discounts of up to 90% for those in greatest need.

Promotion of our schemes and tariffs

To increase awareness of the support that we offer, we regularly campaign on our social media platforms Facebook, X and Instagram, to show customers how we can help.

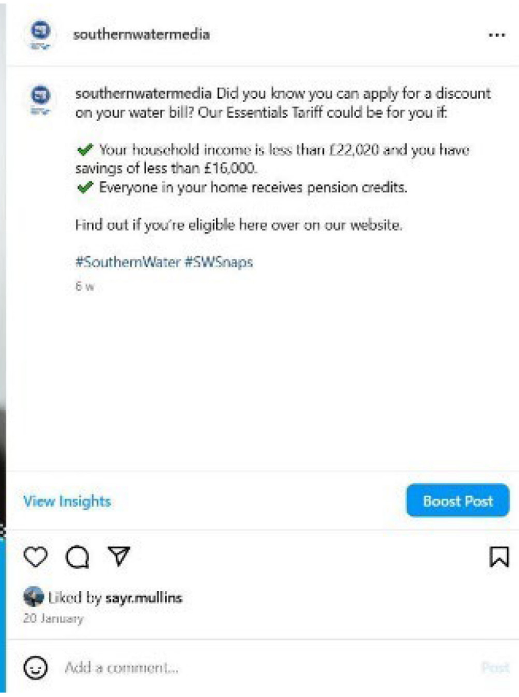
Our engagement work in our communities is also focused on highlighting the financial support available to customers and our Vulnerability Liaison Officers and teams at our Your Water Matters events register customers to help them receive support.

Essentials – this tariff is designed to help customers who are struggling to pay their water services charges and meet qualifying income/benefits criteria. It provides a discount of at least 45%, increasing to 90% in some circumstances, on future bills as well as a low-income pensioner discount.

Water Direct – Jobcentre Plus customers with eligible benefits and a qualifying minimum arrears value can choose to pay us directly from their benefits, allowing them to better manage their budgeting.

NewStart Debt support – this scheme helps customers pay off their water bill debt if they have an outstanding balance and have not made a payment in a while.

Information about our payment schemes and tariffs is prominently promoted on our company website, with details of how to apply. We carefully explain our bills and recognise that the costs of living continue to have an impact on our customers. We reach out to support as many people as possible to demonstrate our commitment to our licence principles of customer care.



Annual risk and compliance statement

The annual risk and compliance statement describes the steps we have taken to understand and meet our customers' expectations and to ensure we meet our statutory and regulatory obligations, as well as the expectations of our key regulators, Ofwat, the Environment Agency and the Drinking Water Inspectorate. It also sets out how we manage and mitigate any compliance risks identified.

Customer expectations

Listening to our customers is part of what we do every day. This includes activities such as customer research, analysis of data (e.g. contact data, complaints of social media monitoring), sharing insight with other companies and tracking of customers priorities and their expectations. Our insight work allows us to have a deep understand of what our customers want and help to drive improvements in what we deliver.

In 2024–25 we engaged with over 50,000 customers for direct feedback and views on our service and future plans, representing over 10,000 hours of engagement. We have analysed millions of data points including social listening, complaints, demographic data and externally produced reports.

Our Water Futures 2030 (household customers) consumer group continue to be central to our engagement with customers in the last year. Our Customer and Communities Challenge Group, made up of experts, helped review, challenge and improve our plans. The groups follow best practice guidance, as set out by the Consumer Council for Water (CCW), to provide a continuous dialogue on both our current delivery and future planning. Increased public scrutiny of the sector and increasing investment plans for the future has placed greater emphasis on our need for continued engagement. We track major events, media impact, importance of priorities, run social listening and analyse consumer trends.

As we enter 2025–26, data continues to show concern for the rising cost of living. Customers have felt that the costs have increased above income levels, and they are making choices about how best to spend their money – and some are really struggling to make ends meet. With the increase to water bills, our customers want to be able to understand that investment in the infrastructure puts them first by protecting their local environment and ensuring reliable services for future generations. Those that are struggling most need access to the right level of support to help. Customers want to see what is happening in their own local community and our detailed insight helps personalise our engagement to provide the most relevant information that want to see.

Our focus for the next year is on how insight can help drive the transparency needed with our customers. We're evolving our Challenge Group to have a more transparent group of experts, where their recommendations and actions taken by Southern Water can be seen by our customers. Our tracking is focusing on several of our major capital programmes across the region, so our insight can support customers to better understand the increase to investment and the impact on our communities.

Being open, honest and transparent is key to building and maintaining trust and legitimacy. As well as reporting openly, this means setting out commitments to our stakeholders and delivering on them. True transparency, for example through our Rivers and Seas Watch spills service, will raise customers' visibility of what we are doing to address the issues we face. As a result, we are working hard to help our customers understand the issues, and to give more visibility of key improvement programmes to support our performance.

For our 2025–30 business plan we have done a significant amount of customer research.

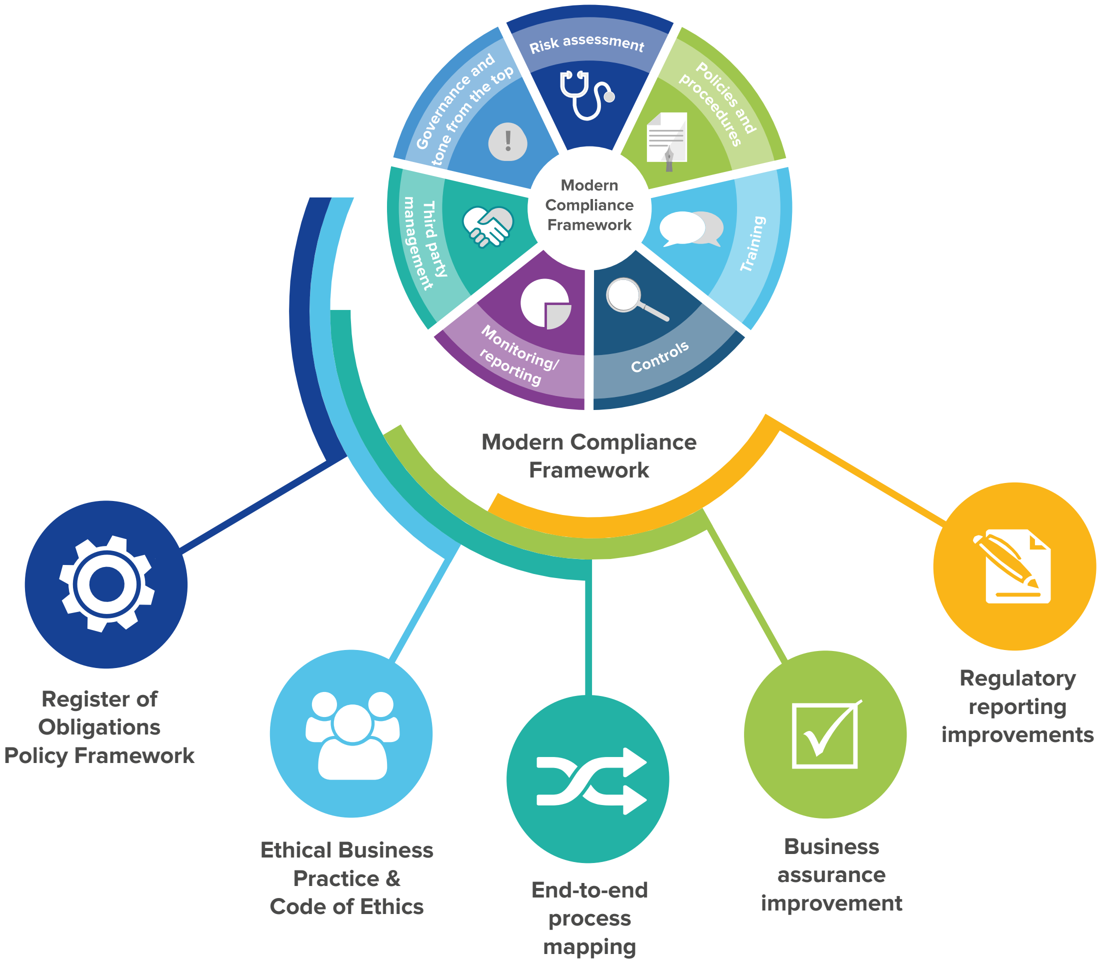
More than 25,000 customers spent over 8,000 hours from over 190 different reports and millions of data points to tell us what they think to develop our plan. We profiled and engaged our region to speak with representative audiences from our communities.

Our panels of current and future customers, businesses and vulnerable communities gave us informed views at every stage of plan development. Bespoke research engaged on the range of issues in developing our plan, we partnered and shared with other water companies and followed regulatory guidance on testing our plan. Wider sources of insight gathered through analytics of customer data, community events and stakeholder groups brought together a more holistic understanding.

Statutory and regulatory obligations

Our purpose is to deliver water for life to enhance health and wellbeing, protect and improve the environment and sustain the economy. In order to achieve this, we must deliver on our customers' expectations. As a regulated service provider, our primary obligations and duties are set out in the Water Industry Act 1991, the Drinking Water Regulations and our Instrument of Appointment (the Licence). These set the standards under which we must provide our services.

Figure 1. Modern Compliance Framework



We are committed to driving structural and cultural change to support the development of a transparent and ethical compliance framework. We operate our Modern Compliance Framework (MCF) which was introduced eight years ago and has become our 'Business as Usual' approach to managing compliance. The framework brings together key elements of our approach to risk and compliance (see Figure 1) including in relation to our regulatory obligations, our policy framework, ethical business practice and work to manage the quality and transparency of our regulatory reporting. The work is supported by strong governance in key areas of our operation (most notably in our monitoring and reporting programmes) backed up with strong training programmes to ensure good practice is embedded in all areas of the company.

Our dedicated audit and assurance, water quality and environment teams have a clear role and responsibility to provide a separation of duties in monitoring key performance metrics of drinking water quality and wastewater performance. These teams also provide 'second-line' internal assurance of our front-line teams, and also manage key 'third-line' external assurance of key aspects of our front-line performance.

In the past the company has not met its own high expectations, and our performance has not been as good as our peers in the industry or as good as our customers might expect. We continue to work with our regulators, Ofwat, the Drinking Water Inspectorate (DWI) and the Environment Agency (EA) to continually implement improvements to our performance. This is supported by mature controls around our performance reporting that ensure our customers and regulators can have confidence in the performance information we report.

As explained below, Ofwat and the EA continue to scrutinise our response to their joint sector-wide investigation into the management and operation of wastewater treatment works.

Ofwat

As reported previously, Ofwat undertook an investigation into our wastewater reporting that led to a decision to impose a financial penalty of £3 million. In addition, we agreed to make significant customer bill rebates, totalling £122.9 million (in 2017–18 prices), between 2020 and 2025. On 8 October 2019 we signed formal Undertakings pursuant to Section 19 of the Water Industry Act 1991 relating to the numerous changes we have put in place, and are putting in place, to ensure that the issues identified in the investigation have been stopped and cannot be repeated.

The Undertakings contain a wide range of corrective actions and interventions across seven themes:

A. Customer redress measures;

B. Technical review of Wastewater Treatment Works;

C. Organisational compliance process measures;

D. Organisational cultural change measures;

E. Ensuring Transparency;

F. Condition P Certificate Assurance Undertaking; and

G. Reporting on Compliance with the Undertakings.

The programme of work to deliver on all the actions associated with the Undertakings was completed, as planned, ahead of 9 October 2024, as stipulated in the Undertakings. The final customer rebates were also included within our bills in 2024–25, completing the committed work outlined in the Undertakings. Our focus has now moved to ensuring that the enduring capability developed in the Undertakings remains embedded in the business and continually improves over time.

Compliance with the Section 19 Undertakings has been subject to a formal assurance regime which was reported to our Board and then to Ofwat on a regular basis. In our October 2024 update to Ofwat we were able to report that the actions arising to ensure compliance were completed by the end of the five-year period of the undertakings on 9 October 2024.

The Environment Agency (EA)

The Environment Agency (EA) has yet to publish its ‘Water and Sewerage Companies in England: environmental performance report 2024’, which will confirm our Environmental Performance Assessment (EPA) rating for 2024. Typically, this is published around July, but indications from the EA are that it will be published in autumn 2025. Until it is published, we are unable to confirm our performance on EPA ratings and have instead presented a forecast of our position based on current draft EA data.

In 2023 Southern Water achieved a 2-star EPA performance rating and the current forecast position for 2024 is that an EPA rating of 2-star will be maintained. As a company committed to protecting the environment and serving our customers, we will continue to work hard to drive improvements, with the expectation that this will contribute to an improved star rating in future years.

For 2024, total pollution and serious pollution incidents are red EPA status, which is the same as last year. Pollution self-reporting and discharge numeric permit compliance are amber with an improvement and a worsening in performance, respectively compared to last year. The Satisfactory Sludge Use & Disposal and SDBI metrics are expected to be green, which maintains last year’s performance.

In 2024 the number of both total pollution incidents (category 1-3) and serious pollution incidents (category 1 and 2) increased compared to the previous year. To reduce the number and severity of pollution incidents we continue to develop and implement our Pollution Incident Reduction Plan (PIRP), a detailed plan which is updated annually and has been running since 2020.

As part of a longer-term approach taking us into the Business Plan 2025–30, our 2025 Pollution Incident Reduction Plan (PIRP) is aiming for benefits of 75-90 pollution incidents avoided. The plan focuses on reducing serious pollution incidents and studies the root causes of all incidents from 2024, as well as taking account of the most effective actions from the year.

Despite the extensive work being carried out to reduce pollution incidents under the plan, the numbers of serious and total pollution incidents increased last year. The increase in these numbers was due to the intense rainfall that was higher than average, combined with high ground water levels over an extended period. This had an impact on the wastewater network, which was triggered as the network was being inundated or infiltrated by excessive rainfall.

The 2025 PIRP analysed root causes for 269 pollution incidents for categories 1-3 in 2024, including near misses. Poor pollution performance in the first quarter of the year resulted in a total of 8,000 additional sewer level monitors being installed, in addition to a significant Rising Mains Rehabilitation programme which saw over three times the planned programme of lining works undertaken – including the largest diameter and longest pipe sections in our industry and the UK.

Issues with preventing and detecting frequent blockages and bursts in our network are addressed in the 2025 PIRP, at the same time as developing and integrating improved systems, processes and training frameworks. The work ensures appropriate incident response and means environmental impact can be minimised, while combating the most common themes associated with serious pollution incidents.

We also continue increasing Operational Control’s analytical capability, establishing a RAID (Rapid Analytical Intervention Desk) in

2024, to maximise the growing condition-based monitoring intelligence being generated.

In 2023 we had an amber EPA Status for the self-reported pollution incidents metric, and while we remain at amber EPA status for 2024, the self-reporting of incidents improved, bringing us notably closer to achieving green EPA status. To continue to improve our self-reporting performance we are building on the successful implementation of new and improved processes, as part of the improvement plan we put in place. Pollution spotter signage is being deployed across the Southern Water region, to give customers more information about storm overflows via QR codes, and the pollution reporting message will continue to go out on social media ads bi-monthly for 2025.

In relation to the discharge numeric permit compliance metric, in 2023 there were two failed works recorded in the EPA, which equated to 99.4% compliance and green EPA status, which represented Southern Water's best performance in several years. In 2024, there were six failed works, which equates to 98.2% compliance and amber EPA Status.

In terms of Satisfactory Sludge Use and Disposal we are forecasting to achieve green EPA status as we did in 2023.

The assessment of the Supply Demand Balance Index (SDBI) water supply resilience measure is forecast as green EPA status for 2024–25, continuing the good performance against this measure in 2023–24.

The end of financial year (2024–25) WINEP delivery position is at amber EPA status for 2024–25, which would be a reduction in performance compared to 2023–24 where green EPA status was achieved.

We are aligned with and supportive of the ambitions set out by the Government and regulators to reduce storm overflows and improve water quality across our region. We have prioritised reducing the use of storm overflows in line with these government and regulatory targets to reduce impact on shellfish waters, environmentally sensitive sites and bathing waters.

Our dedicated Clean Rivers and Seas Task Force has now completed the Pathfinder programme, which served its purpose to determine the most effective ways to sustainably reduce storm overflows, using nature-based and innovative solutions. This work was used to build our storm overflow reduction programme between 2025–50.

We will now scale our storm overflow reduction programme considerably, rolling out the most effective solutions proven from our pilots, including:

- **Optimisation:** working on both public and private infrastructure to reduce infiltration and ensure it is working as effectively as possible, as well as working with the Environment Agency to reconfigure our permits and existing sites to help us manage more stormwater.
- **Illegal connections:** redirecting surface water that has been misconnected into the foul/combined sewer, which causes the system to become overwhelmed leading to storm overflows.
- **Household SuDS:** rolling out 'slow the flow' measures at scale on properties across our catchments to manage roof run-off (e.g. slow-drain water butts, raingardens, planters).
- **Non-household SuDS:** targeting large roof areas and car parks with sustainable 'slow the flow' measures to significantly reduce surface water run-off (e.g. raingardens, planters).
- **Highway schemes:** large amounts of surface water come from public highways, so we are working with local authorities to install SuDS where possible, to reduce their impact.

Early results have been positive and we exceeded our 2024 storm overflow reduction target sustainably preventing or treating 623 storm overflow releases.

An example of this early success can be seen in the dual-approach optimisation and upgrade of our Terminus Road site in Cowes on the Isle of Wight, which has reduced storm overflows on site by 95%. Another site not too far away in Ryde also underwent a complex engineering optimisation, resulting in a 63% drop in releases.

We disconnected a surface water connection to the combined sewer in Tankerton Circus, Kent, which reduced storm overflow releases by 39%. We've since installed a smart sewer gate which will use rainfall data to optimise storage in the sewer system ahead of a rainfall event. This will further reduce releases from the storm overflow.

Other highlights include:

- sealing nearly 10,000m of pipework
- installing 3 AI smart sewer gates
- adding 500+ rain planters to schools and community buildings
- installing 5,000+ slow-drain water butts on homes and businesses
- managing over 117 million litres of surface water by installing free SuDS in Schools
- providing five community groups with funding for sustainability projects
- managing 300,000m² of impermeable area.

Out of a total of almost 1,000 storm overflows in our region, 50% of these are already hitting the Government's 2050 target, for example releasing 10 times or less a year. We set out how we'll tackle the remaining storm overflows in our region that need attention, in our Clean Rivers and Seas Plan, with £1.5 billion of investment between 2025 and 2035.

We are focusing on delivering long-term solutions that get to the root cause of these storm overflows, deploying a range of solutions into our communities to prevent or slow the flow of rainwater and/or groundwater entering the network. This will include natural solutions alongside improvements to assets. Collaboration is key, and we must work with local authorities, communities and partners across our region to establish the right solution, in the right place and at the right time.

By 2035, 75% of our high priority overflows will meet the Government's 2050 target, therefore reducing storm overflow releases by an average of 8,000 a year. This represents an 81% reduction in releases in bathing water areas and an 80% reduction in releases in shellfish areas by 2035.

In the meantime, we have overhauled our storm overflow monitoring service so customers can stay informed of any coastal and inland storm overflow releases across our region and their impact to bathing waters.

Rivers and Seas Watch was informed by an independent review of our previous service, Beachbuoy, and was built alongside customers, councils, campaign groups and bathing water users to ensure user needs were met, and to create the most useful and comprehensive service possible. Rivers and Seas Watch features a host of usability improvements as well as enhanced tidal modelling and area impact mapping to give accurate, near real-time information about storm overflow releases to our community so users can make informed decisions about what watercourses to use.

Rivers and Seas Watch displays all our storm overflows, whereas the previous version Beachbuoy, only showed the coastal overflows. In addition to addressing storm overflows, we're working with partners, local authorities and customers to investigate and address the other sources of poor water quality including road and farm run-off, sea bird and animal waste, illegal connections and improper disposal of waste. By working together to address all aspects of water quality, we can make a much bigger difference in a shorter space of time. Read more in our Bathing Water Report.

During 2024–25 the EA launched several consultations, including consultations on changes to Recording and Reporting Water Company Pollution Incidents (16_02 guidance) and proposals to change Reporting and the Environmental Performance Assessment (EPA). All the proposed changes are yet to be finalised, and the full impact of these consultations is therefore uncertain, but it will involve new metrics, an updated Star Rating System and changes to existing reporting methodology. One of the consequences is a likely significant increase in reported pollution incidents, which will suggest a deterioration in performance both for Southern Water and across the industry, when in fact it is driven by a change in reporting methodology.

Like other wastewater operators, in the normal course of operations we occasionally face investigations by the Environment Agency (EA) following incidents. We continue to deliver change programmes to address historic failures, and these have been supported by our work on the Ofwat S19 undertakings mentioned above.

On 18 November 2021 the EA and Ofwat announced that they had launched investigations into the operation of wastewater treatment works across the industry. We will continue to be open and transparent and are committed to working with the EA and Ofwat constructively throughout the course of their investigations.

We are committed to assisting the EA with its investigation into sampling compliance and reporting issues between 2013 and 2017 (inclusive) but as the investigation is ongoing, we are not able to say any more about it at this time.

At a court hearing on 22 April 2025, we pleaded guilty to 13 charges in relation to a number of events in the Broadstairs and Margate area between January 2019 and December 2021.

In September 2023 Fish Legal was granted permission to issue a private prosecution, and in February 2024 we pleaded 'not guilty' to all four charges, but the court has since been notified that Fish Legal will 'offer no evidence' and the case has been dismissed.

The Drinking Water Inspectorate (DWI)

We continue to progress the transformation of our drinking water quality performance. Our Compliance Risk Index (CRI) for 2024 was slightly worse than 2023 but was better than the industry average score. Our Event Risk Index (ERI) metric was also slightly worse than last year but was significantly better than the average for the industry. Three quarters of our score was due to four events, two were a result of planned work, one due to asset failure and one due to raw water deterioration. We received a Warning Letter from the DWI in relation to an event at Brede WSW in Hastings. The other three are covered by legally binding improvement programmes agreed with the DWI.

We continue to work closely with the DWI on our transformation programme, holding regular liaison meetings to review progress on improvement schemes as well as ad hoc communications.

Our treated water reservoir programme has now reached a ten-year inspection frequency. A number of specific sites have been identified as needing to have capital works completed for the reservoir to be drained and inspected without interrupting supply and site-specific Notices or Enforcement Orders have been issued.

Reporting our performance

We provide a significant amount of data to the Environment Agency and Ofwat about the performance of our assets, and any wastewater or sewage discharges we make into the 'water environment' such as rivers, streams and coastal waters. We are committed to transparent reporting of high-quality data that can be trusted by our customers, stakeholders and regulators.

Following historic failings in the quality of our reporting to our regulators, we have implemented a robust programme of reporting and assurance to ensure our regulators and other stakeholders can trust the data that we report. This programme has been led by our Risk Audit and Assurance, Water Quality and Environment teams to ensure compliance reporting to our regulators is subject to sustained internal review and assurance. The programme has been in place throughout AMP7 and continues to ensure our reporting is of the standard expected by our regulators, stakeholders and customers.

Our Risk Audit and Assurance team ensures that our compliance reporting to our regulators is subject to sustained internal review and assurance; and where relevant, independent external assurance.

In our 2025–26 Final Assurance Plan published in March 2025, we detailed our approach to assurance in relation to our performance information and acknowledged the importance of accurate information in building trust and confidence.

At Southern Water we have adopted the 'three lines of defence' framework for our reporting governance, assurance and audit activity. This helps to assure and audit performance information by applying multiple levels of control. We apply internal controls and have embedded processes to mitigate the risk of supplying incorrect or inaccurate information on all our non-financial regulatory reporting. Ultimately, all assurance and audit activity has oversight from the Board and Audit Committee.

The assurance and audit plans are approved by the Audit Committee, which is responsible for overseeing and challenging the effectiveness of our approach. Further information on this programme can be found in our Data Assurance Summary 2024–25, which is available at: southernwater.co.uk/our-reports.

We regularly review performance information against a wide range of measures. Reporting to the Board and the Executive Committee (ExCom) focuses on delivery of our regulatory and statutory obligations. For the business plan period 2020–25, this information is provided to the Board by way of a detailed performance dashboard, including a selection of our business plan performance commitments and additional regulatory targets.

The Audit Committee has monitored the completion of a risk-based programme of assurance activities during the year, covering the practices, procedures and systems used to secure compliance with our statutory obligations. This included a review of our compliance with our Instrument of Appointment which was presented to the Audit Committee in March 2025.

In response to guidance from Ofwat in November 2020 we published, as part of our Annual Performance Report, a board assurance statement, stating that the data and information provided is accurate and complete and setting out any exceptions to this. This continues to be embedded in our approach and our latest statement is included on page 25.

Each year we engage with our customers, employees and stakeholders to help us identify any risks, strengths and weaknesses associated with our reporting. We published the findings of this exercise in November 2024, with an invitation to stakeholders to comment on the findings. The publication sets out how we would respond to stakeholders' feedback and detailed how our corporate assurance practices meet our reporting compliance obligations. Our Final Assurance Plan was published on 31 March 2025. It set out how we planned to assure the financial and non-financial information that we publish in our Annual Performance Report.

In line with the Final Assurance Plan, Jacobs U.K. Limited, as our independent non-financial data assurer, completed the limited assurance under ISAE (UK) 3000 of selected Performance Commitments and Outcome Delivery Incentives (ODIs). Jacobs U.K. Limited provided Southern Water with an unqualified ISAE (UK) 3000 report for 2024-25 over the selected Performance Commitments reported in Section 3 of the Annual Performance. Jacobs U.K. Limited have worked with us as technical assurance partner for the duration of AMP7 and supported our Annual Performance Reporting in 2022-23 and 2023-24, but this is the first year that Jacobs U.K. Limited has issued an unqualified ISAE (UK) 3000 report over certain Performance Commitments and ODIs.

Senior managers and ELT members are accountable for the provision and sign-off of non-financial information from their business areas. This includes ensuring adequate procedures and processes are in place for data collection and reporting. Data providers are accountable for submitting accurate data to set timescales. Subject matter experts within the relevant business areas are accountable for ensuring that this data, and the processes and procedures used in collating it, comply with Ofwat's reporting requirements. This process is managed through our Ofwat Compliance Framework (OCF) which is a system of controls that has been rolled out for data capture, collation and reporting within the business to make sure information used to measure compliance is complete, accurate and reliable. The OCF is in its fifth year of existence and is in place for business plan period (2020–25).

All members of the Executive team are required, every six months, to provide a declaration that they and their teams are fully compliant with our procedures and controls for areas of the business for which they are accountable. An action plan is required to address any areas of non-compliance.

The Statement of Compliance is now in its 15th edition and is a key input into our on-going reporting and control improvement plans.

As required by Ofwat, an audit was also performed on sections 1 and 2 of the Annual Performance Report, (excluding elements of table 1F as set out in the audit opinion on page 59) by our auditor, Deloitte LLP together with agreed upon procedures in relation to sections 4 to 9.

In approving the Annual Report and Financial Statements, each director has confirmed that he or she has taken all the steps that he or she ought to have taken as a director in order to be aware of any relevant audit information and to establish that our auditor is aware of the information. So far as the directors are aware, there is no relevant audit information of which the company's auditor is unaware.

Managing risks

The Board confirms that the company has appropriate systems and processes in place to identify, manage and mitigate its material risks.

Risk management is a core component of our wider governance and internal control framework, which provides the overarching structure through which the company conducts its business.

Risk is inherent in our business and we face a diverse range of risks and uncertainties that cannot be completely eliminated. The purpose of our approach to risk management is to support better decisions through an improved understanding of risk. Those risks that have the potential to have a material impact on our company and our ability to deliver on our strategic objectives are our Principal Risks. Our risk governance model ensures that we can manage, monitor and report on our Principal Risks to maintain a resilient business.

Southern Water's approach to risk management is designed to provide a clear and consistent framework for managing and reporting risks associated with our operations, to executive management and to the Southern Water Board.

The framework seeks to promote better decision making, avoid incidents and encourage the best outcome for the company and our customers by allowing us to:

1. understand the risk environment, identify the specific risks we face and assess the potential exposure for Southern Water.
2. determine how best to manage identified risks to balance overall potential exposure.
3. take action to manage the risks we are exposed to, ensuring our resources are effectively and efficiently prioritised and used.
4. report to the Audit Committee and to the Board on a periodic basis on how significant risks are being managed, monitored, assured and the improvements that are being made.
5. use our analysis to help the Board to define the company's appetite for the range of risks and monitor and report risks against the desired risk appetite.

Across the company our risk management approach is embedded within the business units and their business processes. We have established a risk management approach that provides a consistent basis for measuring risk to:

- establish a common understanding of risks on a like-for-like basis, considering potential impact and likelihood;
- report risks and their management to the appropriate levels of the company; and
- inform prioritisation of specific risk management activities and resource allocation.

All areas of the company review significant risks and business processes to help inform and enable risk-based decision making. As part of Southern

Water's annual planning process, the Executive Leadership Team and Board review the business' principal risks, emerging risks and high impact low likelihood events.

Southern Water's 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 staff throughout Southern Water is to ensure 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 Southern Water's 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.

For further information on our risk management framework and approach, including oversight, governance, roles and responsibilities, see our Annual Report pages 112 to 130.

Board risk and compliance statement

In making the risk and compliance statement, the Board confirms that the company:

- considers that it has full understanding of, and is meeting, all its relevant statutory, licence and regulatory obligations and has taken steps to understand and meet customer expectations;
- has satisfied itself that it has sufficient processes and internal systems of control to fully meet its obligations; and
- has appropriate systems and processes in place to allow it to identify, manage, mitigate, and review its risks.

Signed on behalf of the Board

Stuart Ledger
Chief Financial Officer

14 July 2025

Regulatory matters

The following regulatory accounting statements and required regulatory information are provided to comply with Condition F of our Licence, which requires that regulatory accounts are prepared in accordance with the Regulatory Accounting Guidelines issued by Ofwat.

There are differences between statutory accounting reporting frameworks, International Financial Reporting Standards and the Regulatory Accounting Guidelines. Where different treatments are specified under each, the Regulatory Accounting Guidelines take precedence.

A particular point of definition is worth noting. Southern Water Services Limited is appointed by the Secretary of State to be a water and wastewater undertaker – the activities covered by the appointment are the 'Appointed Business'. Southern Water Services Limited has other functions and activities which are not covered by the appointment as a water and wastewater undertaker. These activities are termed the 'Non-Appointed Business'.

Assets, rights and resources (Condition P14)

Under paragraph 14 of Condition P of the Licence, the company is at all times required to ensure, so far as is reasonably practicable, that if a special administration order were made, the company would have available to it sufficient rights and resources (other than financial resources) to enable the special administrator to manage the affairs, business and property of the company. In the opinion of the directors, the company was in compliance with that requirement as at 31 March 2025. .

Ring-fencing Certificate and statement (Condition P30)

In order to meet the Licence Condition P Certificate requirements, the Board needs to be able to clearly evidence the level of diligent enquiry that it has undertaken. To support this process the Southern Water Board signs off Condition P Assurance Statements demonstrating it has discharged its responsibilities and takes accountability for its diligent enquiry into the principal risks facing the business.

These statements were signed off by the Board as part of approval process for the Annual Performance Report to Ofwat. Key input into this statement are subject to external assurance from our external auditor.

To provide the Ring-fencing Certificate required by Licence Condition P30 and meet the Ofwat Section 19 undertakings the Southern Water Board needs to be able to clearly evidence the level of diligent enquiry that the Board has undertaken. This is outlined in detail in the Board Assurance statement (see below).

In the Board Assurance Statement, the directors declare that, in their opinion:

i) The company will have available to it sufficient financial resources and facilities to enable it to carry out its regulated activities (including the investment programme necessary to fulfil its obligations under its appointments)

ii) The company will have available to it:

a) financial resources and facilities
b) management resources; and
c) methods of planning and internal control

which are sufficient to enable it to carry out those functions for a period of at least twelve months.

A specific paper on the Condition P statement is presented for sign off by the Southern Water Board and includes the finalised Board Assurance Statements as detailed below. The Board Assurance Statement is subject to external assurance from our auditor, Deloitte. As part of our Section 19 commitments, their report will be provided separately to Ofwat. This sign-off process happens in parallel with the Board sign-off of an assurance statement on the accuracy and completeness of the data and information (financial and non-financial) submitted to Ofwat as part of our Annual Report and Annual Performance Report submission (see Appendix 3).

Condition P – Ring-fencing Certificate – Board assurance statement

This is to certify that at their meeting on 25 June 2025, the Board of Directors ("Board") of Southern Water Services Limited ("the Appointee") carefully considered the requirements of the Condition P Certificates and undertook reasonable diligent enquiry and challenge to confirm the statements made below. The Board considers that these arrangements are in place for the at least the next 12 months, subject to material uncertainties, issues and circumstances disclosed below. The final statement was signed off, along with the APR on 14 July 2025.

The Board notes that the latest Ofwat guidance set out in IN20/01 for completion of Ring-fencing Certificates requires the Board to state its opinion on whether the Appointee has "sufficient" resources to deliver its regulated activities. Condition P of the Licence of Appointment requires that the company has "adequate" resources in place.

In providing this opinion, the Directors have considered several factors as part of their enquiries prior to signing this certificate, including but not limited to that Southern Water has a significant investment requirement for the 2025–30 regulatory period to meet the requirements of customers and the environment. After a detailed review of the Final Determination, Southern Water's board has requested Ofwat to refer its Final Determination for independent review by the Competition and Markets Authority ("CMA"). This process is on-going, with the outcome and its impact on the funding package for the 2025–30 period is yet to be determined. As a result, the Board will reconsider and reassess its ability to meet its licence obligations and its Condition P position, once the CMA process has concluded.

Financial resources and facilities:

Since September 2021, funds managed by Macquarie Asset Management have invested equity of over £1.65 billion into the Southern Water group, which has supported Southern Water in investing more than £3 billion in its network during the 2020–25 regulatory period and in delivering its Turnaround Plan. No dividends have been received by Southern Water's external shareholders since 2017, supporting the operational and investment focus and the Turnaround Plan.

In its announcements dated 1 July and 8 July 2025, Southern Water announced it would raise up to a further £1.2 billion comprising an initial £655 million of binding equity commitments from funds managed by Macquarie Asset Management and a confirmation of intent to provide up to a further £545 million – and with a minimum of £245 million – by December 2025. This equity supports the significant investment programme for the 2025–2030 regulatory period. Following Southern Water's review of the Final Determination published by Ofwat on 19 December 2024, the equity raise is necessarily higher than the £650 million equity raise signalled in August 2024 alongside Southern Water's response to Ofwat's Draft Determination. This also supports lower gearing and investment-grade credit ratings in the face of tightening sector-wide ratings thresholds.

Southern Water is progressing the equity raise with its shareholders, led by funds managed by Macquarie Asset Management. The company's announcements on 1 July and 8 July 2025 has clearly set out the process to completion of the equity raise.

As mentioned above, Southern Water has submitted its 'Statement of Case' to the CMA and is in the process of engaging with the CMA in line with the CMA's timetable. None of the equity is conditional on the outcome of the referral of the Final Determination to the CMA by the Southern Water Board.

Southern Water has successfully raised over £1.4 billion of debt financing since November 2023. Additionally, as announced by the company on 1 April and 8 July 2025, it has access to two additional liquidity facilities totalling £1.475 billion and has sufficient liquidity until March 2026. The £1.2 billion of new equity will further enhance its liquidity position.

The Board reviewed the company's going concern for at least 15 months from signing the accounts. This included the company's liquidity position, headroom against the financial covenants, credit ratings and financial risk assessment against a number of downside scenarios.

The Directors believe, after due and careful consideration that the company has adequate resources, for a period of at least 15 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due. The full detail of the going concern is detailed in the company's annual report (page 199).

However, there exists a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern such that the company may be unable to realise its assets and discharge its liabilities in the normal course of business. This could arise as a result of either a failure for the conditions required for equity to be unconditional, or if there were a future downgrade to a sub-investment grade credit rating or a failure to meet our legal obligations which could, depending on the circumstances and the approach of Ofwat, result in a breach of the company's licence and a consequential event of default under the terms of the company's financing arrangements.

Further, while additional ratings downgrades, and the consequential event of default and/or breach of licence do not directly impact on our ability to operate as a going concern during this forecast period due to the standstill period, there is a risk that without remedy, the longer-term consequences limit our ability to attract equity and debt funding and hence operate as a going concern in the future.

The Board reviewed the assurance outputs regarding the financial performance and prospects, reported in the 2024–25 Annual Performance Report, from Deloitte relating to the statutory and regulatory accounts which included the LTVA. Deloitte presented their views on the progress of the financial audit to the Audit Committee on 20 June 2025 and provided an updated report for the final Board sign-off meeting in July 2025.

The Board reviewed and endorsed the plans that were presented to them in the updated Southern Water Execution Plan (EP25) for the period up to the end of this business plan period and concluded that they are aligned to meeting the needs of the company's customers, the environment and stakeholders.

The Board is confident that with the equity raise referred to above, EP25 supports the delivery of the company's statutory and regulatory obligations and allows it to demonstrate compliance with Condition P of the Licence of Appointment for at least the next 12 months.

The Board receives updates on the financial status of the company including cash flow forecasts and monitoring. The Board also receives updates on the company's credit ratings and meetings with the credit rating agencies.

The Board is regularly updated and aware of potential litigation including in relation to investigations by the Environment Agency and has approved related financial disclosures within the financial accounts.

The Board wish to reiterate that these statements have been made within the context of the Final Determination and the uncertain outcome of the resulting independent review by the CMA.

Management resources:

The Board continues to strongly support the executive management, who have continued to work to deliver the Turnaround Plan and prepare the business for the next business plan period.

The company has continued to evolve its management structure in the financial year, bringing in key resource at executive level to support the further development of the company. This includes making a number of key appointments to the executive team including a new Chief Customer Officer in October 2024, a Managing Director – Wastewater in October 2024, and a new Major Projects Director in December 2024.

The Chief Financial Officer and General Counsel and their teams have acted as the second- and third-line team and provide the check and challenge on the rest of the company. This delivers a compliance and risk-based programme (structured around the company's obligations) to ensure that the company is meeting its regulatory and statutory obligations.

The Board was subject to an external review of its own capability through a Board evaluation review. This took place in February and March 2025, the results of which were communicated to the Board in May 2025.

The Board also looks to ensure that its membership has the appropriate balance of skills and a diversity of perspectives to enable it to discharge it duties. The Nominations Committee had committed to review this area and has seen the diversity of the Board increase with recent appointments.

The Board therefore confirms that the company has sufficient management resources.

Systems of planning and internal control:

The company has adopted the 'three lines of defence' framework for reporting governance and assurance activity. In relation to non-financial reporting, this has been in place since 2017. The company has (for its non-financial reporting) a mature internal system of control and monitoring helps to assure performance information by applying multiple levels of control. The framework is delivered and reviewed as part of the Final Assurance Plan and the Internal Audit Annual plan (both of which are signed off by the Audit Committee).

The Audit Committee has monitored the completion of a risk-based programme of audit and assurance activities during the year and Deloitte reports to the Audit Committee of the Board on the control environment as part of the financial statement audit.

The Board is aware of the new obligations around internal systems of control, inherent in the UK Corporate Governance Code from 2026 onwards. The company is preparing for these requirements and is actively reporting this activity to the Audit Committee.

The Board and Audit Committee regularly receive and review information and reports on non-financial performance that support the efficient delivery of services to customers, the environment and other stakeholders. These include progress of non-financial reporting, thematic assurance and the matured Ofwat Section 19 undertakings. The Board reviewed the assurance outputs regarding the non-financial performance, reported in the 2024/25 Annual Performance Report from Jacobs. Jacobs presented their views to the Audit Committee at the meeting on 20 June 2025.

The Board reviews the monthly KPI reports, including performance against budgets. This also includes updates on performance in regard to Performance Commitments, Outcome Delivery Incentives, and the recently completed Turnaround Plan.

The Board, through its Audit Committee, received an internal assurance report in March 2025 (produced by the Risk Audit and Assurance Team), which reviewed Southern Water's compliance with its Licence of Appointment.

The Board has visibility of the high-level financial governance and controls that are in place relating to the company's financial reporting, including external audit and internal audit reports looking at financial controls and updates on the implementation of new accounting standards. There is a Schedule of Matters Reserved to the Board.

The Board has overall responsibility for risk management and is supported in this role by the Audit Committee (which monitors Enterprise Risk) and the Health and Safety and Operational Risk Committee. Both committees are a key element of the Risk Management process. Both committees review key areas of risk for the company in regular reports and “deep-dive reviews”.

The Board is involved in the approval of key milestones on the company’s work on its major projects including submissions to RAPID.

The Board has been active in supporting the on-going PR24 submissions to Ofwat. The Board has played a key role in the PR24 process. The PR24 Board assurance process includes the development of oversight structures and a detailed programme of Board assurance, which has covered all areas of the plan and included specific arrangements for approving and assuring the WRMP, WINEP and DWMP submissions.

The Board has approved updates in the Annual Report, Interim Accounts, Annual Performance Report and Data Assurance Summary that detail improvements in governance and controls.

The Board therefore confirms that the company has appropriate governance policies and procedures in place to maintain an effective control environment.

Resources other than financial or management resources:

In agreeing EP25 the Board has considered the non-financial resources required to deliver the plans implicit in the annual budget. This includes ensuring the company has the right people resources in place to support the delivery of the company’s plans.

One of the Board members has a role as lead for Employee Engagement, regularly meeting with the wider Southern Water employee base.

The Board has continued to support the embedment of the Southern Water values.

The company values developed in 2019 continue to be embedded and the Board continues to support and sign up to the Code of Ethics. The Board were presented and approved the Code of Ethics in November 2024. The company’s Speak Up procedures continue to be monitored and reviewed, and an annual review of Speak Up was presented to the Audit Committee in March 2025.

The Audit Committee, the Health and Safety and Operational Risk Committee and the ESG Committee have received detailed reports on Speak Up cases and discusses progress on resolution.

The company continues to remain focused on Health and Safety. This has been actively supported and challenged by the work of the Health and Safety and Operational Risk Committee. The Chief Executive Officer is the key sponsor.

The Board therefore confirms that the company has adequate contractual relationships in place and is active in its review of key contracts. The Board also confirms that while it does have Associated Companies in place it can confirm that these do not have any operational contracts or transactions with the Operating Company.

Contracting:

The Board has reviewed the company’s key AMP8 contracts, at its specially formed AMP8 delivery sub-committee, which reviewed and approved the company’s AMP8 tankering contract, the AMP8 capital delivery contract and the wastewater network contract. The Board also reviewed and approved the electricity portfolio contract, the laboratory sampling contract, an extension to the facilities contract, and the extension of the Capita customer services contract.

The company does have active Associated Companies, but these are used for financing purposes and do not have any operational contracts or transactions with the Operating Company.

The Board therefore confirms that the company has adequate contractual relationships in place and is active in its review of key contracts. The Board also confirms that while it does have Associated Companies in place it can confirm that these do not have any operational contracts or transactions with the Operating Company.

Material issues or circumstances:

The Board is aware of the performance challenges facing the company, and in particular, the fact that Ofwat see Southern Water as a lagging company. The Board have been given regular updates on the progress of the Turnaround plan, that has now been completed, and continues, through monthly updates to be updated on key aspects of performance. This includes work on pollutions, internal flooding, leakage, water quality and C-MeX, all of which were part of our turnaround plans and continue to be a focus for the company as we enter into AMP8.

The Board has considered the following material issues or circumstances that meet the Condition P Certificate in relation to the operation of the company’s wastewater business (as detailed in the matured S19 undertakings with Ofwat):

The Board confirms that it is aware of the material risks faced by the wastewater business and the company has undertaken appropriate investigations to ensure all significant risks are identified, together with the monitoring of key risk mitigation actions.

The Board has previously considered the organisational structures and governance within its wastewater business and confirms that the company is able to deliver services to its customers and stakeholders and meet its statutory and regulatory requirements in this area. The Board originally approved changes to the company's organisational structure that took place in 2017 and included work on the separation of duties in the wastewater directorate and the establishment of an effective "Three Lines of Defence" model of compliance. The Board is confident that these changes continue to be embedded in the company and are a key part of "Business as Usual". These arrangements have been subject to detailed external assurance as part of the company's S19 Undertakings.

The Board acknowledges that while the company has completed the actions set out in the S19 undertakings, it is still important that it receives updates on compliance with key environmental obligations. The Board received updates on its wider duties in regard to the running of a wastewater business. This includes an update on current policy changes in relating to duties under the Water Industry Act Section 94 and obligations as part of the Urban Wastewater Treatment Regulations (UWWTR). This is of particular importance as the company looks to agree with Ofwat on the closure of the S19 Undertakings.

In addition, the Board has considered its wider Water Resources and Section 20 obligations. The Board has been provided with regular updates on these matters and is engaged in supporting the company to meet its obligations in this area.

The Board acknowledges that as the company enters into AMP8 the size and scale of the programme of work inherent in the company's Business Plan for the period 2025–30 will require a step change in how the company expands its programme of delivery. This brings with it a number of risks related to capital delivery, supply chain, wider resources and people resources; all at a time when all other water companies are also expanding their programmes.

The Board therefore confirms that it has considered the material issues facing the business (as detailed in the company's S19 undertakings with Ofwat and in other relevant areas), and that the company has sufficient financial, non-financial resources and facilities.

K G Lough

Stuart Ledger
Chief Financial Officer
14 July 2025

Keith Lough
Chair

Directors' responsibilities for the preparation of the supplementary regulatory accounting statements and disclosure of information to auditors

In addition to their responsibilities to prepare accounts in accordance with the Companies Act 2006 and to disclose all relevant information to the auditor, described in the Corporate Governance section of the statutory accounts, the directors are also responsible under Condition F of the Licence for:

a) ensuring that proper accounting records are maintained by the company to enable compliance with the requirements of Condition F
b) preparing a set of regulatory accounting statements, in respect of the twelve-month period ending on 31 March in each year, which are in accordance with the Regulatory Accounting Guidelines published by Ofwat
c) complying with all other requirements that are set out in the Regulatory Accounting Guidelines published by Ofwat.

The directors approved the regulatory accounting statements (on pages 27 to 93) on 14 July 2025.

Board statement on accuracy and completeness of data and information

The Board confirms that the data and information provided to Ofwat during the reporting year, or published by the company in its role as a water and sewerage undertaker, was accurate and complete and is reflected in our Board Assurance Statement (see appendix 3).

The assurance statement includes a description of the activities which the Board has carried out to allow it to make the statement. The Board believe that our stakeholders deserve to have trust and confidence in the integrity of the information we provide in our annual reports. In order to achieve this, our performance reporting is subject to a system of checks to ensure that we meet the highest quality of reported information.

The Board has been fully aware of previous issues with the non-financial control environment of the company and has, over the last seven years, worked with the executive management team to rebuild capability in this area. This work has been embedded for several years and is an enduring capability that is part of our Business-as-Usual way of working.

The Board has actively engaged and challenged the assurance processes that have been adopted by the company. This covers assurance on both the financial and non-financial reporting. The Board has, over recent years, taken action to ensure that exceptions and weaknesses identified in the non-financial assurance have been addressed. The Board is satisfied that the assurance approaches have appropriately identified and addressed the risks to the provision of accurate and complete data and information. This has been discharged through the Southern Water Services Board and its relevant committees (most notably the Audit Committee).

The Board Assurance Statement does not identify any specific exceptions.

Section 35A of the Water Industry Act 1991

The company is required under section 35A of the Water Industry Act 1991 to provide a statement that the remuneration paid to executive directors is linked to standards of performance. This statement is provided within the Directors' Remuneration Report section of the Annual Report and Financial Statements.

Long-term viability statement

In accordance with provision 31 of the UK Corporate Governance Code, the Board has assessed the prospects of the business over a longer period than the 12 months required by the 'Going Concern' provision.

The Board has elected to conduct this review to 31 March 2035 and full details of the assessment and the viability statement are set out within the Strategic Report section on page 131 of the Annual Report and Financial Statements.

This included the company's liquidity position, headroom against the financial covenants, credit ratings and financial risk assessment against a number of downside scenarios.

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) he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself 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.

Board statement

Save for those matters mentioned above where the company has identified shortcomings or potential shortcomings and where the company has set out the steps it is taking or will take to manage, mitigate and/or improve those), the Board confirms, that having taken all the steps that they ought to have taken as directors to make themselves aware of any relevant information, the company has:

1) a full understanding of, and is meeting, its obligations and has taken steps to understand and meet customer expectations
2) sufficient processes and internal systems of control to fully meet its obligations
3) appropriate systems and processes in place to allow it to identify, manage and review its risks.

Stuart Ledger

Chief Financial Officer

14 July 2025

Keith Lough

Chair

Regulatory financial reporting

1A – Income statement for the 12 months ended 31 March 2025

	Note	Statutory £m	Adjustments: Differences between statutory and RAG definitions £m	Adjustments: Non-appointed £m	Total adjustments £m	Total appointed activities £m
Revenue		992.670	(63.614)	10.610	(74.224)	**918.446**
Operating costs		(1,011.718)	22.481	(6.699)	29.180	**(982.538)**
Other operating income		0.821	28.516	–	28.516	**29.337**
Operating (loss)/profit		**(18.227)**	**(12.617)**	**3.911**	**(16.528)**	**(34.755)**
Other income		1.629	27.739	–	27.739	**29.368**
Interest income	3	30.035	–	–	–	**30.035**
Interest expense	3	(269.869)	(61.624)	–	(61.624)	**(331.493)**
Other interest expense	3	(3.600)	–	–	–	**(3.600)**
(Loss)/profit before tax and fair value movements		**(260.032)**	**(46.502)**	**3.911**	**(50.413)**	**(310.445)**
Fair value gains on derivative financial instruments		170.666	–	–	–	**170.666**
(Loss)profit before tax		**(89.366)**	**(46.502)**	**3.911**	**(50.413)**	**(139.779)**
UK Corporation tax	4	–	–	–	–	–
Deferred tax		(9.610)	11.625	–	11.625	**(2.015)**
(Loss)/profit for the year		**(98.976)**	**(34.877)**	**3.911**	**(38.788)**	**(137.764)**
Dividends		–	–	–	–	–
Tax analysis						
Current year		–	–	–	–	–
Adjustments in respect of prior years		–	–	–	–	–
UK Corporation Tax		**–**	**–**	**–**	**–**	**–**

Analysis of non-appointed revenue	
Imported sludge	–
Tankered waste	6.829
Other non-appointed revenue	3.781
Revenue	**10.610**

Details of the differences between the statutory and regulatory definitions are shown in note 2.

Note: The signage convention for presentation of this table follows Ofwat guidance. Total adjustments comprise the difference between statutory and regulatory accounting definitions less the non-appointed activity.

1B – Statement of comprehensive income for the 12 months ended 31 March 2025

		Adjustments			
	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total appointed activities £m
(Loss)/profit for the year	(98.976)	(34.877)	3.911	(38.788)	**(137.764)**
Actuarial losses on post-employment plans	27.656	–	–	–	**27.656**
Other comprehensive income	(6.914)	–	–	–	**(6.914)**
Total comprehensive (loss)/income for the year	**(78.234)**	**(34.877)**	**3.911**	**(38.788)**	**(117.022)**

1C – Statement of financial position for the 12 months ended 31 March 2025

		Adjustments			
	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total appointed activities £m
Non-current assets					
Fixed assets	8,201.636	(368.081)	0.406	(368.487)	**7,833.149**
Intangible assets	88.731	(2.961)	–	(2.961)	**85.770**
Investments – loans to group companies	23.022	–	–	–	**23.022**
Investments – other	0.174	–	–	–	**0.174**
Financial Instruments	129.217	–	–	–	**129.217**
Total non-current assets	8,442.780	(371.042)	0.406	(371.448)	**8,071.332**
Current assets					
Inventories	18.928	–	–	–	**18.928**
Trade and other receivables	423.023	–	9.125	(9.125)	**413.898**
Financial instruments	–	–	–	–	**–**
Cash and cash equivalents	556.998	–	–	–	**556.998**
Total current assets	998.949	–	9.125	(9.125)	**989.824**
Current liabilities					
Trade and other payables	(361.906)	9.146	–	9.146	**(352.760)**
Capex creditor	(312.132)	–	–	–	**(312.132)**
Borrowings	(369.633)	–	–	–	**(369.633)**
Financial instruments	(84.776)	–	–	–	**(84.776)**
Current tax liabilities	(13.901)	–	–	–	**(13.901)**
Provisions	(3.812)	–	–	–	**(3.812)**
Total current liabilities	(1,146.160)	9.146	–	9.146	**(1,137.014)**
Net current assets	**(147.211)**	**9.146**	**9.125**	**0.021**	**(147.190)**
Non-current liabilities					
Trade and other payables	(11.233)	–	–	–	**(11.233)**
Borrowings	(5,337.558)	–	–	–	**(5,337.558)**
Financial instruments	(1,532.427)	–	–	–	**(1,532.427)**
Retirement benefit obligations	(48.900)	–	–	–	**(48.900)**
Provisions	(1.591)	–	–	–	**(1.591)**
Deferred income – grants and contributions	(37.326)	(3.885)	–	(3.885)	**(41.211)**
Preference share capital	(64.665)	–	–	–	**(64.665)**
Deferred tax	(390.460)	91.445	–	91.445	**(299.015)**
Total non-current liabilities	(7,424.161)	87.560	–	87.560	**(7,336.601)**
Net assets	**871.408**	**(274.336)**	**9.531**	**(283.867)**	**587.541**
Equity					
Called up share capital	37.612	–	–	–	**37.612**
Retained earnings and other reserves	833.796	(274.336)	9.531	(283.867)	**549.929**
Total equity	**871.408**	**(274.336)**	**9.531**	**(283.867)**	**587.541**

Details of the differences between the statutory and regulatory definitions are shown in note 2.

Note: Following a change to the rate used for capitalised interest in the prior years, the statutory Balance Sheets for March 2023 and March 2024 have been restated. As the capitalisation of interest is not permitted for regulatory purposes these restatements do not impact the regulatory Balance Sheet for the appointed business. Full details of the impact on the statutory Balance Sheet are disclosed in our Annual Report for 2024–25.

1D – Statement of cash flows for the 12 months ended 31 March 2025

	Statutory £m	Adjustments: Differences between statutory and RAG definitions £m	Adjustments: Non-appointed £m	Total adjustments £m	Total appointed activities £m
Operating (loss)/profit	(18.227)	(12.617)	3.911	(16.528)	**(34.755)**
Other income	1.629	27.739	–	27.739	**29.368**
Depreciation	368.546	(14.481)	(0.010)	(14.471)	**354.075**
Amortisation – grants and contributions	5.251	(6.713)	–	(6.713)	**(1.462)**
Changes in working capital	(43.684)	(0.641)	(3.469)	2.828	**(40.856)**
Pension contributions	(5.044)	–	–	–	**(5.044)**
Movement in provisions	(36.634)	–	–	–	**(36.634)**
Profit on sale of fixed assets	(0.821)	–	–	–	**(0.821)**
Cash generated from operations	**271.016**	**(6.713)**	**0.432**	**(7.145)**	**263.871**
Net interest paid	(114.394)	–	–	–	**(114.394)**
Tax paid	–	–	–	–	**–**
Net cash generated from operating activities	**156.622**	**(6.713)**	**0.432**	**(7.145)**	**149.477**
Investing activities					
Capital expenditure	(803.855)	–	(0.432)	0.432	**(803.423)**
Grants and contributions	–	6.713	–	6.713	**6.713**
Disposal of fixed assets	0.273	–	–	–	**0.273**
Other	56.034	(100.000)	–	(100.000)	**(43.966)**
Net cash used in investing activities	**(747.548)**	**(93.287)**	**(0.432)**	**(92.855)**	**(840.403)**
Net cash used before financing activities	**(590.926)**	**(100.000)**	**–**	**(100.000)**	**(690.926)**
Cash flows from financing activities					
Equity dividends paid	–	–	–	–	**–**
Net loans received	734.421	–	–	–	**734.421**
Cash inflow from equity financing	–	–	–	–	**–**
Net cash used in financing activities	**734.421**	**–**	**–**	**–**	**734.421**
Increase in net cash	**143.495**	**(100.000)**	**–**	**(100.000)**	**43.495**

Details of the differences between the statutory and regulatory definitions are shown in note 2.

1E – Net debt analysis at 31 March 2025

	Interest rate risk profile				
	Fixed rate £m	Floating rate £m	Index linked RPI £m	Index linked CPI/CPIH £m	Total £m
Borrowings (excluding preference shares)	1,780.899	362.976	3,917.785	94.848	**6,156.508**
Preference share capital	64.665				**64.665**
Total borrowings	**1,845.564**	**362.976**	**3,917.785**	**94.848**	6,221.173
Cash					**(556.998)**
Short term deposits					**–**
Net debt					**5,664.175**
Gearing					**76.03%**
Adjusted gearing					**75.16%**
Full year equivalent nominal interest cost	70.965	19.964	204.228	4.328	**299.485**
Full year equivalent cash interest payment	70.965	19.964	78.409	1.832	**171.170**
Indicative interest rates					
Indicative weighted average nominal interest rate	3.845%	5.500%	5.213%	4.563%	**4.814%**
Indicative weighted average cash interest rate	3.845%	5.500%	2.001%	1.932%	**2.751%**
Weighted average years to maturity	11.303	2.929	7.927	18.000	**10.229**

Adjusted gearing excludes preference shares and includes debt at nominal values along with any unpaid accretion and the accrued accretion on our financial instruments.

The borrowings and full year equivalent interest cost reflect the impact of our financial derivatives, excluding fair value movements.

The calculation of the weighted average years to maturity is based on the designation of the underlying debt instruments and excludes the impact of swaps that we have in place.

A reconciliation between the borrowings reported in tables 1C and 1E is shown below, along with a reconciliation to the principal sum outstanding reported in table 4B, which is published separately alongside this report.

Reconciliation of borrowings between table 1C and tables 1E and 4B

	£m
1C – Current liabilities borrowings	369.633
1C – Non-current liabilities borrowings	5,337.558
Total Borrowings (table 1C)	**5,707.191**
Debt issue costs	4.125
Bond premium deferred	(4.919)
Bond discount deferred	6.761
Deferred gilt lock proceeds	(4.011)
Accrued swap accretion	447.362
Borrowings (table 1E)	**6,156.509**
Preference shares	64.665
Difference between amortised cost and nominal value	69.169
Principal sum outstanding (table 4B)	**6,290.342**

The debt issue costs, bond premium, deferred gilt lock proceeds and deferred proceeds are amortised to the income statement and details are presented in note 20 to our statutory accounts.

The accrued swap accretion is an increase in the liability of the swap financial instruments, which is presented within the financial instruments balance for statutory accounting purposes but included in borrowings as per table 1E guidance. This figure is also shown in table 4I.

1F – Financial flows for the 12 months ended 31 March 2025 and for the price review to date (2017–18 financial year average CPIH)

	12 months ended 31 March 2025					
	%			£m		
	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Regulatory equity						
Regulatory equity				2,281.409	2,281.409	1,451.450
Return on regulatory equity						
Return on regulatory equity	3.88%	2.47%	3.88%	88.519	56.316	56.316
Financing						
Impact of movement from notional gearing		1.41%	0.83%		32.202	12.026
Gearing benefits sharing		0.00%	0.00%		–	–
Variance in corporation tax		0.00%	0.00%		–	–
Group relief		0.00%	0.00%		–	–
Cost of debt		-0.23%	-0.42%		(5.265)	(6.073)
Hedging instruments		0.08%	0.12%		1.755	1.755
Return on regulatory equity including Financing adjustments	**3.88%**	**3.73%**	**4.41%**	**88.519**	**85.009**	**64.024**
Operational performance						
Totex out/(under) performance		-8.61%	-13.54%		(196.509)	(196.509)
ODI out/(under) performance		-5.57%	-8.75%		(126.986)	(126.986)
C-MeX out/(under) performance		-0.17%	-0.27%		(3.927)	(3.927)
D-MeX out/(under) performance		-0.05%	-0.08%		(1.143)	(1.143)
Retail out/(under) performance		-1.15%	-1.80%		(26.159)	(26.159)
Other exceptional items		-0.75%	-1.18%		(17.172)	(17.172)
Operational performance total		**-16.30%**	**-25.62%**		**(371.896)**	**(371.896)**
RoRE (return on regulatory equity)	**3.88%**	**-12.58%**	**-21.21%**	**88.519**	**(286.887)**	**(307.872)**
RCV growth	**3.45%**	**3.45%**	**3.45%**	**78.709**	**78.709**	**50.075**
Voluntary sharing arrangements		0.00%	0.00%		–	–
Total shareholder return	**7.33%**	**-9.13%**	**-17.76%**	**167.227**	**(208.179)**	**(257.797)**
Dividends						
Gross dividend	1.41%	0.00%	0.00%	32.168	–	–
Interest receivable on Intercompany loans		0.00%	0.00%		–	–
Retained value	**5.92%**	**-9.13%**	**-17.76%**	**135.059**	**(208.179)**	**(257.797)**
Cash impact of 2015–20 performance adjustments						
Totex out/(under) performance		-0.03%	-0.05%		(0.730)	(0.730)
ODI out/(under) performance		0.02%	0.03%		0.459	0.459
Total out/(under) performance		-0.01%	-0.02%		(0.271)	(0.271)

The figures presented above may not cast due to rounding issues.

1F – Financial flows for the 12 months ended 31 March 2025 and for the price review to date (2017–18 financial year average CPIH)

	Average 2020–25					
	%			£m		
	Notional returns and notional regulatory equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity	Notional returns and notional equity	Actual returns and notional regulatory equity	Actual returns and actual regulatory equity
Regulatory equity						
Regulatory equity				2,085.131	2,085.131	1,526.748
Return on regulatory equity						
Return on regulatory equity	3.87%	2.83%	3.87%	80.695	59.085	59.085
Financing						
Impact of movement from notional gearing		1.04%	0.57%		21.609	8.650
Gearing benefits sharing		0.00%	0.00%		–	–
Variance in corporation tax		0.00%	0.00%		–	–
Group relief		0.00%	0.00%		–	–
Cost of debt		1.61%	2.18%		33.574	33.222
Hedging instruments		-1.82%	-2.49%		(37.984)	(37.984)
Return on regulatory equity including Financing adjustments	**3.87%**	**3.66%**	**4.12%**	**80.695**	**76.285**	**62.973**
Operational performance						
Totex out/(under) performance		-7.24%	-9.89%		(150.923)	(150.923)
ODI out/(under) performance		-2.63%	-3.59%		(54.783)	(54.783)
C-MeX out/(under) performance		-0.16%	-0.22%		(3.329)	(3.329)
D-MeX out/(under) performance		-0.05%	-0.06%		(0.986)	(0.986)
Retail out/(under) performance		-0.87%	-1.19%		(18.177)	(18.177)
Other exceptional items		-2.05%	-2.79%		(42.642)	(42.642)
Operational performance total		**-12.99%**	**-17.74%**		**(270.840)**	**(270.840)**
RoRE (return on regulatory equity)	**3.87%**	**-9.33%**	**-13.62%**	**80.695**	**(194.555)**	**(207.867)**
RCV growth	**5.40%**	**5.40%**	**5.40%**	**112.597**	**112.597**	**82.444**
Voluntary sharing arrangements		0.00%	0.00%		–	–
Total shareholder return	**9.27%**	**-3.93%**	**-8.22%**	**193.292**	**(81.958)**	**(125.422)**
Dividends						
Gross dividend	1.41%	0.04%	0.05%	29.400	0.758	0.758
Interest receivable on Intercompany loans		-0.04%	-0.05%		(0.758)	(0.758)
Retained value	**7.86%**	**-3.93%**	**-8.22%**	**163.891**	**(81.958)**	**(125.422)**
Cash impact of 2015–20 performance adjustments						
Totex out/(under) performance		-0.04%	-0.05%		(0.730)	(0.730
ODI out/(under) performance		0.02%	0.03%		0.459	0.459
Total out/(under) performance		-0.01%	-0.02%		(0.271)	(0.271)

The figures presented above may not cast due to rounding issues.

Commentary regarding table 1F – Financial Flows

Table 1F Financial Flows aims to improve transparency and explain the elements that have the most significance on the financial flows to investors. As the analysis is designed to estimate the impact on equity return due to actual performance and capital structure, it includes some high-level approaches to estimate the impact of regulatory mechanisms. This results in regulatory rewards and penalties, earned in the current price review period 2020–25 but not realised by shareholders until the next price review period 2025–30, being included in the table. A simplified approach is also adopted for the cost of debt and replicated in hedging instruments in order to ensure consistency of approach.

The above table provides information in a three-column format:

- 'notional returns and notional regulatory equity' (column 1) – equivalent to our allowance in the Final Determination for 2020–25.
- 'actual returns and notional regulatory equity' (column 2) – provides a representation of the variance in financial performance between the return allowed in the PR19 Final Determination and actual results.
- 'actual returns and actual regulatory equity' (column 3) – an extension of column 2, designed to show the impact on shareholder returns where their investment in the company is smaller or larger than the regulatory assumption (with debt being correspondingly larger or smaller, respectively).

Base return:

The base return on regulatory equity of 3.88%, plus inflation of 3.45% on the regulated equity, results in a total shareholder return of 7.33%. This is based on Ofwat's price review approach to determining returns, reflecting an efficient company with the regulatory notional gearing of 60.00%. The equivalent actual total shareholder return, reflecting our average gearing in 2024–25 of 73.80% and actual performance, was -17.76%.

Our actual return of -17.76% differed from the notional return of 7.33% due to financing out-performance of 0.53% and operational under-performance of 25.62%.

Financing performance:

Our average actual gearing of 73.80% is higher than the regulatory assumption of 60.00% and has the effect of amplifying percentage returns to shareholders. This is partly because the same value of return is applied to a smaller shareholder equity base, representing a greater proportion. This increases the volatility of returns, in both out-performance and under-performance scenarios, with the risk being borne entirely by shareholders.

The price setting process also allows us a return on equity between the notional gearing of 60.00% and our actual average gearing of 73.80%, rather than the lower cost of debt. The impact of this relative cost of debt versus equity is estimated in the 'Impact of movement from notional gearing' returns adjustment of 0.83%.

Our 'Comparison between tax charge and allowance in price limits' (see page 44) provides a detailed narrative on our corporation tax charge. In summary, our PR19 determination includes no funding from customers for corporation tax and we incurred no current tax charge in 2024–25. The net impact on shareholder returns of corporation tax and group relief is 0.0%.

Our cost of debt (excluding the impact of swap instruments), measured by reference to an implied real rate of interest, was higher than the amount allowed in our PR19 determination (updated for the cost of debt reconciliation mechanism) reducing returns by 0.42%.

We have a portfolio of inflation linked swaps that match the cost we pay under our debt instruments to the cash flow we receive from customer bills. We have calculated the impact of these hedging instruments in a manner consistent with the prescribed calculation for cost of debt, by deflating to an implied real rate of net interest. This creates a small positive impact for the year of 0.12%.

Operational performance:

For AMP7 we will retain approximately 64% of wholesale totex overspends, but only 36% of wholesale totex cost savings, with the remainder being returned to customers. Some types of wholesale totex are not subject to customer sharing, with any out-performance or under-performance remaining entirely with the company. In 2024–25, we experienced a retained overspend of £196.5 million, equivalent to a decrease of 13.54% in returns. Any timing differences in our totex delivery, such as slippage or acceleration in our capital programme, previously adjusted for in Table 4C are assumed to resolve this year.

The company share of retail cost under-performance represents the amount by which we are overspending against the PR19 price determination. There is no sharing with customers of the retail expenditure variance, with the result that the £26.2 million over-spend for 2024–25 reduces returns by 1.80%.

The impact of our performance on Outcome Delivery Incentives (ODIs) is £127.0 million for 2024–25, decreasing returns by 8.75%. This includes an end of period penalty of £82.7 million for long term supply demand schemes, recognised in the year. Penalties or rewards are included even if they are not payable or receivable until the next AMP. Tables 3A and 3B provide further details.

We report a £3.9 million penalty for the Customer Measure of Experience (C-MeX) ODI in our Retail business, and a £1.1 million penalty for the Developer Measure of Experience (D-MeX) ODI in Developer Services. These are equivalent to a 0.27% and 0.08% reduction to returns, respectively.

The exceptional item entry of £17.2 million, equivalent to a 1.18% decrease in returns comprises the costs classified as disallowable in Table 4C (discussed on page 86) and payments made to fund the defined benefit pension scheme, offset by the company share of land sales. The items are not reported as exceptional items elsewhere in the financial statements.

Other:

The inflationary RCV return of 3.45% is long-term in nature and cannot be immediately realised.

No ordinary dividends were paid in 2024–25.

AMP7 annual average returns

We have restated a number of entries for previous periods, the overall impact of which is reflected in the 'Average 2020-25' cumulative AMP-to-date table. The changes, and impact on returns, are summarised below.

The PR19 final determination included a mechanism to encourage companies to reduce their actual gearing to 70% by the end of the current price review period, March 2025. Ofwat confirmed in the PR24 final determination that the mechanism had not operated as intended, and did not apply the reconciliation. In 2023–24 we reported an entry against the 'Gearing benefits sharing' line of the Financing Performance section. Removing this entry increases average shareholder returns by 0.01%.

In 2020–21 and 2021–22, consistent with guidance, we included the cost of payments to fund the defined benefit pension scheme in the Retail price control, reflecting this against the 'Retail performance' line of the Operational performance section. To ensure consistency with updated Ofwat reporting guidelines we have removed these costs. The impact of this change on average shareholder returns is an increase of 0.08%.

In 2023–24 we revised our interpretation of the definition for 'Other exceptional items' to ensure that all costs which are considered disallowable for customer sharing, and which are therefore entirely borne by shareholders, were included when assessing equity returns. We have further expanded this interpretation for 2024–25 reporting to include payments to fund the defined benefit pension scheme, in both the Retail and Wholesale business, as these costs are not funded by customers and are entirely borne by shareholders. The impact of changes in prior years is a reduction in average shareholder returns of 1.16%.

We have aligned our previously reported ODI performance for 2023–24 with Ofwat's in-period ODI determination, as our proposed rewards for Bathing Waters were not accepted. We have also updated the Per Capita Consumption ODI to reflect the profile of the Covid-adjusted intervention reflected in the PR24 final determination and amended the Leakage ODI for 2020–21 to align with a previous Ofwat query. The impact on average shareholder returns are reductions of 0.08% and 0.03%, and an increase of 0.01%, respectively.

Over the five years of the AMP7 regulatory period and including the 5.40% average annual inflationary growth of the RCV, the total shareholder return averages -8.22%. Excluding the inflationary RCV return, which is long-term in nature and cannot be immediately realised, the average annual return potentially available to shareholders is -13.62%, 17.49% lower than the 3.87% return allowed by Ofwat in the price determination.

The main driver of the shortfall on returns is our operational performance, which reduces returns by 17.74%. Our wholesale business comprises 13.48% of this difference, with 9.89% relating to cost overruns and 3.59% to our performance against Performance Commitments and resulting ODI penalties. The Retail business, mainly comprising cost overruns and C-MeX performance contributes a further 1.47%.

Exceptional items, mainly comprising pension deficit payments and the fine and costs of the Environment Agency prosecution, relate primarily to the Wholesale business, and make up the remaining 2.79%. It should be noted that the EA prosecution, while being recognised in 2021–22, related to historical performance over a number of years between 2010 and 2015.

The 0.25% increase to returns due to our financing performance partially offsets the impact of our operational performance.

During AMP7 we have retained shareholder value in the business and made no dividends.

Cash impact of 2015–20 performance adjustments

The impact of 2015–20 performance adjustments has been removed from the main calculation of shareholder return. The cash impact is now reported as a memo note at the foot of the table and, consistent with Ofwat table guidance, we show the impact for wholesale totex and wholesale ODIs.

Other adjustments relating to 2015–20 performance are no longer reported. The most material of these are the regulatory settlement following the Ofwat investigation into our wastewater treatment compliance (discussed on page 14) and the Service Incentive Mechanism (SIM) in the Retail business, which was the AMP6 equivalent of C-MeX. For 2024–25 these penalties reduce returns by £24.2 million (1.67%) and £5.7 million (0.40%) respectively.

Notes to the regulatory financial statements For the year ended 31 March 2025

1 Accounting policies

a) Basis of preparation

The regulatory accounting statements have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines (RAGs) published by Ofwat, the accounting policies set out in the statement of accounting policies and under the historical cost convention.

They have been prepared on a going concern basis, notwithstanding the material uncertainty discussed on pages 199 to 202 of the Southern Water Services Limited Annual Report and Accounts 2024–25.

The directors have undertaken a detailed review of the company's liquidity requirements compared with the cash and facilities available, which includes cash on hand, cash on deposit and committed undrawn bank facilities totalling £557.0 million at 31 March 2025, the financial covenant position including projections based on future forecasts, the current credit ratings and financial risk.

When determining whether it is appropriate to adopt the going concern basis, the directors also consider whether there is a material uncertainty regarding whether the company has sufficient resources for its present requirements.

The company has a significant level of planned expenditure to improve operational performance, the resilience of its assets, and reduce the impact on the environment from the treatment and processing of water and wastewater as part of its plans for AMP8. As a result, the company has forecast net cash outflows (pre financing) for every month throughout the going concern assessment period to September 2026.

In their assessment, the directors have identified the following material uncertainty related to a number of connected events that are outside the control of the Board and which may cast significant doubt on the company's ability to continue as a going concern such that the company may be unable to realise its assets and discharge its liabilities in the normal course of business:

- A future downgrade to a sub investment grade credit rating or a failure to meet our legal obligations could, depending on the circumstances and the approach of Ofwat, result in a breach of the company's Instrument of Appointment, which could possibly result in a consequent event of default under the terms of the company's financing arrangements.
- The company requires additional equity funding to finance the company through the going concern period, which as of the date of the report, has not yet been fully committed as it is subject to the completion of a number of technical conditions. Until these have been met there is no guarantee this equity will be received.
- Failure to raise equity or debt funding, or significant operational under-performance could lead to a potential Post Maintenance Interest Cover Ratio (PMICR) covenant breach or ratings downgrade. A future downgrade to a sub-investment grade credit rating or breach of the PMICR covenant would result in an event of default under the terms of the company's financing arrangements.

The accounting policies used in the regulatory accounting statements are the same as those adopted in the statutory financial statements, except as set out below.

The regulatory accounting statements are separate from the statutory financial statements of the company. The statutory financial statements are prepared under FRS 101 'Reduced Disclosure Framework'. There are differences between International Financial Reporting Standards under FRS 101 and the basis of preparation of information provided in the regulatory accounts because the Regulatory Accounting Guidelines specify alternative treatment or disclosure in respect of:

- revenue recognition
- capitalisation of borrowing costs.

Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require the company's statutory accounting framework to be followed. Financial information other than that prepared wholly on the basis of IFRS, FRS 101 or FRS 102 may not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 2006.

b) Fixed assets

Interest – To meet the requirements of RAG 1.09 the interest capitalised within the statutory accounts under IAS 23 'Borrowing Costs' has been reversed and charged through the income statement.

Capitalisation policy – Costs that are either directly attributable to bringing an asset into working condition or subsequent expenditure that provides an enhancement of the economic benefits of a fixed asset are treated as capital expenditure. In order to aid classification of expenditure the following rules are applied:

Non-infrastructure assets

- Expenditure on a single item of equipment, including installation costs, exceeding £3,000 is treated as capital expenditure. Individual items purchased for less than £3,000 are charged to operating costs unless they form part of a capital scheme.

- All repairs, replacements and improvements to non-infrastructure fixed assets costing in excess of £3,000 and which extend the life of the asset are charged to capital.

Infrastructure assets

- All repairs and maintenance to infrastructure assets will generally be treated as operating expenditure.
- Large repairs, involving the replacement of a significant length of pipe, are treated as capital expenditure after review with the Finance Team.
- Planned renewals to replace significant lengths of pipe in relation to a specific asset are treated as capital expenditure.

Private sewers – The ownership of and responsibility for private sewers in Southern Water's region were transferred to the company on 1 October 2011.

Following the adoption of FRS 101, expenditure in relation to private sewers has been treated as an expense and charged to the income statement.

c) Revenue recognition

Revenue represents the income receivable in the ordinary course of business (excluding value added tax) for goods and services provided in the year by the regulated activities of the business.

Revenue relates to charges due in the year and includes charges billed to customers for water and sewerage services, which are recognised in the period in which they are earned, and an accrual in respect of unbilled charges. Revenue excludes payments received in advance which are recorded as deferred revenue.

Unmetered bills for water and wastewater services are based on either the rateable value of the property, an assessed volume of water supplied or on a Fixed Licence Fee.

Metered bills for water and wastewater services are based on actual or estimated water consumption. Metered revenue is dependent upon the volumes supplied and includes an estimate of the consumption between the date of the last meter reading and the period end.

Meters are read on a cyclical basis and the company recognises revenue for unbilled amounts based on estimated usage from the last meter reading date through to the end of the reporting period. The accrual is estimated using a defined methodology based upon historical billing and consumption information and the applicable tariff. Where there is insufficient historical information, estimation is based on average consumption for defined levels of occupancy.

Within the accrual, adjustments to billing are made for changes to occupancy dates and where consumption levels are in excess of certain tolerances. No other amendments are made between revenue and billing.

Charges on income arising from court, solicitors and debt recovery agency fees are credited to operating costs and added to the relevant customer account. They are not recognised within revenue.

In the statutory accounts, reported under IFRS 15 – 'Revenue from Contracts with Customers', revenue is only recognised when it is probable that economic benefits will result to the company. RAG 1.09 requires that no judgment is applied to the probability of collection. Following a review of the collectability of revenue for the bad debt provision charge for 2019–20, revenue has been recognised in full in the statutory accounts and therefore there is no difference this year between the revenues reported for statutory and regulatory purposes.

Charging policy

Water and sewerage charges fall into the following three categories:

1) Charges which are payable in full

2) Charges which are payable in part

3) Not chargeable (void properties).

The circumstances in which each of the above applies are set out below. All of the charges covered in categories one and two are included in revenue.

Charges payable in full

Charges are payable in full in the following circumstances:

i) Occupied and furnished

Water (and sewerage) charges are payable in full from the date of connection or change of customer on all properties which are recorded as occupied and furnished.

ii) Unoccupied and furnished

Water (and sewerage) charges are payable in full on unoccupied, furnished premises. These include properties:

- left with bedding, a desk or other furniture
- used for multiple occupation with shared facilities
- used as holiday, student, hostel or other accommodation
- used for short-term occupation or letting where the occupation or terms of tenancy is less than six months.

Exceptions to this, where water (and sewerage) charges are not payable, include where the customer is:

- in a care home
- in long-term hospitalisation
- in prison
- overseas long term
- deceased.

iii) Unoccupied and unfurnished

Water (and sewerage) charges are payable in full on unoccupied, unfurnished premises where water is being consumed. This includes:

- premises where renovation, redecoration or building work is being undertaken
- premises being used as storage
- premises not normally regarded as being occupied such as cattle troughs and car parks
- non-household agricultural properties.

Charges payable in part

The following charges only are payable in certain circumstances:

- Metered standing charges – Payable on unoccupied, metered properties which are still connected.
- Surface water charge – Payable on unmeasured properties which are temporarily disconnected.
- Sewerage unmeasured tariff – Payable on unmeasured, occupied properties where the water supply is disconnected but sewerage is still provided.
- Surface water and highway drainage – Payable on furnished properties where the water supply is disconnected.

Not chargeable

Properties which are unoccupied, unfurnished and disconnected are not chargeable for water and sewerage therefore no billing is raised, and no revenue recognised in respect of these properties.

Definition and treatment of properties

Occupied properties

The occupier is any person who owns a premises or who has agreed with us to pay water and sewerage services in respect of the premises. The property management process is followed to identify whether the property is occupied or not and, if occupied, to identify the chargeable person and raise a bill.

The property management process may comprise some or all the following:

- Physical inspection
- Mailings
- Customer contacts
- Meter readings for metered properties
- Checks with third parties, e.g. credit agencies.

When a new customer is identified, the company process aims to establish the date that they became responsible for water and sewerage charges at the property. This is normally the date at which they moved into the property. The new customer will be charged retrospectively from the date at which they became responsible for water and sewerage charges of the premises.

Where evidence exists that a property is occupied the property management process is followed until occupancy details are obtained. Bills are not issued in the name of 'The Occupier' to try to generate confirmation of occupancy and therefore there is no billing in the name of 'The Occupier' within revenue.

Unoccupied properties

A property is deemed to be unoccupied when the company has completed the property management process and not identified the property as occupied. To be classified as unoccupied a property must meet at least one of the following criteria:

- A new property has been connected but is empty and unfurnished.
- The company has been informed that the customer has left the property, it is unfurnished and not expected to be reoccupied immediately.
- It has been disconnected following a customer request.
- The identity of the customer is unknown.
- The company has been informed that the customer is in a care home, long-term hospitalisation, prison, overseas long term or deceased.

If the property management process confirms that the property is unoccupied, the property may be declared void and the supply turned off.

New properties

All new properties are metered. Charges accrue from the date at which the new connection is assessed as being made and/or when the meter is installed. The developer is billed between the date of connection and first occupancy and this is recognised as revenue.

If the developer is no longer responsible for the property and no new occupier has been identified, the property management process referred to above is followed to identify the new occupier. Until the new occupier has been identified the property is treated as unoccupied and is not billed.

d) Revenue disclosures

In accordance with RAG 3.15 we highlight the following comments in respect of turnover for the year:

(i) The value of household billings raised in the year ended 31 March 2025 for consumption in prior years was £251.3 million. The value of these billings was lower than the metered income accrual made at 31 March 2024. The estimation difference was £0.5 million, and this has been recognised in the current year's turnover.

(ii) No changes have been made to the overall accrual methodology in the year although we have taken into consideration the experience from March 2024.

e) Social tariffs

We provide a number of schemes and tariffs to improve affordability and accessibility for vulnerable customers. These include:

- **Essentials** – for customers whose household income is less than £22,020, or for those in receipt of pension credit.
- **WaterSure** – for those who are in receipt of means tested benefits and use a large amount of water either as a result of large families, or because of a particular medical condition.
- **Water Direct** – where bills may be paid from a customer's existing benefit schemes directly to us.
- **NewStart** – for those who owe us money but have not been able to make a payment for a while.

Further details can be found in our Annual Report and on our website at: southernwater.co.uk/help-and-support/what-if-i-cant-pay-my-bill.

f) Bad and doubtful debts

The bad debt provision is calculated by applying estimated recovery rates, based on the past collection experience of other customers who share similar characteristics.

Higher provisioning percentages are applied to customers which are, based on their characteristics, considered to be of greater risk. These include those with a poor payment history as well as to those with older debts. Bad debt provisioning rates are updated annually to reflect the latest collection performance data from the company's billing system. Actual amounts recovered may differ from the estimated levels of recovery, which could impact on operating results.

The company operates a comprehensive debt recovery process and bad debt is only written off when the recovery of such debt has been exhausted through routine collection, debt recovery or litigation processes or where it would be uneconomical to undertake further recovery action.

Situations where this may arise and where debt may be written off are as follows:

- Where the customer has absconded without paying and strategies to trace their whereabouts and collect outstanding monies have been fully exhausted,
- Where the customer has died without leaving an estate or has left an insufficient estate from which to recover the debt,
- Where the age and/or value of the debt makes it uneconomical to pursue,
- Where county court proceedings and attempts to recover the debt using debt collection agencies have proved unsuccessful,
- Where the customer has been declared bankrupt, is in liquidation or is subject to insolvency proceedings or a debt relief order and no dividend has been or is likely to be received.

Write-off rules apply primarily to customers to whom the company has ceased to supply a service. Only in exceptional circumstance or as part of specific debt recovery assistance programmes is debt relating to continuing customers considered for write-off.

For debt to be written off there must be a legitimate charge against the debtor. If it is considered that part or all of the debt is incorrect or unsubstantiated, then such elements are dealt with through the issue of a credit note.

The company's bad debt provisioning and write-off policies have remained unchanged and have been consistently applied during the year. The value of debt written off over the past year has remained low due to the continuation of projects aimed at reducing bad debt before the point of write-off.

The value of trade and other receivables of the appointed business increased to £413.9 million (2024: £342.3 million). This increase largely relates to the impact of inflation on our main trade debtors and accruals of £26.0 million together with an increase in the inter-company debtor with SW (Finance) I plc of £44.0 million. The cash transferred to SW (Finance) I plc is held and used to make interest payments on our loans.

g) Price control units

The notes to the regulatory accounting statements analysing revenues, operating costs and fixed assets by price control segment have been drawn up in accordance with the guidance provided by Ofwat in RAG 2.09 and our accounting separation methodology statement which is published separately on our website.

The methods for undertaking cost allocations to produce this information are summarised below:

Operating expenditure

Most direct costs are specific either to water, wastewater or retail services. Where costs cannot be directly attributed to a sub-function an apportionment has been made on an appropriate basis, using the most accurate allocation method available. Examples of allocation methods include the use of time recording devices, headcount, operational site data and management estimates.

The allocation methods adopted have been agreed following review meetings held across the business with management and technical experts.

The information relating to non-appointed business, including an allocation of overhead cost, has been excluded in line with the guidance.

Fixed assets

The fixed asset data has predominantly been directly attributed to the price control segments based on an assessment of the overall nature of each scheme.

Where a scheme relates to more than one price control segment it has been allocated to the price control unit where the principal use occurs. For corporate assets, the price control of principal use is wholesale wastewater as this is our largest price control and recharges to the other price control units are made for the use of these assets.

New expenditure incurred during the year is allocated to business units within each price control based on an analysis of the scheme design.

Revenues

Revenue streams have been directly attributed to price control segments where they have been recorded as such in our systems. Classification of household and non-household revenues has been made in line with the classifications in place when the business plan was completed in accordance with the guidance from Ofwat.

Revenues that could not be directly attributed to a price control segment have been assessed and allocated to the appropriate price control segment based on the nature of the income.

h) Provisions and contingencies

Environment Agency – wastewater sites

The company has continued to assist the Environment Agency (EA) in its investigation into legacy issues relating to wastewater sampling compliance for the period 2013 to 2017. The investigation stage has now concluded, and charges against the company are expected, probably sometime later this year. Any court proceedings are not anticipated to conclude for several years. At this time, it is not possible to reliably predict when any court case will commence, how the company will plead to the charges when received, nor how the court would eventually deal with the environmental sentencing criteria including culpability, harm, mitigating and aggravating factors, and the company's financial position, especially as the subject matter is unique and does not relate to categorised pollution events, so there is a lack of similar precedents. Further, as the company is a Very Large Organisation (as defined in the Sentencing Council's Guidelines), there is a requirement for the court to examine the financial circumstances of the organisation in the round. The matter would likely take several years to get to a final hearing. In the circumstances, the Board, supported by external legal advice, has concluded that it is not yet possible to make a reliable estimate for the obligations that will arise from this matter.

i) Havant Thicket

In February 2021 the company entered into a contractual arrangement with Portsmouth Water, under which Portsmouth Water will obtain planning permission, design, build, finance, and operate a reservoir in Havant. Once the construction is complete, Portsmouth Water will supply water from the reservoir to Southern Water so that we can provide this to our customers.

Following a detailed review of the complex contractual arrangement which require both parties to complete certain activities to enable the water to be provided, we have 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.

As a result, payments made during the phase before water supply commences are included within totex in the year they are incurred and are classified within prepayments in the Statement of Financial Position.

2 Differences between statutory and regulatory reporting

Statutory reporting reflects the financial performance of Southern Water Services which comprises appointed and non-appointed activities. The appointed business relates to those activities which are necessary for the company to fulfil its function and duties as a water and sewerage undertaker. The non-appointed business relates to activities we undertake that are not covered by our Licence but are related to our business. For regulatory reporting the activities of the non-appointed business have been separated from those of the appointed business.

In addition, there are differences between regulatory accounting definitions and those applied for statutory reporting under FRS 101. These are summarised below:

Income statement – differences between statutory and RAG definitions

	Revenue £m	Operating costs £m	Other operating income £m	Other income £m	Interest expense £m
i) CHP income	(4.5)	4.5	–	–	–
ii) Grants and contributions	(30.6)	–	–	30.6	–
iii) Regulatory settlement amortisation	(28.5)	–	28.5	–	–
iv) Borrowing costs	–	14.5	–	–	(61.6)
v) Innovation costs	–	3.5	–	(2.9)	–
Total	(63.6)	22.5	28.5	27.7	(61.6)

i) Income generated from Combined Heat and Power (CHP) processes, which convert methane into electricity, is recorded as revenue within the statutory accounts. For regulatory reporting this income is reported as a negative operating cost. As a result, £4.5 million of revenue has been re-classified as a negative operating cost.

ii) As required by RAG 1.09 section 4.11, grants and contributions received and recognised in the income statement are reported under other income in the Annual Performance Report financial tables. As a result, £30.6 million has been transferred from revenue to other income in the income statement. See table 2E for further information.

iii) In 2018–19 we made a provision for rebates to be made to customers during the period from 2020–25 as a result of the investigation undertaken by Ofwat into wastewater reporting as set out on page 14. For regulatory purposes, the amortisation of this provision is reclassified from revenue to other operating income.

iv) For statutory reporting, borrowing costs associated with capital expenditure are capitalised. Regulatory reporting does not permit interest to be capitalised. As a result, operating costs are reduced by £14.5 million, reflecting the removal of depreciation on interest capitalised and the interest charge has been increased by £61.6 million reversing the element of interest capitalised in the year.

v) As required by Ofwat we have removed the costs paid and accrued in relation to the innovation fund from our operating costs. The value paid into the fund and for administration of the fund of £3.5 million has been reclassified within other income in order to reflect this transaction through reserves and the movement on the accrual of £0.6 million has been reversed in accordance with IN-2201 Expectations for monopoly company annual performance reporting 2021–22 as published by Ofwat.

Statement of financial position – differences between statutory and RAG definitions

	Fixed Assets £m	Intangible Assets £m	Current trade and other payables £m	Deferred income – grants and contributions
i) Borrowing costs	(368.1)	(3.0)	–	–
ii) Grants and contributions	–	–	3.9	(3.9)
iii) Innovation costs	–	–	5.3	–
Total	(368.1)	(3.0)	9.2	(3.9)

i) As borrowing costs cannot be capitalised under regulatory reporting, fixed and intangible assets have been reduced by £368.1 million and £3.0 million respectively, reflecting the removal of cumulative borrowing costs capitalised. There is a corresponding reduction to retained earnings.

ii) Grants and contributions relating to requisitions of £3.9 million classified within current trade and other payables in the statutory accounts have been transferred to deferred income for regulatory reporting.

iii) Removal of the innovation cost accrual made at March 2025 of £5.3 million as referenced in note (v) to the income statement above.

Statement of cash flows – differences between statutory and RAG definitions

	Operating profit £m	Other income £m	Depreciation £m	Amortisation – grants and contributions £m	Changes in working capital £m	Grants and contributions £m	Investing activities – other £m
i) Grants and contributions – income statement	(30.6)	30.6	–	–	–	–	–
ii) Depreciation	14.5	–	(14.5)	–	–	–	–
iii) Grants and contributions – cash	–	–	–	(6.7)	–	6.7	–
iv) Innovation fund	3.5	(2.9)	–	–	(0.6)	–	–
v) Short-term deposits	–	–	–	–	–	–	100.0
Total	(12.6)	27.7	(14.5)	(6.7)	(0.6)	6.7	100.0

i) The re-classification of grants and contributions received in the income statement of £30.6 million from operating profit to other income.

ii) There is a £14.5 million adjustment made to both operating profit and depreciation relating to the removal of capitalised borrowing costs.

iii) In the statutory accounts for 2024–25, cash contributions received and held on the Balance Sheet have been presented as operating cashflows. These have been included within the statutory amortisation of grants and contributions row of table 1D. For regulatory purposes £6.7 million, reflecting the cash received for specific capital assets, has been reclassified to grants and contributions within investing activities.

iv) Innovation fund – reclassification of payments made from operating costs to other income of £3.5 million and removal of the movement on the accrual made in the statutory accounts of £0.6 million.

v) Short-term deposits – reclassification of the movement of short-term deposits from current investments to cash and cash equivalents in the prior year.

3 Interest

Further details of the interest income and expenses charged to the income statement are provided below:

	£m
Interest income	
Deposit income on short-term bank deposits	30.0
	30.0
Interest expense	
Interest payable on other loans	(18.0)
Interest paid to group companies	(259.9)
Indexation	(46.6)
Amortisation of issue costs	(1.5)
Amortisation of gilt lock proceeds	0.1
Amortisation of bond premium	0.7
Amortisation of bond discount	(0.4)
Finance lease interest	(1.4)
Dividends on preference shares	(4.5)
	(331.5)
Other interest expense	
Pension financing charge	(3.6)
	(3.6)

4 Corporation tax reconciliation

The tax assessed for the year is different to the standard rate of corporation tax in the UK and the reconciliation is shown in the table below.

	Appointed £m	Non-appointed £m
Profit before tax and fair value movement	(310.4)	3.9
Tax at the UK corporation tax rate of 25%	(77.6)	1.0
Permanent differences	31.7	–
Fixed asset timing differences	53.5	(1.0)
Other short-term timing differences	(3.6)	–
Pension cost relief in excess of pension charge	(4.0)	–
Group relief received for nil payment	–	–
Adjustment in respect of prior years – current tax	–	–
Tax charge for year	–	–

Details of factors affecting future tax charges:

The Spring Finance Bill 2024 confirmed the main rate of UK corporation tax remains at 25% and therefore all of our 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.

Comparison between tax charge and allowance in final determination

A comparison of the current appointed tax charge with the allowance in price limits is shown in the table and associated notes below:

		Current tax charge £m
i)	Final determination allowance	–
ii)	Price determination – tax not charged on forecast tax losses	(7.9)
iii)	Earnings before interest and tax	(43.4)
iv)	Regulatory settlement	4.8
v)	Net finance costs, including taxable fair value movements	(12.2)
vi)	Depreciation and capital allowances claimed	38.7
vii)	Pensions	(1.2)
viii)	Group relief claimed	–
ix)	Change in tax rate	–
x)	Other	21.2
Current tax before payments for group relief and prior year adjustments		–
xi)	Payments for group relief	–
Appointed current tax charge		–

i) In the price review process for the current regulatory period, 2020–25, there was no corporation tax forecast to be paid in the wholesale business and therefore there is no allowance for corporation tax in customer bills.

ii) For 2024–25 the price determination included tax losses of £7.9 million and no allowance was provided for these in price limits.

iii) Actual earnings before interest and tax are lower than those in the Final Determination. This is mainly driven by additional operating expenditure in both the wholesale and retail businesses.

iv) In 2018–19 we made a provision for the regulatory settlement on revenues and did not reflect a reduction to our tax charge due to the reduced revenues in that year. During AMP7 this provision is released to the income statement, increasing revenues. We do not reverse this for tax purposes, instead recognising an increased tax charge due to the regulatory settlement.

v) Net finance costs increased, reducing our tax charge, due to higher interest costs, higher inflation on index-linked debt instruments, and taxable fair value losses relating to debt indexation. This is partially offset by the interest receivable on our derivative financial instruments.

vi) Lower capital allowances were claimed compared to the final determination as a result of lower taxable profits.

vii) We are making pension contributions in excess of those in the price determination. These additional contributions reduce our tax charge.

In 2024–25, a lump sum payment of £5.0 million, covering agreed contribution payments to March 2025, was made and has been subject to pension spreading rules for tax (due to the spreading threshold, the whole £5.0 million was allocated to the current year, no balance carried forward).

viii) Historically we have used losses from other companies within the Greensands group to reduce the current tax charge for Southern Water. Capital allowances not claimed, in favour of group losses, were then available to Southern Water as a deduction against future taxable profits.

From 2020–21 Southern Water has not claimed the available group relief losses that it would normally receive at nil payment and has instead utilised the available capital allowances to reduce its taxable profits to nil.

In 2024–25 we claimed no group losses.

ix) The Final Determination assumed that corporation tax would be payable at a rate of 17%. The actual tax rate of 25% would, all other things being equal, increase/decrease our current tax charge/credit. Historically we have shown a small value in this reconciliation for the impact of the change in tax rate, applied to the current tax charge prior to the use of group relief. For 2024–25 the rate change impact is nil.

x) Historically, under the corporate interest restriction (CIR) regime, the group had spare interest capacity for tax purposes and the CIR did not apply. This is no longer the case as SWS Ltd is not making sufficient taxable profits. As a result, at a group level interest deductions are restricted. From 2022–23, as this was primarily driven by lower taxable profits at SWS Ltd in the first instance, the CIR is now allocated to SWS Ltd corporation tax returns. In 2024–25, the application of CIR increased taxable profit by £19.2 million at a rate of 17% and this is the main driver for the other movement.

xi) As described above at (ix), we claimed no group relief in the year and have therefore made no payments.

Taxation policy and strategy

We manage our tax affairs in an open and transparent way and contribute materially to the Exchequer each year.

Our tax policy is consistent with the overall values and strategy of the company and will consider financial risk, reputational risk, and social responsibilities. Our approach to tax planning is to align to business decisions made in the best interests of customers and stakeholders rather than using tax planning to drive or determine business decisions. Our focus is therefore on compliance, and our tax planning is always aligned with our commercial and economic activity. The very nature of our business means we take a long-term view on all the activities we undertake and as a result we also ensure our tax strategy is sustainable.

Our approach to tax management is compliant with tax laws, rules, regulations and reporting requirements in all of its operations. A culture of doing the right thing is embedded in our core values and our approach to tax embodies this by ensuring we pay the right amount of tax, in the right place at the right time. Management of our tax affairs is carried out by an experienced internal tax team with the support of professional tax advisers and specialist tax support. Professional tax advisers are used in circumstances when additional advice is deemed appropriate (for example, to ensure compliance with new legislation and tax planning). We use specialist tax support in the preparation of our capital allowances.

Risk is managed by ensuring there are sufficient processes, systems, governance and appropriate controls in place. Internal assurance for the company is carried out by our Internal Audit team and we have also used the services of professional tax advisers to assist us with our tax compliance. Our tax policy extends to the wider group and ensures all companies within the Southern Water and Greensands groups are subject to UK tax, and all companies are UK tax resident irrespective of their place of incorporation.

We meet all statutory and legislative requirements, and we manage our tax affairs in an open and transparent way. This extends to us sharing information with HMRC, which goes beyond the normal filing of statutory returns, such as the sharing of internal process manuals and other documents so that we can be open and transparent in our approach to managing tax risk. HMRC shares our view of our low-risk approach to the management of our tax affairs, with the last HMRC assessment, in September 2024, being that we were deemed to be a 'low-risk' company.

Further information is available in our Annual Report and Financial Statements on page 102.

5 Innovation Fund

For the period from 2020–25 Ofwat has introduced a series of innovation competitions. We are collecting monies from customers through our revenue across this regulatory period to fund these innovation competition activities. Several awards were made during 2023–24 for which we have paid the administration fees and contributions totalling £3.5 million. As disclosed above this payment has been re-classified through other income in the regulatory financial statements to exclude it from operating costs, as required by Ofwat, and ensure that it is reflected in retained earnings.

An accrual of £5.2 million (2024: £4.6 million), made for the liability associated with innovation fund income collected from customers but not yet paid out in awards, has been removed from the regulatory accounting statements in accordance with IN-2201 Expectations for monopoly company annual performance reporting 2021–22 as published by Ofwat.

Price control and other segmental reporting

2A – Segmental income statement for the 12 months ended 31 March 2025

	Retail		Wholesale				
	Retail household £m	Retail non-household £m	Water resources £m	Water network + £m	Wastewater network + £m	Bioresources £m	Total £m
Revenue – price control	50.827	–	32.173	225.628	543.062	55.928	**907.618**
Revenue – non price control	–	–	5.523	0.480	4.748	0.077	**10.828**
Operating expenditure – excluding PU recharge impact	(76.889)	–	(20.118)	(181.421)	(323.902)	(26.484)	**(628.814)**
PU opex recharge	(1.368)	–	(2.981)	(17.922)	25.740	(3.469)	**–**
Operating expenditure – including PU recharge impact	**(78.257)**	**–**	**(23.099)**	**(199.343)**	**(298.162)**	**(29.953)**	**(628.814)**
Depreciation – tangible fixed assets	(2.914)	–	(7.889)	(60.911)	(232.563)	(25.356)	**(329.633)**
Amortisation – intangible fixed assets	(6.635)	–	(0.464)	(0.217)	(17.126)	–	**(24.442)**
Other operating income	–	–	–	0.129	29.208	–	**29.337**
Operating profit/(loss)	**(36.979)**	**–**	**6.244**	**(34.234)**	**29.167**	**0.696**	**(35.106)**
Surface water drainage rebates							**(0.181)**

PU = Principal Use

2B – Totex analysis for the 12 months ended 31 March 2025 – Wholesale

	Water resources £m	Water network + £m	Wastewater network + £m	Bioresources £m	Total £m
Base operating expenditure					
Power	7.757	25.413	73.481	(10.406)	**96.245**
Income treated as negative expenditure	–	(0.005)	(0.002)	(4.450)	**(4.457)**
Abstraction charges/discharge consents	4.313	0.098	6.718	–	**11.129**
Bulk supply/bulk discharge	–	1.869	–	–	**1.869**
Renewals expensed in year (Infrastructure)	–	32.181	45.840	–	**78.021**
Renewals expensed in year (Non-Infrastructure)	–	–	–	–	**–**
Other operating expenditure	8.854	112.772	142.938	42.447	**307.011**
Local authority and Cumulo rates	1.110	12.547	18.469	2.362	**34.488**
Total base operating expenditure	**22.034**	**184.875**	**287.444**	**29.953**	**524.306**
Other operating expenditure					
Enhancement operating expenditure	0.139	9.245	9.021	–	**18.405**
Developer Services operating expenditure	–	2.359	1.697	–	**4.056**
Total operating expenditure excluding third party services	**22.173**	**196.479**	**298.162**	**29.953**	**546.767**
Third party services	0.926	2.864	–	–	**3.790**
Total operating expenditure	**23.099**	**199.343**	**298.162**	**29.953**	**550.557**
Grants and contributions					
Grants and contributions – operating expenditure	–	–	–	–	–
Capital expenditure					
Base capital expenditure	4.870	153.732	251.960	18.568	**429.130**
Enhancement capital expenditure	100.027	59.747	283.236	5.184	**448.194**
Developer Services capital expenditure	–	9.064	14.279	–	**23.343**
Total gross capital expenditure excluding third party services	**104.897**	**222.543**	**549.475**	**23.752**	**900.667**
Third party services	4.862	6.553	–	–	**11.415**
Total gross capital expenditure	**109.759**	**229.096**	**549.475**	**23.752**	**912.082**
Grants and contributions					
Grants and contributions – capital expenditure	2.903	13.306	12.198	–	**28.407**
Net totex	**129.955**	**415.133**	**835.439**	**53.705**	**1,434.232**
Cash expenditure					
Pension deficit recovery payments	0.054	1.421	2.978	0.241	**4.694**
Totex including cash items	**130.009**	**416.554**	**838.417**	**53.946**	**1,438.926**

2C – Cost analysis for the 12 months ended 31 March 2025 – Retail

	Household £m	Total £m
Operating expenditure		
Customer services	27.853	**27.853**
Debt management	13.478	**13.478**
Doubtful debts	24.715	**24.715**
Meter reading	3.813	**3.813**
Other operating expenditure	6.652	**6.652**
Local authority and Cumulo rates	0.027	**0.027**
Total operating expenditure excluding third party services	**76.538**	**76.538**
Depreciation		
Depreciation on tangible fixed assets existing at 31 March 2015	0.980	**0.980**
Depreciation on tangible fixed assets acquired after 1 April 2015	1.934	**1.934**
Amortisation on intangible fixed assets existing at 31 March 2015	1.030	**1.030**
Amortisation on intangible fixed assets acquired after 1 April 2015	5.605	**5.605**
Recharges		
Recharge from wholesale for legacy assets principally used by wholesale (assets existing at 31 March 2015)	0.067	**0.067**
Income from wholesale for legacy assets principally used by retail (assets existing at 31 March 2015)	–	**–**
Recharge from wholesale assets acquired after 1 April 2015 principally used by wholesale	1.301	**1.301**
Income from wholesale assets acquired after 1 April 2015 principally used by retail	–	**–**
Net recharges costs	**1.368**	**1.368**
Total retail costs excluding third party and pension deficit repair costs	**87.455**	**87.455**
Third party services operating expenditure	–	**–**
Pension deficit repair costs	0.351	**0.351**
Total retail costs including third party and pension deficit repair costs	**87.806**	**87.806**
Debt written off		
Debt written off	19.708	**19.708**
Capital expenditure		
Capital expenditure	2.311	**2.311**
Comparison of actual and allowed expenditure		
Cumulative actual retail expenditure to reporting year end	367.092	
Cumulative allowed expenditure to reporting year end	261.689	
Total allowed expenditure 2020–25	261.689	

Movement in costs from 2023–24

Household retail operating expenditure has increased by £16.1 million to £76.5 million (2024: £60.4 million).

This is principally due to an increase in the bad debt charge of £9.3 million to £24.7 million (2024: £15.4 million) together with debt management costs, which increased by £4.1 million to £13.5 million (2024: £9.4 million), reflecting the impact of the cost-of-living pressures on our customers as well as transformation activities to improve our billing and collection activities.

There have also been increases in other costs with other operating expenditure rising by £1.3 million, largely due to inflation.

Comparison to the final determination

Household

Total household retail costs of £87.8 million are £34.0 million higher than allowed in the Final Determination (£53.8 million). The increase is due to the following factors:

Debt management costs are £7.8 million higher than the business plan due to work associated with our transformation plan, to improve our billing and collection activities (£3 million cost in year). In addition, there has been a change in location in our outsourced service contract resulting in some one-off transition costs of £0.8 million. This is alongside a continued focus on litigation optimisation and increased activity throughout the earlier stages of the collection process due to the impact of the cost-of-living. These challenges and some anticipated impact of the bill increases for 2025–26, are reflected in the debt provision charge which is higher than the business plan by £14.1 million.

Customer services costs are £7.9 million higher than the business plan, due to inflation and transformational activities taking longer than planned. This is offset by £4.6 million lower allocated overheads due to the outsourcing of customer services.

Meter reading costs are £1.0 million over the business plan allowance due to additional costs incurred because of increasing volumes of failing automatic reads.

The charge for depreciation and amortisation of tangible and intangible assets for the household retail business is £7.8 million higher than the allowance in the Final Determination. This is all relates to the charge for depreciation and amortisation on assets acquired after March 2015.

Recharges from wholesale assets was not in the business plan and is therefore a variance of £1.3 million, this is offset by £1.4 million lower pension deficit repair costs.

Non-household

On 1 April 2017 we exited the non-household retail business and our customers transferred to a specialist retail company, Business Stream.

2D – Historic cost analysis of tangible fixed assets – Wholesale and retail

	Wholesale				Retail	
	Water resources £m	Water network + £m	Wastewater network + £m	Bioresources £m	Household £m	Total £m
Cost						
At 1 April 2024	322.154	2,533.073	7,669.836	696.505	36.793	**11,258.361**
Disposals	(0.316)	(3.693)	(15.392)	(0.304)	(1.136)	**(20.841)**
Additions	101.241	229.096	536.332	23.752	0.779	**891.200**
Assets adopted at nil cost	–	–	8.642	–	–	**8.642**
At 31 March 2025	**423.079**	**2,758.476**	**8,199.418**	**719.953**	**36.436**	**12,137.362**
Depreciation						
At 1 April 2024	(97.575)	(803.918)	(2,706.593)	(354.292)	(32.955)	**(3,995.333)**
Disposals	0.316	3.652	15.344	0.305	1.136	**20.753**
Charge for year	(7.889)	(60.911)	(232.563)	(25.356)	(2.914)	**(329.633)**
At 31 March 2025	**(105.148)**	**(861.177)**	**(2,923.812)**	**(379.343)**	**(34.733)**	**(4,304.213)**
Net book amount at 31 March 2025	**317.931**	**1,897.299**	**5,275.606**	**340.610**	**1.703**	**7,833.149**
Net book amount at 1 April 2024	224.579	1,729.155	4,963.243	342.213	3.838	**7,263.028**
Depreciation charge for year						
Principal services	(7.696)	(60.587)	(232.306)	(25.350)	(2.914)	**(328.853)**
Third party services	(0.193)	(0.324)	(0.257)	(0.006)	–	**(0.780)**
Total	**(7.889)**	**(60.911)**	**(232.563)**	**(25.356)**	**(2.914)**	**(329.633)**

The net book value of tangible assets includes £1,096.3 million in respect of assets in the course of construction.

In order to present the intangible asset information alongside the fixed asset information Table 2O is presented below.

2O – Historic cost analysis of intangible assets – Wholesale and retail

	Wholesale				Retail	
	Water resources £m	Water network + £m	Wastewater network + £m	Bioresources £m	Household £m	Total £m
Cost						
At 1 April 2024	11.133	4.137	205.730	0.094	47.139	**268.233**
Additions	–	–	13.143	–	1.532	**14.675**
At 31 March 2025	**11.133**	**4.137**	**218.873**	**0.094**	**48.671**	**282.908**
Depreciation						
At 1 April 2024	(10.651)	(3.729)	(134.496)	(0.094)	(23.725)	**(172.695)**
Charge for year	(0.464)	(0.217)	(17.126)	–	(6.635)	**(24.442)**
At 31 March 2025	**(11.115)**	**(3.946)**	**(151.622)**	**(0.094)**	**(30.360)**	**(197.137)**
Net book amount at 31 March 2025	**0.018**	**0.191**	**67.251**	**–**	**18.311**	**85.771**
Net book amount at 1 April 2024	0.482	0.408	71.234	–	23.414	**95.538**
Depreciation charge for year						
Principal services	(0.464)	(0.217)	(17.126)	–	(6.635)	**(24.442)**
Third party services	–	–	–	–	–	**–**
Total	**(0.464)**	**(0.217)**	**(17.126)**	**–**	**(6.635)**	**(24.442)**

The net book value of intangible assets includes £9.3million in respect of assets in the course of construction.

2E – Analysis of 'grants and contributions' for the 12 months ended 31 March 2025 – water resources, water network+ and wastewater network+

	Fully recognised in income statement £m	Capitalised and amortised (in the income statement) £m	Total £m
Grants and contributions – water resources			
Diversions – s185	–	–	**–**
Other contributions (price control)	–	2.903	**2.903**
Price control grants and contributions	–	2.903	**2.903**
Diversions – NRSWA	–	–	**–**
Diversions – other non-price control	–	–	**–**
Other contributions (non-price control)	–	–	**–**
Total	**–**	**2.903**	**2.903**
Value of adopted assets	–	–	–
Grants and contributions – water network+			
Connection charges	4.741	–	**4.741**
Infrastructure charge receipts	2.067	–	**2.067**
Requisitioned mains	1.752	(0.272)	**1.480**
Diversions – s185	0.539	–	**0.539**
Other contributions (price control)	–	5.060	**5.060**
Price control grants and contributions before deduction of income offset	**9.099**	**4.788**	**13.887**
Income offset	1.590	–	**1.590**
Price control grants and contributions after deduction of income offset	**7.509**	**4.788**	**12.297**
Diversions – NRSWA	1.009	–	**1.009**
Diversions – other non-price control	–	–	**–**
Other contributions (non-price control)	–	–	**–**
Total	**8.518**	**4.788**	**13.306**
Value of adopted assets	**–**	**–**	**–**
Grants and contributions – wastewater network+			
Receipts for on-site work	1.618	(0.034)	**1.584**
Infrastructure charge receipts	12.257	–	**12.257**
Diversions – s185	1.964	–	**1.964**
Other contributions (price control)	0.241	–	**0.241**
Price control grants and contributions before deduction of income offset	**16.080**	**(0.034)**	**16.046**
Income offset	2.800	–	**2.800**
Price control grants and contributions after deduction of income offset	**13.280**	**(0.034)**	**13.246**
Diversions – NRSWA	0.202	–	**0.202**
Diversions – other non-price control	–	–	**–**
Other contributions (non-price control)	–	(1.250)	**(1.250)**
Total	**13.482**	**(1.284)**	**12.198**
Value of adopted assets	**8.642**	**–**	**8.642**

2E – Analysis of 'grants and contributions' for the 12 months ended 31 March 2025 – water resources, water network+ and wastewater network+ – continued

IFRS 15'Revenue from Contracts with Customers' became effective for financial period commencing on or after 1 January 2018.

The effect of applying IFRS 15 results in the immediate recognition, on completion of the performance obligation, of developer related revenue relating to diversions, requisitions and adoptions, previously treated as deferred revenue. Until the performance obligation is completed the revenue for these activities will be deferred on the Balance Sheet.

Grants and contributions recognised in the statutory income statement as revenue have been reclassified to other income for regulatory purposes in table 1A. These include the amounts of £8.5 million and £13.5 million disclosed above for water and wastewater respectively together with £8.6 million of adopted assets.

	Water resources £m	Water network+ £m	Wastewater network+ £m	Total £m
Movements in capitalised grants and contributions				
Brought forward	8.332	12.804	15.130	**36.266**
Capitalised in year	2.903	4.788	(1.284)	**6.407**
Amortisation (in income statement)	(0.162)	(0.711)	(0.589)	**(1.462)**
Carried forward	**11.073**	**16.881**	**13.257**	**41.211**

2F – Residential retail for the year ended 31 March 2025

	Revenue £m	Number of customers 000's	Average residential revenues £
Residential revenue			
Wholesale charges	692.014		
Retail revenue	50.827		
Total residential revenue	**742.841**		
Retail revenue			
Revenue Recovered ('RR')	50.827		
Revenue sacrifice	–		
Actual revenue (net)	**50.827**		
Customer information			
Actual customers ('AC')		2,017.029	
Reforecast customers		2,022.201	
Adjustment			
Allowed revenue ('R')	48.938		
Net adjustment	**(1.889)**		
Other residential information			
Average residential retail revenue per customer			25.199

As we have exited the retail market and in accordance with the guidance in RAG 4.13, we are not required to report tables 2G and 2H.

2I – Revenue analysis for the 12 months ended 31 March 2025

	Household £m	Non-household £m	Total £m	Water resources £m	Water network+ £m	Total £m
Wholesale charge – water						
Unmeasured	21.940	1.302	**23.242**	2.906	20.336	**23.242**
Measured	175.473	57.209	**232.682**	29.091	203.591	**232.682**
Third party revenue	–	1.877	**1.877**	0.176	1.701	**1.877**
Total wholesale water revenue	**197.413**	**60.388**	**257.801**	**32.173**	**225.628**	**257.801**

	Household £m	Non-household £m	Total £m	Wastewater network+ £m	Bioresources £m	Total £m
Wholesale charge – wastewater						
Unmeasured – foul charges	93.435	3.030	**96.465**	86.306	10.159	**96.465**
Unmeasured – surface water charges	6.368	0.140	**6.508**	6.508	–	**6.508**
Unmeasured – highway drainage charges	3.693	0.074	**3.767**	3.767	–	**3.767**
Measured – foul charges	340.293	94.313	**434.606**	388.837	45.769	**434.606**
Measured – surface water charges	30.824	4.573	**35.397**	35.397	–	**35.397**
Measured – highway drainage charges	19.988	0.878	**20.866**	20.866	–	**20.866**
Third party revenue	–	1.381	**1.381**	1.381	–	**1.381**
Total wholesale wastewater revenue	**494.601**	**104.389**	**598.990**	**543.062**	**55.928**	**598.990**
Wholesale total	**692.014**	**164.777**	**856.791**			
Retail revenue						
Unmeasured	4.922	–	**4.922**			
Measured	45.905	–	**45.905**			
Other third party revenue	–	–	**–**			
Retail total	**50.827**	**–**	**50.827**			
Third party revenue – non-price control						
Bulk supplies – water			**5.005**			
Bulk supplies – wastewater			**3.896**			
Other third party revenue			**1.913**			
Principal services – non-price control						
Other appointed revenue			**0.014**			
Total appointed revenue			**918.446**			

2J – Infrastructure network reinforcement costs for the 12 months ended 31 March 2025

	Network reinforcement capex £m	On site / site specific capex (memo only) £m
Wholesale water network+ (treated water distribution)		
Distribution and trunk mains	–	4.256
Pumping and storage facilities	0.011	–
Other	–	–
Total	**0.011**	**4.256**
Wholesale wastewater network+ (sewage collection)		
Foul and combined systems	7.292	3.117
Surface water only systems	–	–
Pumping and storage facilities	0.023	0.003
Other	–	–
Total	**7.315**	3.120

2K – New connections – infrastructure charges reconciliation for the 12 months ended 31 March 2025

	Water £m	Wastewater £m	Total £m
Impact of infrastructure charge discounts			
Infrastructure charges	2.067	12.257	**14.324**
Discounts applied to infrastructure charges	0.123	–	**0.123**
Gross infrastructure charges	**2.190**	**12.257**	**14.447**
Comparison of revenue and costs			
Variance brought forward	3.699	(8.022)	**(4.323)**
Revenue	2.067	12.257	**14.324**
Costs	(0.011)	(7.315)	**(7.326)**
Variance carried forward	**5.755**	**(3.080)**	**2.675**

Infrastructure charges are received when new connections are made to the network and represent a contribution to the incremental impact additional connections have on the overall network. Network reinforcement costs represent the capital expenditure undertaken generally on our network to allow for the increased flows as a consequence of new connections/ developments.

To be able to make and accept flows, before new connections are made, it is sometimes necessary to complete infrastructure enhancement in advance of the new connections being made. As a result, construction costs normally precede income receipt.

For example, we spent £0.5 million in the year, bringing the total spend to £13.4 million, on providing a new 6.5km rising main to support an ongoing development at Chilmington Green near Ashford. This is a development of up to 7,500 new properties to be built over the coming years. We continue to increase capacity in several areas of our region, to support substantial long-term population growth, including Bognor £1.1 million and Bexhill £1.2 million.

The table above compares infrastructure charges received in the year with the level of general network reinforcement work. The variance in the year relates to the timing difference of completing these activities and is expected to even out over time.

2L – Analysis of land sales for the 12 months ended 31 March 2025

	Water resources £m	Water Network+ £m	Wastewater Network+ £m	Total £m
Proceeds from disposals of protected land	–	–	0.273	**0.273**

2M – Revenue reconciliation for the 12 months ended 31 March 2025 – wholesale

	Water resources £m	Water network+ £m	Wastewater network+ £m	Bioresources £m	Total £m
Revenue recognised					
Wholesale revenue governed by price control	32.173	225.628	543.062	55.928	**856.791**
Grants and contributions (price control)	2.903	12.297	13.246	–	**28.446**
Total revenue governed by wholesale price control	**35.076**	**237.925**	**556.308**	**55.928**	**885.237**
Calculation of the revenue cap					
Allowed wholesale revenue before adjustments (or modified by CMA)	36.998	222.695	541.654	59.315	**860.662**
Allowed grants and contributions before adjustments (or modified by CMA)	0.137	20.361	21.796	–	**42.294**
Revenue adjustment	–	–	–	–	**–**
Other adjustments	–	–	–	–	**–**
Revenue cap	**37.135**	**243.056**	**563.450**	**59.315**	**902.956**
Calculation of the revenue imbalance					
Revenue cap	37.135	243.056	563.450	59.315	**902.956**
Revenue recovered	35.076	237.925	556.308	55.928	**885.237**
Revenue imbalance	**2.059**	**5.131**	**7.142**	**3.387**	**17.719**

Overall wholesale price control revenue was £17.7 million (2.0%) lower than allowed in the final determination.

We under-recovered by £2.1 million (5.5%) in Water Resources and in Water Network+ we under-recovered by £5.1 million (2.1%). This under-recovery reflects consumption being lower than forecast and the non-household revenue billed in relation to 2023–24 being lower than accrued at March 2024.

In Wastewater Network+ we under-recovered by £7.1 million (1.3%). In Bioresources the allowed wholesale revenue is as set out in Ofwat's final determination; the revenue imbalance of £3.4 million (5.7%) is due to the actual volume of sludge being lower than forecast in our business plan and reflected in the Final Determination from Ofwat. The revenue imbalance will be reconciled through a revenue adjustment to bills in year 2026–27.

In total Grants and Contributions were £13.9 million below the allowed level. Contributions received for water resources were £2.8 million higher than our allowance, but this was offset by Water and Wastewater Network+, which were £8.1 million and £8.6 million lower than the Ofwat assumption respectively. Under Ofwat's 'single till' approach Grants and Contributions and wholesale revenues are treated as a single allowance; due to the forecast shortfall in Grants and Contributions we will recover more of the allowed revenues from wholesale water and wastewater charges than forecast in the Final Determination.

The shortfall in Grants and Contributions results primarily from reduced developer related activities in relation to requisitions, diversions and new connections. In addition, we have experienced increasing numbers of New Appointment Variations and water self-lay activity, resulting in much lower requisition volumes.

2N – Household affordability support and debt

Section A – social tariffs	Number of customers 000s
Number of residential customers on social tariffs	
Residential water only social tariffs	2.915
Residential wastewater only social tariffs	78.409
Residential dual service social tariffs	62.721
Number of residential customers not on social tariffs	
Residential water only no social tariffs	93.258
Residential wastewater only no social tariffs	864.791
Residential dual service no social tariffs	914.936

Section A – social tariffs (continued)	Average amount per customer £
Social tariff discount	
Average discount per water only social tariffs customer	97.427
Average discount per wastewater only social tariffs customer	122.346
Average discount per dual service social tariffs customer	191.722

Section A – social tariffs (continued)	Revenue £m	Average amount per customer £
Social tariff cross-subsidy – residential customers		
Total customer funded cross-subsidies for water only social tariffs customers	0.284	
Total customer funded cross-subsidies for wastewater only social tariffs customers	9.593	
Total customer funded cross-subsidies for dual service social tariffs customers	12.025	
Average customer funded cross-subsidy per water only social tariffs customer		2.953
Average customer funded cross-subsidy per wastewater only social tariffs customers		10.171
Average customer funded cross-subsidy per dual service social tariffs customer		12.300
Social tariff cross-subsidy – company		
The company has not forgone revenue to subsidise the social tariff		
Social tariff support – willingness to pay		
Level of support for social tariff customers reflected in business plan		6
Maximum contribution to social tariffs supported by customer engagement		13

2N – Household affordability support and debt

Section B – WaterSure tariffs	Revenue £m	Number of customers 000s	Average amount per customer £
WaterSure tariffs			
Number of unique customers on WaterSure		17.356	
Total reduction in bills for WaterSure customers	4.984		
Average reduction in bills for WaterSure customers			287.163

We have updated the maximum contribution to social tariffs supported by customer engagement to reflect the level above which most of the customers surveyed confirmed an increase would be unacceptable. We consulted with our regulators in July 2022 for their approval to increase the support we provide to those customers most in need.

Deloitte.

Independent Auditor's report to the Water Services Regulation Authority (the 'WSRA') and the directors of Southern Water Services Limited

Opinion

We have audited the sections of Southern Water Services Limited's ("the Company") Annual Performance Report for the year ended 31 March 2025 ("the Regulatory Accounting Statements") which comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D), the net debt analysis (table 1E), lines 1F.1 to 1F.3, 1F.5 to 1F.8, 1F.12 to 1F.14, 1F.21 to 1F.22 and 1F.24 to 1F.26 of the statement of financial flows (table 1F) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale (table 2B), the cost analysis - retail (table 2C), the historical cost analysis of fixed assets (table 2D), the analysis of grants and contributions (table 2E), the residential retail (table 2F), the non-household water revenues tariff type (table 2G), the non-household wastewater revenues by tariff (table 2H), the revenue analysis (table 2I), the infrastructure network reinforcement costs (table 2J), the infrastructure charges reconciliation (table 2K), the analysis of land sales (table 2L), the revenue reconciliation for wholesale (table 2M), household affordability support and debt (table 2N) and historical cost analysis of intangible assets (table 2O) and the related notes.

We have not audited lines 1F.4, 1F.9 to 1F.11, 1F.15 to 1F.20 and 1F.23 of the statement of financial flows (table 1F), the Outcome performance table (tables 3A to 3I) and the additional regulatory information in tables 4A to 4Z, 5A to 5B, 6A to 6F, 7A to 7F, 8A to 8D, 9A, 10A to 10H and 11A.

In our opinion, Southern Water Services Limited's Regulatory Accounting Statements have been prepared, in all material aspects, in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.09, RAG 2.09, RAG 3.15, RAG 4.13 and RAG 5.07) and the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.15, appendix 2), set out on page 36.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and applicable law and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF (Revised) 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England & Wales.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the Regulatory Accounting Statements within the Annual Performance Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Regulatory Accounting Statements, including the Financial Reporting Council's (FRC's) Ethical Standard as applied to public interest entities, and we have fulfilled our 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.

Emphasis of matter – special purpose basis of preparation

We draw attention to the fact that the Regulatory Accounting Statements have been prepared in accordance with a special purpose framework, Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.15, appendix 2) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounting Statements are determined by the WSRA. As a result, the Regulatory Accounting Statements may not be suitable for another purpose. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment. In addition, we are not required to assess whether the methods of cost allocation set out in the accounting methodology statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA.

The Regulatory Accounting Statements are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom international accounting standards in conformity with the requirements of the Companies Act 2006 ("UK IASs"). Financial information other than that prepared on the basis of UK IASs does not necessarily represent a true and fair view of the financial performance or financial position of a Company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages 27 to 93 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from UK IASs. A summary of the effect of these departures in the Company's statutory financial statements is included in the tables within section 1.

Our opinion is not modified in respect of this matter.

Material uncertainty relating to going concern

We draw attention to note [1a] in the Regulatory Accounting statements, which indicates a future downgrade to a sub investment grade rating or breach of the PMICR covenant would result in an event of default under the terms of the company's financing arrangements. Further, the company requires additional equity funding to finance the company through the going concern period, which as of the date of the report has not been committed as it is subject to the completion of a number of technical conditions. A failure to raise equity or debt funding, or significant operational under performance could lead to a potential PMICR covenant breach or ratings downgrades.

As stated in note 1a, these events or conditions, along with the other matters as set forth in note 1a, indicate that a material uncertainty exists which may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Obtained an understanding of relevant controls related to the directors' assessment of going concern;
- Obtained third party bank confirmation for the company's bank accounts, which confirm cash balances and borrowings, inspect facility agreements and compare to the facilities assumed in the forecasts;
- Obtained the directors' going concern assessment, including cashflow forecast, liquidity requirements and forecast covenant calculations for the going concern period and perform integrity checks including testing the mathematical accuracy;
- Assessed the forecasts used for the going concern assessment period for reasonableness and, where applicable, corroborate the data with information from other areas of the audit. We evaluated the appropriateness of key assumptions in the forecasts, and considered the historical accuracy of forecasting;
- Assessed Fitch's and Standard & Poor's credit ratings for the company of BBB- (Fitch's) and Ba1 (Standard & Poor's), with the rating from Standard & Poor's subject to a credit watch negative;
- Recalculated debt covenants and assess compliance over the forecast period, considering the most recent available credit ratings of the company to determine the impact this has on covenant compliance;
- Challenged the reasonableness of management's stress tests by independently modelling scenarios and challenging their data inputs to understand the impact on the company's liquidity and covenant ratios;
- Worked with our debt advisory specialists to evaluate the company's ability to raise additional debt and equity considering investors' appetite in financing the water industry;
- Assessed the impact of potential fines from ongoing regulatory investigations on the company's ability to continue as a going concern;
- Evaluated the mitigating actions available to the company in order to manage cashflows during the going concern period to avoid a covenant or liquidity breach;
- Performed inquiries with key stakeholders (from both within and outside of the company) including Macquarie to understand their intentions and plans for additional equity injection into the company; and
- Assessed the appropriateness of the disclosures in note 1 regarding the material uncertainty related to going concern.

Other information

The other information comprises all of the information in the Annual Performance Report other than the Regulatory Accounting Statements and our auditors' report thereon. The directors are responsible for the other information contained within the Annual Performance report. Our opinion on the Regulatory Accounting Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Regulatory Accounting Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Regulatory Accounting Statements, or our knowledge obtained in course of the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Regulatory Accounting Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report based on these responsibilities.

Responsibilities of the Directors for the Annual Performance Report

As explained more fully in the Statement of Directors' Responsibilities set out on page 25, the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.15, appendix 2).

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Annual Performance Report that is free from material misstatement, whether due to fraud or error.

In preparing the Annual Performance Report, 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.

Auditors' responsibilities for the Audit of the Regulatory Accounting Statements within the Annual Performance Report

Our objectives are to obtain reasonable assurance about whether the Regulatory Accounting Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Regulatory Accounting Statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We considered the nature of the company's industry and its control environment and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- Had a direct effect on the determination of material amounts and disclosures in the Regulatory Accounting Statements. These included Regulatory Accounting Guidelines as issued by the WSRA, UK Companies Act, pensions legislation and tax legislation; and
- Do not have a direct effect on the Regulatory Accounting 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, regulatory solvency requirements and environmental regulations.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the 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, in-house and external legal counsel concerning actual and potential litigation and claims.
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.
- reading minutes of meetings of those charged with governance, the audit committee,

reviewing internal audit reports and reviewing correspondence with Ofwat and other regulatory authorities; and

- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

A further description of our responsibilities for the audit of the Regulatory Accounting Statements is located on the Financial Reporting Council's website at frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of this report

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, 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 WSRA, for our audit work, for this report or for the opinions we have formed.

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2025 on which we reported on 15 July 2025, which are prepared for a different purpose.

Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Deloitte LLP

Deloitte LLP
London, United Kingdom
15 July 2025

Performance Summary

Assurance

Jacobs U.K. Limited were engaged to provide independent limited assurance over the selected annual performance data highlighted in this section for the financial year ended 31 March 2025, using the assurance standard ISAE (UK) 3000. Jacobs U.K. Limited has provided limited assurance only over the performance level reported for 2024–25 and have issued an unqualified report over the selected annual performance data which is available on page 76.

3A – Outcome performance – Water common performance commitments

Common performance commitments – Water (Financial)	Unique reference	Status	Unit	Performance level – actual	PCL met?	Outperformance or underperformance payment £m	Forecast of total 2020–25 outperformance or underperformance payment £m
Water quality compliance (CRI)	PR19SRN_WN02	✖	number	3.82	No	-1.143	-9.156
Water supply interruptions	PR19SRN_WN03	✖	hh:mm:ss	02:21:50	No	-4.331	-15.022
Leakage	PR19SRN_WN04	✖	%	-4.7	No	-5.221	-12.150
Per capita consumption	PR19SRN_WR01	✖	%	0.5	No	-1.531	-2.768
Mains repairs	PR19SRN_WN05	✖	per 1000km of main	122.9	No	-2.990	-9.601
Unplanned outage	PR19SRN_WN06	✔	%	3.21	Yes	0.000	0.000
Bespoke performance commitments – Water and Retail (Financial)							
Drinking water appearance	PR19SRN_WN07	–	nr	0.92	No	-2.125	-6.376
Drinking water taste and odour	PR19SRN_WN08	✖	nr	0.32	No	-0.508	-0.739
Abstraction Incentive Mechanism	PR19SRN_WR05	✖	nr	-11	No	-0.634	-0.246
Access to daily water consumption data	PR19SRN_RR02	–	nr	0	No	0.000	0.000
Void properties	PR19SRN_RR03	✖	%	3.16	No	-0.600	-3.000
Replace lead customer pipes	PR19SRN_WN09	–	nr	0	No	0.000	0.000
Properties at risk of receiving low pressure	PR19SRN_WN11	✔	nr	167	Yes	0.000	-0.118
Long term supply demand schemes	PR19SRN_WN13	–	months	50	No	-82.655	-82.655
Impounding reservoirs	PR19SRN_WR07	–	%	0.0	No	-0.663	-1.310
Financial water performance commitments achieved			%	0	13		
Overall performance commitments achieved (excluding C-MeX and D-MeX)			%	0	30		

Key

✔ Ofwat target met or exceeded
– Ofwat target missed but performance improved in relation to prior year outcome
✖ Ofwat target missed and performance worse than prior year outcome
– Not applicable

Notes: Each performance commitment is shown with the assessed performance status (red, amber or green) which indicates performance against expectations. An explanation of each performance commitment, the definitions and the criteria for assessment is given in appendix 2.

3B – Outcome performance – Wastewater common performance commitments

Common performance commitments – Wastewater (Financial)	Unique reference	Status	Unit	Performance level – actual	PCL met?	Outperformance or underperformance payment £m	Forecast of total 2020–25 outperformance or underperformance payment £m
Internal sewer flooding	PR19SRN_WWN01	✔	Number of incidents per 10,000 sewer connections	1.34	Yes	0.000	(19.394)
Pollution incidents	PR19SRN_WWN02	✘	Number of incidents per 10,000 km of sewer	67.71	No	(9.296)	(41.549)
Sewer collapses	PR19SRN_WWN04	✘	Number of sewer collapses per 1,000 km of all sewers	6.19	No	(1.309)	(11.132)
Treatment works compliance	PR19SRN_WWN05	✘	%	98.23	No	(7.700)	(45.500)
Bespoke performance commitments – Wastewater (Financial)							
Effluent re-use	PR19SRN_WWN07	✔	nr	50	Yes	0.000	0.002
Renewable Generation	PR19SRN_BIO01	–	%	14.79	No	(1.326)	(6.630)
Satisfactory bioresources recycling	PR19SRN_BIO02	✔	%	100.00	Yes	0.000	0.000
River water quality	PR19SRN_WWN09	✔	nr	182.30	Yes	0.000	0.000
Maintain Bathing waters at 'Excellent'.	PR19SRN_WWN11	–	nr	49	No	(3.600)	(7.650)
Improve the number of Bathing waters to at least 'Good' (Cost Adjustment Claim).	PR19SRN_WWN12	✘	nr	3	No	(3.704)	(3.704)
Improve the bathing waters at 'Excellent' quality (Cost Adjustment Claim).	PR19SRN_WWN13	✔	nr	2	No	0.000	0.000
Surface water management	PR19SRN_WWN06	–	m^3	0	No	(0.052)	(0.261)
External sewer flooding	PR19SRN_WWN08	✔	nr	3,047	Yes	1.703	5.036
Thanet Sewers	PR19SRN_WWN16	✔	months	0	Yes	0.000	0.000
Financial wastewater performance commitments achieved			%	0	50		

Key

✔ Ofwat target met or exceeded
– (amber) Ofwat target missed but performance improved in relation to prior year outcome
✘ Ofwat target missed and performance worse than prior year outcome
– Not applicable

3C – Customer measure of experience (C-MeX) table

Item	Unit	Value
Annual customer satisfaction score for the customer service survey	Number	63.44
Annual customer satisfaction score for the customer experience survey	Number	66.83
Annual C-MeX score	Number	65.13
Annual net promoter score	Number	-22.50
Total household complaints	Number	14,363
Total connected household properties	Number	2,088,159
Total household complaints per 10,000 connections	Number	68.783
Confirmation of communication channels offered	TRUE or FALSE	TRUE

3D – Developer services measure of experience (D-MeX) table

Item	Unit	Value
Qualitative component annual results	Number	68.96
Quantitative component annual results	Number	98.53
D-MeX score	Number	83.75
Developer services revenue (water)	£m	16.913
Developer services revenue (wastewater)	£m	16.046

Calculating the D-MeX quantitative component

Water UK performance metric	Unit	Reporting period (1 April to 31 March)	Quantitative score (annual)
W1.1 Pre-development enquiry – reports issued within target	%	98.83%	
W3.1 s45 quotations – within target	%	99.97%	
W4.1 s45 service pipe connections – within target	%	97.13%	
W6.1 Mains design	%	98.25%	
W7.1 Mains design >500 plots – quotations within target	%	100.00%	
W8.1 Mains construction within target	%	100.00%	
W17.1 Mains diversions (without constraints) – quotations within target	%	92.86%	
W17.2 Mains diversions (with constraints) – quotations within target	%	100.00%	
W18.1 Mains diversions – construction/commissioning within target	%	–	
W20.1 Self lay Point of Connection report < 500 plots etc – reports issued within target	%	–	
W21.1 Self lay Point of Connection reports >500 plots etc – reports issued within target	%	–	
W23.1 Self lay design and terms request	%	–	
W24.1 Self lay design and terms request >500 plots etc – quotations within target	%	–	
W26.1 Self lay water for pressure/bacteriological testing – provided within target	%	–	
W27.1 Self lay permanent water supply– provided within target	%	–	
W30.1 Self lay plot references and costing details – issued within target	%	–	

Calculating the D-MeX quantitative component (continued)

Water UK performance metric	Unit	Reporting period (1 April to 31 March)	Quantitative score (annual)
S1.1 Pre-development enquiry – reports issued within target	%	88.96%	
S3.1 Sewer requisition design – offers issued within target	%	100.00%	
S4.1 Sewer requisition – constructed and commissioned within agreed extension	%	–	
S7.1 Adoption legal agreement – draft agreements issued within target	%	–	
SN2.2 % Bulk discharge offer letters issued to the applicant within target period	%	99.10%	
SN4.1 % of main laying schemes constructed and commissioned within the target period	%	–	
WN1.1 % of confirmations issued to the applicant within target period	%	97.69%	
WN2.2 % Bulk supply offer letters issued to the applicant within target period	%	100.00%	
WN4.1 % of main laying schemes constructed and commissioned within the target period	%	100.00%	
WN4.2 % of testing supplies provided within target period	%	–	
WN4.3 % of permanent supplies made available within the target period	%	–	
SAM – 3/1 Update draft agreement	%	100.00%	
SAM – 4/1 Inspections and construction period	%	100.00%	
SLPM – S1/2 Review point of connection approval	%	96.97%	
SLPM – S2/2a Provide design	%	100.00%	
SLPM – S2/2b Provide design acceptance	%	100.00%	
SLPM – S3 Issue Water Adoption Agreement	%	100.00%	
SLPM – S4/1 Source of water delivery date	%	100.00%	
SLPM – S5/1a Review request and carry out final connection	%	0.00%	
SLPM – S7/1 Validate notification and provide consent to progress with connection	%	100.00%	
D-MeX quantitative score (for the relevant reporting period)	%	98.53%	
D-MeX quantitative score (annual)	Number		0.99

3E – Outcome performance – Non financial performance commitments

Common	Unique reference	Status	Unit	Performance level – actual: Current reporting year	PCL met?
Risk of severe restrictions in a drought	PR19SRN_ WR02	✓	%	28.7	No
Priority services for customers in vulnerable circumstances – PSR reach	PR19SRN_ RR08	✓	%	15.3	Yes
Priority services for customers in vulnerable circumstances – Attempted contacts	PR19SRN_ RR08	✓	%	95.3	Yes
Priority services for customers in vulnerable circumstances – Actual contacts	PR19SRN_ RR08	✓	%	38.7	Yes
Risk of sewer flooding in a storm	PR19SRN_ WWN03	✓	%	10.61	Yes
Bespoke performance commitments					
Target 100	PR19SRN_ WR03	✗	%	38	No
Water saved from water efficiency visits	PR19SRN_ WR04	–	m^3/day	1,388	No
Effectiveness of financial assistance	PR19SRN_ RR04	✗	%	74	No
Customer satisfaction with vulnerability support	PR19SRN_ RR05	✗	%	66	No
Community engagement	PR19SRN_ N01	–	rank	67	No
Schools visited and engagement with children	PR19SRN_ N02	✓	%	100	Yes
Water supply resilience	PR19SRN_ WN10	–	nr	96,977	No
Combined Sewer Overflows (CSO) monitoring	PR19SRN_ WWN10	–	%	87.62	No
Natural capital	PR19SRN_ WWN15	✓	nr	11	Yes
Gap sites	PR19SRN_ RR06	✗	nr	35	No
Distribution input	PR19SRN_ WN12	–	Ml/day	560	No
Value for money	PR19SRN_ RR07	–	%	60	No
WINEP delivery	PR19SRN_ NEP01	–	text	Not met	No

Non-financial water performance commitments achieved	%	33

3F – Underlying calculations for common performance commitments – water and retail

Performance commitments set in standardised units – Water	Status	Unit	Standardising data indicator	Standardising data numerical value	Performance level – Actual (current reporting year)	Performance level – Calculated (i.e. standardised)
Mains repairs – Reactive	✗	Mains repairs per 1000 km	Mains length in km	13,999.80	918	65.57
Mains repairs – Proactive	✗	Mains repairs per 1000 km	Mains length in km	13,999.80	802	57.29
Mains repairs	✗	Mains repairs per 1000 km	Mains length in km	13,999.80	1,720	122.86
Per capita consumption (PCC)	✗	l/p/d	Total household population (000s) and household consumption (Ml/d)	2,653.92	338	127.20

Performance commitments measured against a calculated baseline	Status	Unit	Performance level – actual			Baseline (average from 2017–18 to 2019–20)	Performance level – actual					Performance level 3 year average (current and previous 2 years)	Calculated performance level to compare against PCLs
			(2017–18)	(2018–19)	(2019–20)		(2020–21)	(2021–22)	(2022–23)	(2023–24)	(2024–25)		
Leakage	✗	Ml/d	102.6	102.9	94.1	99.9	93.8	96.8	108.5	107.5	97.7	104.6	-4.7
Per capita consumption (PCC)	✗	l/p/d	126.2	129.6	128.1	128.0	139.0	133.6	128.4	126.7	127.2	127.4	0.5

Water supply interruptions	Status	Unit	Standardising data indicator	Standardising data numerical value	Total minutes lost	Number of properties supply interrupted	Calculated performance level
Water supply interruptions ≥ 3 hours	✗	Average number of minutes lost per property per year	Number of properties (thousands)	1,170.7	166,047,294	316	02:21:50
Water supply interruptions ≥ 6 hours	✗	Average number of minutes lost per property per year	Number of properties (thousands)	1,170.7	160,386,575	84	02:17:00
Water supply interruptions ≥ 12hours	✗	Average number of minutes lost per property per year	Number of properties (thousands)	1,170.7	153,383,577	71	02:11:01
Water supply interruptions ≥ 24hours	✗	Average number of minutes lost per property per year	Number of properties (thousands)	1,170.7	127,656,912	48	01:49:02

Unplanned or planned outage	Status	Current company level peak week production capacity (PWPC) Ml/d	Reduction in company level PWPC Ml/d	Outage proportion of PWPC %
Unplanned outage	✗	868.71	27.9	3.21%

Priority services for customers in vulnerable circumstances	Status	Total residential properties (000s)	Total number of households on the PSR (as at 31 March)	PSR reach	Total number of households on the PSR over a 2 year period	Number of attempted contacts over a 2 year period	Attempted contacts %	Number of actual contacts over a 2 year period	Actual contacts %
Priority services for customers in vulnerable circumstances	✓	2,024	310,591	15.3%	137,188.0	130,781	95.3%	53,067.0	38.7%

3G – Underlying calculations for common performance commitments – wastewater

Performance commitments set in standardised units	Unique reference	Status	Units	Standardising data indicator	Standardising data numerical value	Performance level – actual current reporting year	Calculated performance level
Internal sewer flooding – customer proactively reported	PR19SRN_ WWN01	✓	Number of incidents per 10,000 sewer connections	Number of sewer connections	2,068.30	238	1.15
Internal sewer flooding – company reactively identified (i.e. neighbouring properties)	PR19SRN_ WWN01	✓	Number of incidents per 10,000 sewer connections	Number of sewer connections	2,068.30	39	0.19
Internal sewer flooding	PR19SRN_ WWN01	✓	Number of incidents per 10,000 sewer connections	Number of sewer connections	2,068.30	277	1.34
Pollution incidents	PR19SRN_ WWN02	✗	Number of incidents per 10,000 km of sewer	Sewer length in km	39,729.00	269	67.71
Sewer collapses	PR19SRN_ WWN04	✗	Number of sewer collapses per 1,000 km of all sewers	Sewer length in km	40,097.00	248	6.19

3H – Summary information on outcome delivery incentive payments

	Initial calculation of performance payments (excluding C-MeX and D-MeX) £m (2017–18 prices)
Initial calculation of in period revenue adjustment by price control	
Water resources	-1.297
Water network+	-16.358
Wastewater network+	-23.957
Bioresources (sludge)	-1.286
Residential retail	-0.600
Business retail	0.000
Dummy control	0.000
Initial calculation of end of period revenue adjustment by price control	
Water resources	-1.531
Water network+	-82.655
Wastewater network+	0.000
Bioresources (sludge)	0.000
Residential retail	0.000
Business retail	0.000
Dummy control	0.000
Initial calculation of end of period RCV adjustment by price control	
Water resources	0.000
Water network+	0.000
Wastewater network+	0.000
Bioresources (sludge)	0.000
Residential retail	0.000
Business retail	0.000
Dummy control	0.000

3I – Supplementary outcomes information

Unplanned or planned outage	Status	Current company level peak week production capacity (PWPC) Ml/d	Reduction in company level PWPC Ml/d	Outage proportion of PWPC %
Planned outage	✓	868.71	28.81	3.32%

Risk of severe restrictions in drought	Status	Deployable output Ml/d	Outage allowance Ml/d	Dry year demand Ml/d	Target headroom Ml/d	Total population supplied	Customers at risk
Risk of severe restrictions in drought	✗	730.68	63.06	559.92	31.53	2,707,434.00	Yes

Risk of sewer flooding in a storm	Status	Total pe served	Total pe in excluded catchments	Percentage of total pe in excluded catchments
Risk of sewer flooding in a storm	✓	4,904,853.00	0.00	0.00%

Risk of sewer flooding in a storm	Status	Total pe Option 1a	Percentage of total pe Option 1a	Total pe Option 1b	Percentage of total pe Option 1b	Vulnerability risk grade Percentage of total population served Low	Medium	High
Risk of sewer flooding in a storm	✓	188,047.00	3.83%	4,716,806.00	96.17%	89.39%	2.89%	7.72%

Sewer collapses	Status	Number of patch repairs or relining undertaken on sewer and not included in reported sewer collapses
Sewer collapses	N/A	1,249

2024–25 performance against performance commitments

While we saw a number of improvements in 2024–25, including outperforming our PR19 commitments on unplanned outage, external and internal flooding, and meeting a number of our turnaround plan targets, we are aware that having experienced a number of major operational failures we have not met our customers' expectations and have seen a downturn in overall performance only meeting 12 of our 47 performance targets compared to 17 in 2023–24.

Despite this and several complex challenges across our region, we remain committed to delivering to our customers as reflected in our ambitious plans for AMP8. These challenges and our performance are reflected in an increase in our in-period ODI underperformance payment for wholesale services totalling £44.4 million (2024: £32.8 million). As with prior years, the overall level of penalties incurred continues to reflect the significant level of performance challenge in Ofwat's PR19 final determination and our Service Commitment Plan (Turnaround Plan).

For Ofwat's C-MeX and D-MeX measures of customer experience, which are based on comparative performance for the industry, we are forecasting a reduced penalty for C-MeX of £4.3 million (2024: £4.8 million) and, despite an improvement in score and industry position, a higher penalty for D-MeX of £2.4 million compared (2024: £1.4 million) as a result of higher than previous year revenues.

Our performance highlights include better forecast outcomes for water quality compliance (CRI) following updated information from the DWI, external sewer flooding reaching a level below the reward cap resulting in an outperformance payment of £1.7 million and having met our target for internal flooding for the first time in AMP7. The impact of these penalties and rewards will be reflected in customers' bills from 2026–27.

We comment here on the wholesale performance commitments associated with a penalty greater than £1.0 million for 2024–25, and reputational metrics by exception. A full description of performance against all our performance commitments is provided in our Annual Report and Financial Statements.

Pollution incidents (penalty: £9.3 million)

As reported in our Annual Report and Financial Statements, we recorded 269 category 1-3 pollution incidents in 2024, a 15% increase in pollution incidents compared to 2023 resulting in a figure of 67.71 incidents per 10,000km of sewer and a maximum penalty of £9.296 million.

Our annual Pollution Incident Reduction Plan (PIRP) details our approach to reducing pollution incidents, with serious pollution incidents (category 1) as a key focus. A third of these incidents happened during the first quarter of the year, when our sites and the network were the most affected by high groundwater levels and sustained heavy rainfall. Out of the total number of incidents, there were 14 at category 2 and one at category 1. A total of 60% of pollution incidents came from sites polluting for the first time.

The main cause of pollution incidents remains blockages, with other major root causes being electrical failures and mechanical issues at our sites and pumping stations. In addition to work being carried out to reduce site and network issues as part of our PIRP, our FOG team works hard in the community to give information to customers about how to avoid blockages, and our sewer level monitors are helping detect possible blockages and reduce pollution incidents.

Over the past five years we have more than halved pollution incidents. In fact, over the past two years – the period of our 2023–25 Turnaround Plan – we saw a 30% reduction in pollution incidents. However, we recognise there is a great deal more to do, and our pollution reduction activities under the next Business Plan 2025–30 have been brought towards the beginning of this period, to maximise early impact.

Treatment works compliance (penalty: £7.7 million)

Our overall compliance was 98.23% incurring a penalty of £7.7 million for a total of six failed works, five at wastewater treatment sites and one water supply works.

Our key learnings from these failures following a strategic in-depth review of each one are being applied, including better use of logistics stores and stock management, tightening of out telemetry thresholds, and improving response times in severe weather as part of a detailed action plan that is in place to prevent any further failures, with work started on 10 initiatives at three key sites to bring them to a standard where they're reliably meeting all permits, and a total of 45 sites having been reviewed so far.

Leakage (underperformance payment: £5.2 million)

With continued investment and company focus, our leakage level for the 2024–25 year was significantly reduced by nearly 10 megalitres per day (Ml/d) to 97.7ML/d (2024: 107.5Ml/d). Despite having reduced leakage by almost 10% over the last two years, higher volumes than expected in 2022–23 and 2023–24 resulted in an increase to the overall measure on a three-year rolling average basis of 0.2Ml/d to 104.5Ml/d and an associated penalty of £5.221 million.

We now have a dedicated Leakage Strategy Manager in place, spearheading the challenging work detailed in our Leakage Recovery Plan. As detailed in the plan, and our annual WRMP review, as well as the Annual Report and Financial Statements, due to insufficient funding at our last price review, we've fallen behind where we need to be on leakage. However, as part of our turnaround and following an equity investment from our shareholders, we're now seeing a marked improvement that is on track to continue to deliver into AMP8 and beyond.

2024–25 delivered the focused efforts to reduce leakage by the continuation and completion of several elements of the two-year leakage reduction plan. The PALM (Prevent, Aware, Locate, Mend) model was utilised to define the plan which separates the "leak life cycle" into four phases these include:

PREVENT; A programme of Advanced Pressure Management measures, PRV installations, the optimisation of the existing estate of PRV's and water main transient mitigations, these actions will also impact the burst main and supply interruptions ODI measures, by calming the water network down. The total combined year four and five benefits from the Advanced Pressure Management schemes have delivered a 13.16 Ml/d leakage reduction against a target of 12.6 Ml/d.

AWARE; improved DMA Operability achieving the Ofwat target of 90% final annual average was 91.0%, developments within our leakage reporting software to assist with the leakage targeting process.

LOCATE: Maintenance of our ALC detection resources, the deployment of approximately 10,000 semi and permanently installed acoustic logging sensors for early leak detection, innovation in leak detection activities with trials in Satellite and Thermal imaging techniques, a no dig solution to communication pipe repairs. Changes to the incentivisation model for the leak detection actives based on leakage reductions, allowing for high volumetric leaks to be promoted moving to a campaign approach, moving away from an ESPB model. Concentrated efforts to increase the customer side leakage elements of leakage reduction, with an enhanced leak repair service being offered to customers for the last two quarters of year five.

MEND; meeting the leak detection and repair orderbooks, introduce processes to improve leak repair run times with the aim to repair burst mains within reducing time periods.

A study was commissioned to review our Water Balance calculation, which highlighted several areas of improvement these have been delivered. Additional investment into the development of Waternet will benefit our ALC leak detection and repair capabilities and pressure management optimisation. We are introducing Waternet Pro an extension of the leakage reporting software to improve our situational awareness and response to emergency incidents, improving the impact of burst water mains to our customers. Our leakage detection and repair resource capabilities have been maintained to locate and repair increased volumes of leak repairs.

Water supply interruptions (underperformance payment £4.2 million)

This year's figure of 02:21:50 involved two large major incidents at Testwood WSW, Hampshire and Hastings, East Sussex, these two incidents giving us a combined total of 02:07:04. Our teams deployed an immediate response and repair plan, establishing bottled water stations and issuing regular communications across several media platforms, to keep customers informed. To help prevent further incidents, we've stepped up our capital programme significantly for the next investment period, to improve the reliability of some of our most critical sites. This involved replacing substantial lengths of our network, addressing the reliability of supply in certain areas, and reducing the environmental impact of our business.

The first of these major incidents at Hastings in May 2024 was caused by a burst on the 700mm main from Darwell to Beauport, delays in getting to site and subsequent repair as the burst was in a heavily wooded areas, as well as our Baldslow service reservoir being reduced to a half cell capacity owing to a water quality issue, meant our time to impact following the burst was greatly reduced from 36 hours to 12 hours storage. This resulted in our Baldslow, Maze Hill and Newgate service reservoirs going empty and subsequent loss of supply to all downstream District Meter Areas. Due to the risk of losing a fourth reservoir, strategic decisions were made to isolate some areas to preserve their supply. This event incurred 77,148,140 minutes or 01:05:54

The second major incident at Testwood in December 2024 resulted in 71,621,520 minutes or 01:01:11. The root cause of this event was attributed to repeated failed restart attempts. The majority of these were due to the high final turbidity following valve operations outside of an ongoing maintenance work being carried out at Testwood and the requirement to run to waste 5Ml/d contact tank. This resulted in Rownhams WSR being isolated and subsequently the loss of supply in downstream District Meter Areas.

Five further events happened that incurred greater than 00:00:30 customer minutes lost time as detailed below. These seven events totaled 156,423,552 minutes or 02:13:37 against our target.

- Blackwater Farm, Newport, IOW – burst on 450mm main and subsequent drain down and isolation of Cooks Castle WSR – 2,814,063 = 00:02:24
- London Road, Strood, Kent – Burst on 4” main, proved difficult to locate due burst causing an open-ended pipe – 2,335,614 = 00:01:59
- The Fairway, Sandown, IOW – Burst on 12” CI Main but issues with incorrect layout of the mains on plans, burst caused by Rezoning – 1,234,335 = 00:01:03
- Clandon Road, Chatham, Kent – Leak on 250mm DI main, repairs delayed due to gang being unable to drive to location and resourcing issues – 665,776 = 00:00:35
- Kingsborough Twr, Harty Terrace, Eastchurch Road, Minster – Issues with WBS caused low pressures and no water in the DMA – 606,578 = 00:00:31

Drinking water appearance (underperformance payment: £2.1 million)

Performance has improved compared to last year but we did not meet the challenging end of AMP target set at PR19. Our performance in 2024 was impacted by high proportion of contacts related to Rownhams and Yew Hill water supply zones due to known discolouration issues within the network in these areas. In August we saw an increase in dirty water calls, which follows the seasonal pattern we experience at this time of year. We also saw an increase in contacts in December in zones fed by Testwood WSW due to re-charge of the network following loss of supplies.

Proactive flushing re-started in a number of water supply zones from October 2024 in order to tackle the known issued mentioned above. New controls have been introduced to ensure water quality checks are completed as part of planned and reactive work upon the network to prevent further calls after any interruption to supply, and we continue to roll out bespoke training to our network inspectors, including competence assessments as part of our company wider strategy to manage the risk of discolouration which is continuing to be delivered.

Main repairs (underperformance payment: £3.0 million)

Although the number of mains repairs per 1,000km main increased this year, we did remain significantly under our turnaround target of 150. This overall underperformance has resulted in an associated penalty of £3.0 million. The main driver of the increase from our overall figure from 121.1 to 122.9 in 2024–25 is a focus on enhanced find and fix activity as part of our PALM model as mentioned in our 2023–24 APR. In fact, the number of reactive mains repairs fell from 70.5 to 65.6, reflecting the proactive work we have done across the year as part of our PALM model mentioned above in relation to leakage.

As part of the new AMP8 project there will be an established ‘Blue book’ which will replace the “setting the standards” to improve work promotion and defect management to meet the targets set out for us.

Renewable generation (underperformance payment: £1.3 million)

We have again seen an improvement in the level renewable energy generated to 14.79% (2023–24: 13.32%), but this still falls below our target of 24%. This was driven by increased CHP output and reduced electricity imports.

Total renewable generation rose by 7.9 GWh, with the increase comprising 7.8 GWh from CHP and 229 MWh from solar generation. Total solar generation also improved, with 1.57 GWh produced, up from 1.34 GWh last year. This increase is largely due to a full year of generation from Peel Common WTW, despite losing generation from Testwood WSW.

Electricity imports decreased by 22 GWh compared to last year (409,940 MWh vs. 432,336 MWh). This reduction is likely driven by a combination of increased self-generation, lower rainfall, and ongoing energy efficiency initiatives. As mentioned in the Annual Report 2023–24, we have plans to increase the level of renewable energy generated in our PR24 business plan by investing in more reliable and efficient Combined Heat and Power (CHP) generation.

Long term supply demand schemes (penalty: £82.7 million)

The delivery date for our long-term supply and demand schemes is 31 March 2027. As there have been changes in customer demand and scheme deliverability, and issues with the delivery of existing schemes beyond our control, in our Business Plan 2025–30 submission, we made a request for Ofwat to amend the target for this and amend the proposed penalty. As detailed in their outcome performance model for 2024–25 published as part of its Final Determination, we were given a penalty of £82.7 million including the maximum delay of 60 months to reflect the delayed delivery of these schemes.

Internal and external flooding (reward: £1.7 million)

We've seen a decrease in external sewer flooding incidents over the past year, with a total of 3,047 outperforming our target of 3,525 and earning a reward of £1.7 million. As a result of capital investment, we have reduced external flooding by nearly 50% over the last five years. We have also met our Ofwat target for internal flooding, reducing the number of customer incidents by almost 40% to 277 compared to our PR19 baseline of 455.

Per Capita Consumption (PCC) (penalty: £2.8 million)

While PCC peaked at 139 litres per person per day (l/p/d) during the pandemic, we have continued to reduce consumption since then and our customers continue to have one of the lowest levels of usage in the industry.

Although we are still above our original PR19 end of AMP target of a three-year rolling average of 118.8l/p/d, we have managed to reduce in-year consumption from the peak of 139l/p/d to 127.2 for 2024–25.

We have given detailed breakdowns of our PCC performance in both our Annual Report and Financial Statements, and our WRMP Annual Review. In line with this, Ofwat's model has reduced our penalty for PCC performance over the AMP from £7.7 million to £2.8 million to reflect the impact of COVID-19 on customer consumption and our ongoing efforts to reduce customer usage across our region.

River Water quality

Over the course of AMP7 we improved 182.3km of river as part of our scheme specific ODI. One scheme at Pagham was subject to an extended deadline of 31 May 2025 from the original 31 March as the Environment Agency moved the date due following the discovery of a badger sett at the site. While ensuring that there was no impact on wildlife meant the improvements took longer to complete, the Environment Agency confirmed completion of the scheme as part of our AMP7 WINEP programme in early July, and regular sampling at the site confirms this.

Improve the number of Bathing waters to at least 'Good' (Cost Adjustment Claim). (penalty: £3.7 million)

At the start of AMP7 we set ourselves the target of improving five specific bathing waters to Good in Defra's Annual Bathing Water Compliance Report, achieving three in the 2024 bathing water season, down from four in the previous year. Water quality at Lancing Beach Green fell from Good, and despite through investigations into multiple potential causes no definitive source of the issue has been found. Littlestone was not improved during the AMP, significant investigation into the root cause at Littlestone discovered that the issues with water quality were being caused by several properties with leaking cess pits not connected to our sewer system. We have worked with the property owners to fix this issue including offering free connection to our network and hope to see improvements as a result in the 2025 bathing water season, further details of our plans to improve bathing water quality across our region can be found in our 2025–30 business plan and bathing water reports on our website.

Maintain Bathing waters at 'Excellent'. (penalty: £3.6 million)

At the end of the 2024 bathing water season, we had managed to increase the number of bathing waters at Excellent from 48 in 2023, to 49. This improvement reflects the hard work of our teams to maintain and increase bathing water quality along our 700+ miles of coastline but does mean we did not meet our target of 57 and have incurred a £3.6 million penalty as a result. England has seen an overall decline in bathing water quality over the last four years, and our performance reflects that, along with a number of issues outside of our control at sites like Littlestone, and including things like increase in sea temperature, seabird waste, human contamination and illegal connections. More information on this, and how we are addressing these issues can be found in our bathing water improvement plans, and our Clean Rivers and Seas Task Force update on our website.

Reporting to customers

Ofwat requires us to describe how the information reported in the Section 3 of this Annual Performance Report relates to the information on outcome performance it has published and reported to its customer challenge group or similar body and customers more generally. We can confirm that as in previous years, the performance commitment information reported here is fully consistent with the information we have reported to our customers in our Annual Report and Financial Statements. We have been updating our Customer and Community Challenge Group throughout the year on our level of performance, and they will be informed of our 2024–25 results.

Independent Limited Assurance Report of Jacobs to Southern Water Services Limited

This assurance report provides an overview of our limited assurance that Southern Water Services Limited (SWS) requested to support the Southern Water Annual Performance Report (APR) 2025 submission.

Scope of Work and Approach

This assurance report provides the conclusions from the work specified in our Statement of Work, issued on 29 November 2024. Southern Water requested assurance of processes and data for the reported performance against the specific performance commitments (PCs) and data tables listed in Appendix A. Southern Water also requested additional assurance for PR19SRN_RR06. The PR19 Final Determination requires Southern Water to provide independent assurance that they have rigorous processes that are correctly implemented to identify and bill newly built properties.

Our scope included:

- A review of the Southern Water processes for newly built properties, including both household and non-household newly built properties including conversions;
- walk-throughs with key process owners (such as those for developer services) to understand their activities and review key documentation;
- challenge process owners on their consideration of process risks and assess whether processes are robust and correctly implemented.

The work requires us to assure the accuracy of data reported to Ofwat in the APR and compliance with Ofwat's published Regulatory Accounts Guidance and the PR19 Final Determination Outcomes Performance Commitment Appendix. The assurance work was undertaken with the following limitations:

- Assurance is undertaken on a risk-based approach using a sampling approach and with the evidence provided by Southern Water

We have undertaken this assurance remotely over Microsoft Teams and offline reviews between January and June 2025. During the review, we have completed the following tests:

- Is the reporting methodology subject to appropriate governance and is it consistent with the requirements?
- Has the process defined in the methodology document been followed?
- Are the reported data and commentary reasonable and consistent with the other information seen at the audit and have the data checks identified any issues?
- Are reporting risks being managed and are there sufficient checks and controls?

We met with process and data owners to obtain evidence that the documented procedures and methodologies were being followed. We reviewed data on a sample basis, tracing it back to source data to verify the information. We also reviewed governance arrangements for checking, verification and approval of information by the accountable managers.

SWS' Responsibilities

The information and presentation of data within the APR 2025 is the responsibility of SWS. The Directors are responsible for:

- establishing relevant criteria for preparing the APR metrics in scope;
- designing, implementing, and maintaining internal processes and controls over information relevant to the preparation of the APR metrics in scope that are free from material misstatement, whether due to fraud or error, and;
- measuring and reporting the APR metrics in scope based on the relevant criteria.

Our Responsibilities

We are responsible for:

- conducting an engagement in accordance with ISAE 3000 (Revised) to provide limited assurance of the APR metrics in scope, to establish whether it is free from material misstatement, whether due to fraud or error; and
- expressing an independent conclusion on the APR metrics in scope based on our procedures.

Assurance Standards Applied

We conducted our limited assurance in accordance with the International Standard on Assurance Engagements (UK) 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information ("ISAE (UK) 3000 revised"). The Standard requires that we obtain sufficient, appropriate evidence on which to base our conclusion.

Conclusion

We have conducted limited assurance in accordance with ISAE 3000 (revised) standard for the list of selected information covering specific performance commitments (PCs) and data tables as detailed in Appendix A.

Based on the evidence we reviewed and the sample checks we conducted, we did not find any material misstatement and we did not find anything that suggests the selected information was not prepared properly, according to the specified regulatory guidance (e.g. RAG4.13) and the Reporting Criteria.

We consider that:

- Data is competently sourced, processed and fit for purpose;
- SWS demonstrated a good understanding of the Ofwat guidance.
- The reported performance data against the year 5 performance commitment targets are a fair and accurate account of the company's performance for the reporting year.
- All individuals within the approval process have signed-off the data;

Inherent limitations

The assurance opinion within this document is provided to a 'limited assurance level' as defined by ISAE 3000 (Revised). The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Because of the nature of the risk-based sample checks and inherent limitations of processes and systems, there remains the unavoidable risk that misstatements may not have been detected.

While the level of assurance engagement risk is higher than in a 'reasonable assurance' engagement, the nature, timing and extent of the evidence-gathering procedures used for this engagement are sufficient to provide a meaningful level of assurance.

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14 July 2025

Appendix A – Selected Assurance information

OCF Ref	PC Reference	Title	Unit	2024–25 Performance
301	PR19SRN_WN02	Water quality compliance (CRI)	number	3.82
302	PR19SRN_WN03	Water supply interruptions	HH:MM:SS	2:21:50
303	PR19SRN_WN04	Leakage	%	-4.6
	PR19SRN_WR01	PCC	%	0.3
	PR19SRN_WN12	Distribution input	Ml/d	560
304	PR19SRN_WN05	Mains repairs	number of repairs per 1000km of mains	122.9
306	PR19SRN_WN06	Unplanned outage	%	3.21
307	PR19SRN_WR02	Risk of severe restrictions in a drought	%	28.7
308	PR19SRN_RR08	Priority services for customers in vulnerable circumstances	%	38.7
	PR19SRN_RR05	Customer satisfaction with vulnerability support	%	66
309	PR19SRN_WWN01	Internal sewer flooding	Number of internal sewer flooding incidents per 10,000 sewer connections	1.34
	PR19SRN_WWN04	Sewer collapses	Number of sewer collapses per 1,000 km of all sewers	6.19
	PR19SRN_WWN08	External sewer flooding	number	3047
310	PR19SRN_WWN02	Pollution incidents	number of pollution incidents per 10,000 km of sewer	67.71
311	PR19SRN_WWN03	Risk of sewer flooding in a storm	%	10.61
312	PR19SRN_WWN05	Treatment works compliance	%	98.23
313	PR19SRN_RR01	C-MeX	Score out of 100	65.13
314	PR19SRN_WN01	D-MeX	Score out of 100	83.75
315	PR19SRN_WN07	Drinking water appearance	number	0.92
	PR19SRN_WN08	Drinking water taste and odour	number	0.32
318	PR19SRN_BIO02	Satisfactory bioresources recycling	%	100
319	PR19SRN_WWN09	River water quality	km	182.3
	PR19SRN_NEP01	Delivery of water industry national environment programme requirements	Text	Not Met

OCF Ref	PC Reference	Title	Unit	2024–25 Performance
321	PR19SRN_WWN11	Maintain Bathing waters at 'Excellent'	number	49
	PR19SRN_WWN12	Improve the number of bathing waters to at least 'Good'	number	3
	PR19SRN_WWN13	Improve the bathing waters at 'Excellent' quality	number	2
324	PR19SRN_RR03	Void Properties	%	3.16
331	PR19SRN_WN10	Water supply resilience	number of properties	96,977
332	PR19SRN_WN11	Properties at risk of receiving low pressure	number	167
333	PR19SRN_WWN10	Combined Sewer Overflows (CSO) monitoring	%	87.62
335	PR19SRN_RR06	Gap sites	number	35
336	PR19SRN_WWN16	Thanet sewers scheme delivery	number	0
337	PR19SRN_WN13	Long-term supply demand schemes	number	50
378	PR19SRN_WR03	Target 100	%	38
340	N/A	Population served	N/A	N/A
342	N/A	Water resources treatment & distribution – Explanatory variables	N/A	N/A
344	N/A	Average Pumping Head	N/A	N/A
357	N/A	Sludge treatment and disposal	N/A	N/A
364	N/A	WRMP benefits	N/A	N/A
365	N/A	Bioresources sludge liquors	N/A	N/A
370	N/A	Water Produced	N/A	N/A
371	N/A	Bottom up leakage	N/A	N/A
372	N/A	Company and legally unbilled water usage	N/A	N/A
380	N/A	Developer services – non financial information	N/A	N/A

Additional regulatory information

4A – Water bulk supply information for the 12 months ended 31 March 2025

	Volume Ml	Operating costs £m	Revenue £m
Bulk supply exports			
Affinity	6.200	–	0.012
South East Water	10,405.500	3.603	3.759
Total bulk supply exports	**10,411.700**	**3.603**	**3.771**

	Volume Ml	Operating costs £m
Bulk supply imports		
Sutton and East Surrey Water	650.650	0.905
Portsmouth Water	3,442.200	0.964
Total bulk supply imports	**4,092.850**	**1.869**

Bulk exports to NAV customers are not included in the table.

We do not show cost information for the bulk exports to Affinity Water. These supplies are made via our distribution network and the costs are therefore not separately identifiable. Operating costs are included for the exports to South East Water. These agreements are based on a sharing of specific operating costs.

4B – Analysis of debt

As permitted by RAG 3.15 section 2.7, table 4B is excluded from this APR document and is published alongside this document and can be found at southernwater.co.uk/about-us/our-annual-reporting.

4C – Impact of price control performance to date on RCV

	12 months ended 31 March 2025			
	Water resources £m	Water network+ £m	Wastewater network+ £m	Bioresources £m
Totex (net of business rates, abstraction licence fees and grants and contributions)				
Final determination allowed totex (net of business rates, abstraction licence fees and grants and contributions)	24.633	194.891	383.602	37.067
Actual totex (net of business rates, abstraction licence fees and grants and contributions)	37.563	347.511	770.887	46.161
Transition expenditure	–	–	–	–
Disallowable costs	0.028	13.078	4.028	0.044
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	**37.535**	**334.433**	**766.859**	**46.117**
Variance	12.902	139.542	383.257	9.050
Variance due to timing of expenditure	10.092	80.152	117.697	2.417
Variance due to efficiency	**2.810**	**59.390**	**265.560**	**6.633**
Customer cost sharing rate – outperformance	63.55%	63.55%	63.92%	0.00%
Customer cost sharing rate – underperformance	36.45%	36.45%	36.08%	0.00%
Customer share of totex overspend	1.024	21.648	95.814	–
Customer share of totex underspend	–	–	–	–
Company share of totex overspend	1.786	37.742	169.746	6.633
Company share of totex underspend	–	–	–	–
Totex – business rates and abstraction licence fees				
Final determination allowed totex – business rates and abstraction licence fees	6.935	13.289	15.153	1.578
Actual totex – business rates and abstraction licence fees	5.423	12.645	18.469	2.362
Variance – business rates and abstraction licence	**(1.512)**	**(0.644)**	**3.316**	**0.784**
Customer cost sharing rate – business rates	75.00%	75.00%	75.00%	75.00%
Customer cost sharing rate – abstraction licence fees	75.00%	75.00%	75.00%	75.00%
Customer share of totex over/underspend – business rates and abstraction licence fees	(1.134)	(0.483)	2.487	0.588
Company share of totex over/underspend – business rates and abstraction licence fees	(0.378)	(0.161)	0.829	0.196
Totex not subject to cost sharing				
Final determination allowed totex – not subject to cost sharing	2.317	13.105	10.110	–
Actual totex – not subject to cost sharing	52.698	1.650	7.494	0.044
Variance – 100% company allocation	**50.381**	**(11.455)**	**(2.616)**	**0.044**
Total customer share of totex over/underspend	**(0.110)**	**21.165**	**98.301**	**0.588**
RCV				
Total customer share of totex over/underspend	(0.110)	21.165	98.301	0.588
PAYG rate	61.22%	46.22%	45.60%	65.61%
RCV element of totex over/underspend	**(0.043)**	**11.382**	**53.476**	**0.202**

4C – Impact of price control performance to date on RCV – continued

	Price control period to date			
	Water resources £m	Water network+ £m	Wastewater network+ £m	Bioresources £m
Totex (net of business rates, abstraction licence fees and grants and contributions)				
Final determination allowed totex (net of business rates, abstraction licence fees and grants and contributions)	97.023	895.364	2,110.149	223.295
Actual totex (net of business rates, abstraction licence fees and grants and contributions)	145.626	1,414.716	3,127.677	239.223
Transition expenditure	1.721	0.980	–	–
Disallowable costs	0.150	26.822	110.120	0.211
Total actual totex (net of business rates, abstraction licence fees and grants and contributions)	**147.197**	**1,388.874**	**3,017.557**	**239.012**
Variance	50.174	493.510	907.408	15.717
Variance due to timing of expenditure	–	–	–	–
Variance due to efficiency	**50.174**	**493.510**	**907.408**	**15.717**
Customer cost sharing rate – outperformance	63.55%	63.55%	63.92%	0.00%
Customer cost sharing rate – underperformance	36.45%	36.45%	36.08%	0.00%
Customer share of totex overspend	18.288	179.884	327.393	–
Customer share of totex underspend	–	–	–	–
Company share of totex overspend	31.886	313.626	580.015	15.717
Company share of totex underspend	–	–	–	–
Totex – business rates and abstraction licence fees				
Final determination allowed totex – business rates and abstraction licence fees	31.518	60.393	68.863	7.170
Actual totex – business rates and abstraction licence fees	25.296	57.618	74.332	9.713
Variance – business rates and abstraction licence	**(6.222)**	**(2.775)**	**5.469**	**2.543**
Customer cost sharing rate – business rates	75.00%	75.00%	75.00%	75.00%
Customer cost sharing rate – abstraction licence fees	75.00%	75.00%	75.00%	75.00%
Customer share of totex over/underspend – business rates and abstraction licence fees	(4.667)	(2.081)	4.102	1.907
Company share of totex over/underspend – business rates and abstraction licence fees	(1.556)	(0.694)	1.367	0.636
Totex not subject to cost sharing				
Final determination allowed totex – not subject to cost sharing	52.598	112.464	48.075	–
Actual totex – not subject to cost sharing	111.770	85.362	121.892	0.211
Variance – 100% company allocation	**59.172**	**(27.102)**	**73.817**	**0.211**
Total company share of totex over/underspend	**13.622**	**177.803**	**331.495**	**1.907**
RCV				
Total customer share of totex over/underspend	–	–	–	–
PAYG rate	61.22%	46.22%	45.60%	65.61%
RCV element of totex over/underspend	**–**	**–**	**–**	**–**
Adjustment for ODI outperformance payment or underperformance payment	–	–	–	–
Green recovery	–	–	–	–
RCV determined at FD at 31 March	156.015	1,833.009	5,202.003	258.651
Projected 'shadow' RCV	**156.015**	**1,833.009**	**5,202.003**	**258.651**

Wholesale totex analysis

Our total expenditure (totex) for 2024–25 was higher than the allowance in the PR19 final determination for both water and wastewater. We set out below the principal reasons for the variances within each wholesale price control and each cost category shown above. It is important to note that the final determination from Ofwat does not explicitly show the totex allowance at a granular level. The variances described therefore represent a best estimate of the reasons for the variances.

The principal totex variances to the final determination have been allocated between timing and efficiency within the table above. The following rules have been applied in making these allocations:

- All operating expenditure variances are allocated to efficiency on the basis that these are recurring costs that cannot typically be shifted between years.
- Variances related to renewals and capital maintenance expenditure have been allocated to efficiency given that the Board has committed to a significant level of investment in excess of the final determination.
- Enhancement costs have been compared with a notional allocation of each category of expenditure to each year of the AMP using Ofwat's final determination profiling assumptions. All identified variances have been allocated to efficiency for the final year of the AMP, unless specifically part of a carry over into AMP8.
- Any enhancement costs incurred in relation to schemes which were not funded within the final determination (for example carryover of AMP6 expenditure) has been allocated to the efficiency category.

Totex variance to final determination

Water totex variance over/(under) £m	12 months ended 31 March 2025		Price control period to date	
	Water resources	Water network+	Water resources	Water network+
Net totex	12.9	139.5	50.2	493.5
Business rates and abstraction licences	(1.5)	(0.6)	(6.2)	(2.8)
Not subject to cost sharing (cumulative restated)	50.4	(11.5)	59.1	(27.1)
Total totex variance	**61.8**	**127.4**	**103.1**	**463.6**

Note: To align with the presentation in table 4C, positive variances represent spend above the FD allowance

Water

Water resources (WR) totex is £12.9 million higher than the final determination allowance for 2024–25 and is £50.2 million over the final determination for AMP7 and water network+ (WN+) expenditure is £139.5 million above the final determination in 2024–25 and £493.5 million over the final determination for AMP7, as set out below:

Net totex variance

Net totex variance	2024–25		AMP 7	
	WR	WN+	WR	WN+
Enhancement	5.2	(66.9)	32.9	(181.7)
Base	7.7	206.4	17.3	675.2
Total	**12.9**	**139.5**	**50.2**	**493.5**

Water resources

The principal reasons for the enhancement variance are:

- the completion of some Eels Regulations schemes from the previous regulatory period (AMP6), representing £0.2 million in the year and £26.7 million cumulatively,
- expenditure relating to supply and demand side enhancements of £1.6 million in the year and £17.9 million cumulatively,
- higher expenditure in relation to impounding reservoir schemes of £12.2 million in year and £18.5 million cumulatively,
- lower expenditure in relation to raw water deterioration, £4.5 million in year and £14.9 million cumulatively, for which we have incurred higher expenditure than allowed in the Final Determination within the WN+ price control,
- lower expenditure on WINEP investigation schemes of £3.5 million in year and £12.6 million cumulatively.

Our base totex variance has been driven by:

- additional asset maintenance capital expenditure to help improve operational performance and compliance of £5.0 million in the year and £8.8 million cumulatively,
- an increase in the provision made for ecological work associated with the section 20 agreement in relation to the Rivers Test and Itchen and the Candover Stream of £2.8 million cumulatively,
- the impact of inflation in excess of the average rate applied to the final determination, across the entire cost base but particularly in our power costs.

Water network+

The principal reasons for the enhancement variance are:

- lower expenditure in relation to supply and demand side enhancements than assumed in the FD of £49.3 million in the year and £150.6 million cumulatively. This has been due to the cancellation of several of our WRMP19 schemes following third party decisions and environmental investigations. Other schemes have required greater consenting activities prior to construction and with associated scope changes have been delayed for delivery in AMP8.
- lower expenditure in meeting lead standards of £7.2 million in the year and £20.1 million cumulatively.
- the timing of investment to address raw water standards which was £6.4 million lower than the finals determination in the year as we had already undertaken these projects earlier in the AMP.

The underspend in our enhancement expenditure was more than offset by the significant levels of base expenditure incurred, largely driven by:

- the base allowance in our final determination being significantly lower than the base run-rate that we were operating at as we entered AMP7.
- overall asset maintenance capital expenditure in excess of the allowance in the final determination to help improve operational performance and compliance of £157 million in the year and £508 million cumulatively,
- compliance related costs at Testwood Water Supply Works as reported in the prior two year added £22.4 million cumulatively,
- power variances, mainly relating to inflation, over the final two years of the AMP, following the ends of our fixed price agreement, £9.7 million in year and £14.2 million cumulatively,
- the impact of inflation in excess of the average rate applied to the final determination, across the entire cost base.

Business rates for water resources and water network+ are £2.1 million lower than the final determination allowance overall, mainly reflecting lower abstraction charges for water resources. Cumulatively the total variance is £9.0 million lower than the determination, this variance also includes the impact of a one-off business rates rebate in 2020–21 of £2.4 million.

Within the 'costs not subject to sharing' category, water resources expenditure is £50.4 million higher than the final determination allowance while water network+ is £11.5 million below the allowance in 2024–25. The largest element of expenditure within this category is related to the strategic water resources development schemes which form our Water for Life Hampshire programme.

Overall expenditure on these schemes during the year is £23.5 million above the final determination allowance,due to the timing of expenditure and reverse underspends in previous years.

The remaining variance mainly relates to disallowable costs as set out on page 86 and the income offset (relating to developer-led schemes) which is £5.1 million lower than allowed, bringing the cumulative position to £20.5 million below the allowance reflecting a lower level of development activity during the AMP.

Pension deficit repair costs, which are not subject to cost sharing, are excluded from both the final determination allowed totex and the actual totex.

Totex variance to final determination

Wastewater totex variance over/(under) £m	12 months ended 31 March 2025		Price control period to date	
	Wastewater network+	Bioresources	Wastewater network+	Bioresources
Net totex	383.3	9.0	907.4	15.7
Business rates and abstraction licences	3.3	0.8	5.5	2.5
Not subject to cost sharing	(2.6)	0.1	73.8	0.2
Total totex variance	**384.0**	**9.9**	**986.7**	**18.4**

Wastewater

Bioresources (Bio) totex is £9.0 million higher than the final determination allowance for 2024–25 and £15.7 million higher than the final determination for the AMP7 and wastewater network+ (WWN+) totex is £383.3 million higher the final determination bringing the total variance to the determination to £907.4 million. These variances are explained further below:

Net totex variance

Net totex variance	2024–25		AMP7	
	WWN+	Bio	WWN+	Bio
Enhancement	157.5	(0.5)	76.0	(3.1)
Base	225.8	9.5	831.4	18.8
Total	**383.3**	**9.0**	**907.4**	**15.7**

Wastewater network+

The principal reasons for the enhancement variance are:

- the timing of expenditure on several of the enhancement programmes, resulting in a catch up in expenditure in schemes relating to flow to full treatment, storage and phosphorus removal during 2024–25,
- The cumulative enhancement expenditure is £76.0 million more than the final determination and mainly driven by storage schemes at treatment works £15.9 million and in the network £11.9 million, nitrogen removal £18.5 million and phosphorus removal £17.1 million.

Our base totex variance has been driven by:

- the base allowance in our final determination being significantly lower than the base run-rate that we were operating at as we entered AMP7.
- overall asset maintenance capital expenditure in excess of the allowance in the final determination to help improve operational performance and compliance of £122 million in the year and £668 million cumulatively,
- the response to incidents and adverse weather across the AMP period, most notably in 2023–24 when we incurred an additional £27.9 million tankering costs due to the very high levels of ground water during that year.
- power variances, mainly relating to inflation, over the final two years of the AMP, following the ends of our fixed price agreement, £32.3 million in year and £61.3 million cumulatively,
- the impact of inflation in excess of the average rate applied to the final determination, across the entire cost base.

Bioresources

Within bioresources we only received an enhancement allowance for sludge quality and growth and the variance is therefore only in relation to these schemes.

As described in the other price controls, the variance associated with based expenditure for bioresources mainly relates to the impact of inflation across the AMP period, in excess of the average rate applied to the final determination, in particular in relation to power which was £2.0 million over in 2024–25 and 13.6 million cumulatively.

Business rates for bioresources and wastewater network+ are £4.1 million higher than the final determination allowance for the year, bringing the cumulative variance to £8.0 million.

Within the 'costs not subject to sharing' category, actual expenditure is £2.6 million less than the final determination allowance for the year and £74.0 million higher for the AMP7. This variance is largely driven by disallowable costs of £4.1 million in the year and £110.3 million cumulatively as described further below. These costs were offset by variances for the income offset (relating to developer-led schemes) which was £5.0 million lower than the determination in 2024–25, £25.2 million cumulatively reflecting a lower level of developer activity than anticipated together with lower expenditure on third party services of £1.7 million in the year, £11.8 million cumulatively.

Pension deficit repair costs, which are not subject to cost sharing, are excluded from both the final determination allowed totex and the actual totex.

Atypicals/Exceptionals

The atypical costs shown in table 4D relates to GSS and compensation payments for two significant water supply issues at Hastings and Testwood during the year. On table 4E the costs relate to GSS costs, a provision for a prosecution by the EA in relation to pollution events in Margate and Broadstairs and further costs associated with the cyber incident in 2023–24. These costs have also been classified as disallowable costs in table 4C and do not form part of the variances that are highlighted above.

Link to the final determination outcomes

With the exception of performance commitments that relate to specific capital delivery schemes it is generally not possible to directly associate expenditure with the delivery of the final determination outcomes. This is because the vast majority of outcomes are delivered through base operating and capital maintenance expenditure rather than specific funded schemes. We note that despite both water and wastewater totex being significantly higher than the final determination allowance we have nonetheless incurred significant Outcome Delivery Incentive underperformance payments, in particular in relation to pollution incidents, treatment works compliance, water supply interruptions, leakage, mains repairs, drinking water appearance and renewable generation. These remain key areas of focus and investment for the business.

Disallowable costs

When comparing our actual totex to that allowed in the Final Determination we are required to make adjustments for certain disallowable costs, including fines and investigation costs and compensation claims. The disallowable costs disclosed for 2024–25 of £17.2 million are comprised of:

- Costs of £0.7 million relating to cyber security experts, legal advice and contacting customers and employees affected by the cyber incident we experienced in January 2024,
- Compensation and Guaranteed Standards Scheme payments made for the significant water supply incidents experienced in the year at Hastings and Testwood £13.4 million,
- The wholesale element of the LTIP awarded to the executive directors totalling £1.1 million which are being borne by shareholders.
- A provision of £2.0 million for potential costs associated with the EA prosecution at Margate and Broadstairs.

Transition and accelerated expenditure for AMP8

The costs incurred in relation to transition expenditure for AMP8 have been excluded from this table. Details of the items excluded are provided below:

Water transitional expenditure £m	2023–24	2024–25	Total
Leakage	–	0.2	0.2
Supply demand balance improvements	0.6	8.2	8.8
Smart Meter Infrastructure	–	4.0	4.0
Addressing raw water quality deterioration (grey solutions)	–	0.5	0.5
Resilience	3.0	63.6	66.6
Security – Cyber (non-SEMD)	–	0.5	0.5
Strategic Regional Water Resources	1.7	15.1	16.8
Total transitional expenditure; water totex	**5.3**	**92.2**	**97.5**
Havant Thicket Alignment works agreement	–	8.5	8.5
Grand total transitional expenditure – water totex	**5.3**	**100.7**	**106.0**

Wastewater transitional expenditure excluding CSO £m	2023–24	2024–25	Total
Flow monitoring	0.5	8.2	8.7
Increase flow to full treatment	–	1.9	1.9
Total Nitrogen removal (chemical)	–	1.2	1.2
Total Phosphorus removal (chemical)	–	2.4	2.4
Microbiological treatment – bathing waters, coastal and inland	–	2.7	2.7
Investigations	–	1.2	1.2
Anaerobic digestion and/or advanced anaerobic digestion	–	0.8	0.8
Sludge treatment – (Industrial Emissions Directive)	–	4.3	4.3
Total transitional expenditure; wastewater totex	**0.5**	**22.8**	**23.3**

Wastewater CSO transition and accelerated expenditure £m	2023–24	2024–25	Total
Storm overflows	13.8	25.0	38.8

We have reported our transitional expenditure in line with our CMA case, in particular, we have included the costs associated with the resilience schemes at, Hardham, Burham and Weir Wood Water Supply Works and the costs of schemes for the Industrial Emissions Directive, which were not funded in AMP7 and have commenced early in preparation for delivery in AMP8.

We also disclose an £8.5 million prepayment made to Portsmouth Water against costs of the additional alignment works at Havant Thicket. These costs are not AMP8 transitional expenditure and will be funded under separate arrangements, but are reported here to support identification and ensure that they are not subject to AMP7 cost sharing with customers.

Recharges between business units

Details of our process for allocating costs between business units can be found in our Methodology Statement.

4D – Totex analysis for the 12 months ended 31 March 2025 – water resources and water network+

		Network+				
	Water resources £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	Total £m
Operating expenditure						
Base operating expenditure	22.034	0.475	(0.907)	86.910	98.397	**206.909**
Enhancement operating expenditure	0.139	0.007	1.315	7.923	–	**9.384**
Developer services operating expenditure					2.359	**2.359**
Total operating expenditure excluding third party services	**22.173**	**0.482**	**0.408**	**94.833**	**100.756**	**218.652**
Third party services	0.926	–	–	1.653	1.211	**3.790**
Total operating expenditure	**23.099**	**0.482**	**0.408**	**96.486**	**101.967**	**222.442**
Grants and contributions						
Grants and contributions – operating expenditure	–	–	–	–	–	**–**
Capital expenditure						
Base capital expenditure	4.870	–	–	56.841	96.891	**158.602**
Enhancement capital expenditure	100.027	2.805	–	47.232	9.710	**159.774**
Developer services capital expenditure					9.064	**9.064**
Total gross capital expenditure (excluding third party)	**104.897**	**2.805**	**–**	**104.073**	**115.665**	**327.440**
Third party services	4.862	–	–	6.553	–	**11.415**
Total gross capital expenditure	**109.759**	**2.805**	**–**	**110.626**	**115.665**	**338.855**
Grants and contributions						
Grants and contributions – capital expenditure	2.903	–	–	3.244	10.062	16.209
Net totex	**129.955**	**3.287**	**0.408**	**203.868**	**207.570**	**545.088**
Cash expenditure						
Pension deficit recovery payments	0.054	–	0.007	0.679	0.735	1.475
Other cash items	–	–	–	–	–	–
Totex including cash items	**130.009**	**3.287**	**0.415**	**204.547**	**208.305**	**546.563**
Atypical expenditure						
GSS/compensation	–	–	–	0.021	12.627	12.648
Total atypical expenditure	**–**	**–**	**–**	**0.021**	**12.627**	**12.648**

4E – Totex analysis for the 12 months ended 31 March 2025 – wastewater network+ and bioresources

	Network+ Sewage collection			Network+ Sewage treatment		Bioresources			
	Foul £m	Surface water drainage £m	Highway drainage £m	Sewage treatment and disposal £m	Imported sludge liquor treatment £m	Sludge transport £m	Sludge treatment £m	Sludge disposal £m	Total £m
Operating expenditure									
Base operating expenditure	98.327	18.589	18.589	147.497	4.442	6.758	13.007	10.188	**317.397**
Enhancement operating expenditure	6.283	1.369	1.369	–	–	–	–	–	**9.021**
Developer services operating expenditure	1.181	0.258	0.258	–	–	–	–	–	**1.697**
Total operating expenditure excluding third party services	**105.791**	**20.216**	**20.216**	**147.497**	**4.442**	**6.758**	**13.007**	**10.188**	**328.115**
Third party services	–	–	–	–	–	–	–	–	**–**
Total operating expenditure	**105.791**	**20.216**	**20.216**	**147.497**	**4.442**	**6.758**	**13.007**	**10.188**	**328.115**
Grants and contributions									
Grants and contributions – operating expenditure	–	–	–	–	–	–	–	–	**–**
Capital expenditure									
Base capital expenditure	88.336	19.255	19.255	125.114	–	–	18.568	–	**270.528**
Enhancement capital expenditure	19.854	4.328	4.328	254.726	–	–	5.184	–	**288.420**
Developer services capital expenditure	9.945	2.167	2.167	–	–	–	–	–	**14.279**
Total gross capital expenditure (excluding third party)	**118.135**	**25.750**	**25.750**	**379.840**	**–**	**–**	**23.752**	**–**	**573.227**
Third party services	–	–	–	–	–	–	–	–	–
Total gross capital expenditure	**118.135**	**25.750**	**25.750**	**379.840**	**–**	**–**	**23.752**	**–**	**573.227**
Grants and contributions									
Grants and contributions – capital expenditure	9.366	2.041	2.041	(1.250)	–	–	–	–	**12.198**
Net totex	**214.560**	**43.925**	**43.925**	**528.587**	**4.442**	**6.758**	**36.759**	**10.188**	**889.144**
Cash expenditure									
Pension deficit recovery	0.969	**0.162**	**0.162**	**1.518**	**0.167**	–	0.241	–	**3.219**
Other cash items	**–**	**–**	**–**	**–**	**–**	–	–	–	**–**
Totex including cash items	**215.529**	**44.087**	**44.087**	**530.105**	**4.609**	**6.758**	**37.000**	**10.188**	**892.363**
Atypical expenditure									
GSS/compensation	0.493	**0.107**	**0.107**	**0.045**	**–**	–	–	–	**0.752**
Costs resulting from Cyber Attack	–	**–**	**–**	**0.720**	**–**	–	–	–	**0.720**
EA Provision	**–**	**–**	**–**	**2.000**	**–**	–	–	–	**2.000**
Total atypical expenditure	**0.493**	**0.107**	**0.107**	**2.765**	**–**	**–**	**–**	**–**	**3.472**

4F – Major project expenditure for wholesale water by purpose for the 12 months ended 31 March 2025

	Expenditure in report year					
		Water network+				
	Water resources £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	Total £m
Major project capital expenditure by purpose						
Thames to Southern Transfer	–	2.554	–	–	–	**2.554**
Hampshire Water Transfer and Water Recycling Project	44.863	–	–	(20.862)	(3.538)	**20.463**
Site 72 Land Purchase	15.625	–	–	–	(1.706)	**13.919**
Havant Thicket Cash Item	8.260	–	–	–	–	**8.260**
Total major project capital expenditure	**68.748**	**2.554**	**–**	**(20.862)**	**(5.244)**	**45.196**

There were no major projects completed within the 2024–25 financial year.

In compiling this table, it was discovered that costs totalling £17.315 million were missing from this table in our 2023–24 submission, all associated with our Hampshire Water Transfer and Recycling Project. An updated 2023–24 table is displayed below:

	Restated expenditure in report year 2023–24					
		Water network+				
	Water resources £m	Raw water transport £m	Raw water storage £m	Water treatment £m	Treated water distribution £m	Total £m
Major project capital expenditure by purpose						
Thames to Southern Transfer	–	1.173	–	–	–	**1.173**
Hampshire Water Transfer and Water Recycling Project	12.684	–	–	4.658	4.861	**22.203**
Total major project capital expenditure	**12.684**	**–**	**–**	**4.658**	**4.861**	**23.375**

As part of the Thames (Water) to Southern (Water) Transfer (T2ST) RAPID Gate two final decision (June 2023), it was agreed that funding would be allowed to continue to gate three. An interim update was provided to RAPID in April 2024, referred to as Gate three Checkpoint 1 (G3CP1) and further interim update (G3CP2) is planned for Summer 2025. Significant work to procure a technical partner has been undertaken in this period, as well as further risk reduction and scope maturing work to narrow the 85km pipeline route corridor. Working with Thames Water, the location of the required water supply works is on the South East Strategic Reservoir Option (SESRO) footprint is agreed which is to be consented by the SESRO project. A submission to Secretary of State requesting the project is considered as a project of National Significance is planned to be made in early Summer 2025, which will ultimately determine how the pipeline is consenting.

Since 2023, Southern Water has taken an increasingly active role at a strategic level with Thames Water (lead developer) and Affinity Water (joint partner) in the early-stage development of SESRO. It is expected that this Strategic Resource Option (SRO) will provide the source of raw water for T2ST. For Southern Water, a 30% share of funding (excluding land related cost) to support continued development was requested to commence in AMP8.

We formally stopped all work on desalination at Fawley in 2022–23 due to potential adverse environmental impacts exposed during early stage consenting activity. At RAPID Gate two, it was agreed with RAPID and Ofwat to pursue the best alternative option that emerged via a comprehensive option selection process that recommended the Hampshire Water Transfer and Water Recycling Project (HWTWRP) instead.

HWTWRP is projected to deliver water resource benefits in excess of Fawley desalination (as it accounts for another, smaller non-viable, non-SRO scheme), and has since made an informal RAPID Gate three submission (March 2024) which was followed up with a formal submission in July 2024. This SRO enhances the use of Havant Thicket Reservoir currently being constructed by Portsmouth Water, but paid for by Southern Water customers, and as such requires alignment of the two projects so as to provide best value for money for customers, while still aiming to protect the environment both in ecology and ecosystem terms but also via minimal carbon usage (relative to the two projects progressing separately). A major de-risking activity within AMP7 was the procurement of a land parcel suitable to house the water recycling plant; this opportunity arose earlier than had been budgeted and planned for, but by working with Ofwat this opportunity was able to be taken with ownership of the site taken in April 2024.

4G – Major project expenditure for wholesale wastewater by purpose for the 12 months ended 31 March 2025

We have no projects classed as major projects to report within wholesale wastewater.

4H – Financial metrics for the 12 months ended 31 March 2025

	Units	Current year	AMP to date
Financial Indicators			
Net debt	£m	5,663.960	
Regulatory equity	£m	1,785.718	
Regulatory gearing	%	76.03%	
Post tax return on regulatory equity	%	-16.71%	
RORE (return on regulatory equity)	%	-12.58%	-9.33%
Dividend yield	%	0.00%	
Retail profit margin – Household	%	-4.70%	
Retail profit margin – Non Household	%	–	
Credit rating – Fitch	n/a	BBB- (Stable)	
Credit rating – Moody's	n/a	Ba1 (Stable)	
Credit rating – Standard & Poor's	n/a	BBB- (Negative)	
Return on RCV	%	-0.08%	
Dividend cover	dec	–	
Funds from operations (FFO)	£m	190.333	
Interest cover (cash)	dec	1.76	
Adjusted interest cover ratio (ACICR)	dec	(0.20)	
FFO/Net debt	dec	0.03	
Effective tax rate	%	0.00%	
Retained cash flow (RCF)	£m	190.333	
RCF/Net debt	dec	0.03	
Borrowings			
Proportion of borrowings which are fixed rate	%	29.67%	
Proportion of borrowings which are floating rate	%	5.83%	
Proportion of borrowings which are index linked	%	64.50%	
Proportion of borrowings due within 1 year or less	%	0.11%	
Proportion of borrowings due in more than 1 year but no more than 2 years	%	6.69%	
Proportion of borrowings due in more than 2 years but no more than 5 years	%	24.33%	
Proportion of borrowings due in more than 5 years but no more than 20 years	%	60.28%	
Proportion of borrowings due in more than 20 years	%	8.59%	

The interest cover and adjusted interest cover ratios quoted above are based on the cash interest payable for the financial year rather than the cash interest paid in the financial year.

Interest Cover Ratios reconciliation

	ICR (cash) £m	Adj ICR (cash) £m
Funds from operations	190.333	190.333
Add back cash interest paid in year	143.455	143.455
Less regulatory depreciation		(370.676)
	333.788	**(36.888)**
Cash interest paid in year	233.250	233.250
Swap receipts	(89.795)	(89.795)
Less interest paid in prior year	(68.342)	(68.342)
Add interest payable re current year	114.858	114.858
Less interest prepaid	(0.844)	(0.844)
Interest payable for 2024–25	**189.128**	**189.128**
Ratio	**1.76**	**(0.20)**

4I – Financial derivatives for the 12 months ended 31 March 2025

Interest rate swap (sterling)	Nominal value by maturity (net) at 31 March				Total value at 31 March		Total accretion at 31 March	Interest rate (weighted average for 12 months to 31 March)	
	0 to 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Nominal value (net) £m	Mark to Market £m	£m	Payable	Receivable
Fixed to index-linked									
Super-senior swaps with breaks or accretion paydowns	83.363	–	1,192.100	1,069.066	**2,344.529**	1,414.030	447.362	1.32%	5.98%
Pari-passu swaps with breaks or accretion paydowns	–	–	–	22.104	**22.104**	73.956	–	0%	0%
Fixed to index-linked total	**83.363**	**–**	**1,192.100**	**1,091.170**	**2,366.633**	**1,487.986**	**447.362**		

The pari-passu derivatives have accretion payments in 2050 and 2055 relating to a £250 million inflation-linked swap against a £300 million fixed rate bond. The remaining inflation-linked cashflows associated with this inflation-linked swap are super senior.

Floating to index-linked derivatives are intended to expose interest cash flows, and the nominal value of debt outstanding, to short-term movement in RPI inflation. This ensures a proportion of our interest cost is a match against the nature of our inflation-linked cash flows and our inflation-linked RCV. Our inflation-linked financial instruments have a long maturity to finance the long life of our assets and the long-term nature of our investment decisions.

The value of the Mark to Market represents forecast future cash flows for the duration of the derivatives and discounted by prevailing interest rates. This value is extremely volatile given that market interest rates are constantly moving. The liability shown in the table above of £1,488.0 million associated with the Mark to Market valuations of our derivatives is high and is indicative of the high interest rates in the financial markets. The risk of this Mark to Market value crystallising is extremely remote given that it can only crystallise under certain conditions of a default of our financing covenants, in which case operations of the company are protected and will continue. Further details are available on page 235 of our Annual Report and Financial Statements.

4V – Mark-to-market of financial derivatives analysed based on payment dates

	Derivatives – Analysed by earliest payment date				Derivatives – Analysed by expected maturity date			
	Net settled £m	Gross Settled outflows £m	Gross Settled inflows £m	Total £m	Net settled £m	Gross Settled outflows £m	Gross Settled inflows £m	Total £m
Due within one year	84.776	–	–	**84.776**	–	–	–	**–**
Between one and two years	90.073	–	–	**90.073**	–	–	–	**–**
Between two and three years	67.618	–	–	**67.618**	–	–	–	**–**
Between three and four years	–	–	–	**–**	–	–	–	**–**
Between four and five years	50.668	–	–	**50.668**	–	–	–	**–**
After five years	1,194.851	–	–	**1,194.851**	1,487.986	–	–	**1,487.986**
Total	**1,487.986**	**–**	**–**	**1,487.986**	**1,487.986**	**–**	**–**	**1,487.986**

4W – Defined Benefit Pension Scheme – Additional Information

Item	Defined benefit pension schemes Pension scheme 1
Scheme details	
Scheme name	Southern Water Pension Scheme
Scheme status	Closed to new members and future accrual
Scheme validation under IAS/IFRS/FRS	
Scheme assets	543.100
Scheme liabilities	592.000
Scheme surplus/(deficit) total	**(48.900)**
Scheme surplus/(deficit) Appointed business	(48.900)
Pension deficit recovery payments	5.044
Scheme valuation under part 3 of the Pensions Act 2004	
Scheme funding valuation date	31-Mar-22
Assets	720.200
Technical Provisions	988.000
Scheme surplus/(deficit)	**(267.800)**
Discount rate assumptions	Fixed interest gilts curve + 65bps

Recovery plan

Recovery plan agreed on 15 March 2023, the company will pay the following deficit contributions arising from the latest triennial valuation carried out as at 31 March 2022:

On 31 March 2022 the Company made a contribution of £59.6 million (The funding shortfall of £267.8 million above uses an asset valuation that excludes this payment). This was a prepayment of the 1 April 2022 contribution of £20.6 million plus a further prepayment of £39.0 million in relation to contributions due in future years as set out below:

a) From 2023 to 2029 £20.976 million per annum increased by RPI each year based on December RPI

b) An additional £0.5 million per annum from 2023 to 2028 being the continuation of advance payments (made since 2018) of the 2029 deficit contribution which will be reduced by £5.5 million from that calculated in a) above.

The deficit contributions, offset where relevant by the £39.0 million prepayment are payable on 1 April of each relevant year.

Recovery plan end date	1 April 2029
Asset Backed Funding (ABF) arrangements	n/a
Responsibility for ABF arrangements	n/a

Additional regulatory tables

As permitted by RAG 3.15 section 2.9, the remaining regulatory tables which form the Annual Performance Report are excluded from this document and are published as an appendix at southernwater.co.uk/about-us/our-annual-reporting.

Data assurance summary

We take full responsibility for the information we publish on our performance. We seek to provide confidence to customers and stakeholders through a transparent approach to data assurance. This assurance provides confidence in our reported performance and the delivery of performance commitments made in our 2020–25 business plan.

While assurance is rarely able to provide absolute certainty over the quality of reported information, we aim for the assurance that we perform and commission to provide our internal and external stakeholders with sufficient comfort over the robustness and quality of the information that we report.

The assurance activity we undertake around the information that we provide is one of the critical elements we have put in place to build and secure the trust and confidence of our regulators, stakeholders and customers.

Our technical assurance framework agreement in place for our five-year Business Plan period (AMP7) allows us to appoint the most suitable assurance partners to different technical assurance projects. Jacobs have completed this role for us in the final year of AMP7.

We have published a separate document that details the completed assurance work performed on our reported information for the 2024–25 financial year. The results, both positive and improvement areas are published in the document entitled 'Data Assurance Summary' which is available on our Southern Water website southernwater.co.uk/about-us/our-annual-reporting.

The main assurance areas for the annual reports are:

Significant areas for assurance	Assurance results for 2024–25
The Annual Report including the Statutory and Regulatory Accounts, cost allocation and segmental reporting	The Annual Report and Financial Statements were audited by Deloitte LLP. Their opinion is included on page 247 of that report. The Annual Performance Report (APR), sections 1 and 2, excluding table 1F, were audited by Deloitte LLP. Their assurance statement is included on page 59. Deloitte LLP also performed assurance activities agreed with us on the financial information presented in table 1F and sections 4 to 9 of the APR and the financial information published in the cost assessment tables alongside this report. No issues were identified.
Additional assurance undertaken	Deloitte LLP also undertook assurance procedures on the following statements made in the Annual Report and APR: • Viability statement • Ring-fencing Certificate and statement (Licence Condition P)
Ofwat Performance Commitments and Outcome Delivery Incentives (ODIs)	Our independent assurer Jacobs have issued an unqualified limited assurance ISAE (UK) 3000 report over the reported performance against selected Performance Commitments for the Business Plan period 2020–25 in Section 3 of the APR.
Specific assurances related to other regulators' required information (i.e. The Drinking Water Inspectorate and The Environment Agency)	Each specified requirement is detailed in our Data Assurance Summary

Appendices

The information in the appendices has not been audited.

Appendix 1. Transactions with associates and the non-appointed business

Services supplied to associated companies by the appointee

Greensands Holdings Limited (GSH) is the ultimate parent of Greensands Investments Limited (GSI), which is an intermediate parent of Southern Water Services Limited (SWS), the appointee. The purpose of GSH and GSI is to act as holding companies for SWS. As such they do not trade and have no turnover.

During the year, recharges for group-related management services, for example legal, treasury, governance and financial services, supplied by Southern Water Services Limited were as follows:

Service	Company	Turnover of associate	Terms of supply	Value £m
Management charges	Greensands Investments Limited	–	Cost/market price	1.000

Services received by the appointee from associated companies

There were no services supplied by associate companies to SWS.

Group relief received by the appointee

Service	Company	Turnover of associate	Terms of supply	Value £m
Corporation tax group relief	–	–	Cost	–

No group relief was received by the appointee.

Allocation of costs between regulated and non-regulated businesses

Each non-appointed activity is treated separately within the company's financial records. Examples of non-appointed activities include non-monopoly rechargeable works, property searches and services for waste tankering. Revenues, costs, assets and liabilities are generally directly allocated to particular business activities. Administrative overheads have been apportioned from the appointed business to the non-appointed business on an activity cost basis.

Service provided by the non-appointed business	Basis of recharge made by the appointed business	Value £m
Treatment of imported sludge	Not applicable	–
Treatment of tankered waste	The Mogden Formula was used to calculate the income for tankered waste and the costs were derived from this calculation	5.740
Other	Headcount (FTE) was used to calculate administrative overhead for property searches, accommodation rental and Homeserve costs	0.290

Details of intercompany loans

Loans granted to Southern Water Services Limited

Company	Loan type	Interest rate %	Repayment date	Balance at 31 March 2025 £m
SW (Finance) I Plc	Fixed rate	6.192	2029	349.325
	Index linked	3.706	2034	326.179
	Index linked	3.706	2034	67.284
	Fixed rate	6.640	2026	349.797
	Fixed rate	5.000	2041	147.538
	Fixed rate	4.500	2052	197.451
	Fixed rate	5.125	2056	293.061
	Fixed rate	2.375	2028	372.802
	Fixed rate	3.000	2037	444.893
	Fixed rate	1.625	2027	298.088
	Fixed rate	7.375	2041	540.759
	Index linked	3.315	2043	74.233
	Index linked	4.123	2043	20.615
	Fixed rate	7.000	2040	590.283
	Fixed rate	7.750	2031	272.709
	Fixed rate	2.780	2031	174.444
	Fixed rate	2.960	2036	74.681
SW (Finance) II Limited	Index linked	4.076	2033	358.795
	Index linked	3.635	2032	332.108
Total				**5,285.046**

Loans granted by Southern Water Services Limited

Company	Loan type	Interest rate %	Repayment date	Balance at 31 March 2025 £m
SW (Finance) I Plc	Fixed rate	0.000	On demand	146.495
Total				**146.495**

Dividends paid by Southern Water Services Limited to group companies

Company	**2025 £m**	2024 £m
SWS Holdings Limited (ordinary dividend)	**0.000**	0.000

No ordinary dividend was declared for payment to Southern Water Holdings Limited (SWSH) in 2025 (2024: £nil).

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. Therefore, our dividend policy, covering both the appointed and non-appointed activities of the company, will ensure a fair, balanced and sustainable reward between customers, stakeholders and investors as well as complying with the dividend policy condition of our licence.

Dividend payments are designed to ensure 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 into 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.

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 will take into account all aspects of our performance. This will reflect our overall financial performance as compared to the final business plan as agreed by Ofwat.

Base Level of Dividend – Performance

The Board will consider if the payment or part payment of the dividend reflects, or would be consistent with achievement of, the long-term social, environmental, financial and operational performance commitments made to stakeholders, including customers, employees and members of the Southern Water pension scheme.

In considering this issue, the Board will assess whether the company is significantly underperforming when compared with its final determination and/or has a serious performance issue. In order to determine performance, the directors will consider performance in the round and shall have regard to the suite of Performance Commitments that the company has made which include targets in relation to:

- Performance for customers (including, but not limited, to C-MeX and D-MeX)
- The delivery performance of the large enhancement programme that we have committed to for the 2025–30 business plan period.
- 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 to 2030.
- Compliance of the business in line with statutory and regulatory obligations
- The base level of dividend yield can be adjusted up or down depending on performance.

The Board also takes into consideration the obligations of the company to its employees including (but not limited to) the obligation to make appropriate investment in health, safety and wellbeing and to ensure that there is appropriate funding of the company's 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.

The financial resilience assessment works on the principle that dividends declared reward efficiency and the effective management of risks.

This will consider the interests of our employees, other stakeholders, and our pension schemes. Our dividend policy is intended to support the financial resilience and investment grade credit ratings of the business and ensure continued access to diversified sources of finance. As part of this, we review:

a. Headroom under debt covenants;
b. Reserves, ensuring we have sufficient reserves in place;
c. The impact on the company's credit rating;
d. The liquidity position and ability to fulfil licence conditions;
e. Key areas of business risk; and
f. The requirements of current and future investment needs.

The policy, as reflective of our draft determination response will ensure we restrict the payment of dividends if gearing is above 70%.

Payment and non-payment of dividends

We will be transparent in the payment of dividends and will clearly justify the payment in relation to the factors outlined above.

The dividend policy applies to the payment of any dividend regardless of the purpose of that dividend.

The net benefits of unforeseen inflation will not be taken into consideration if they are not clearly linked to outperformance or the prudent actions of management.

No dividends were declared or paid in 2024–25 (2024: £nil).

Governance

We will 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.

Comparison of dividend to the PR19 Final Determination

The Board has resolved that the company will not pay dividends until it is clear that to do so would not be detrimental to the company's financial position. No ordinary dividends were declared or paid in 2024–25 (2024: £nil).

No payments were made in relation to preference share dividends (2024: 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 are made to a SWS group company and enable the payment of external interest on loans within the group. None of this money is paid to Southern Water shareholders.

An accrual totalling £13.6 million in relation to the cumulative liability of preference share dividends to 31 March is included within the financial statements as an inter-company creditor.

Asset transfers

There were no asset transfers during the year.

Appendix 2. KPI definitions and status assessment rules

Performance Commitment Definitions RAG status

✔	Performance meets or better than Ofwat target
– (amber)	Performance is worse than Ofwat target, but better than prior year
✖	Performance is worse than Ofwat target, and worse than prior year
–	Not applicable

Performance Commitment Definitions

Delivering great service

Water quality compliance (Compliance Risk Index)	**Definition:** The definition for this performance commitment is set by the Drinking Water Inspectorate (DWI) in collaboration with the industry. This is published as DWI Compliance Risk Index (CRI), August 2018: ofwat.gov.uk/publication/dwi-compliance-risk-index-cri-definition.
Drinking water appearance	**Definition:** The number of times the company is contacted by consumers due to the drinking water not being clear, reported per 1,000 population. Calculation is the number of contacts for appearance multiplied by 1,000 divided by the resident population as reported to the Drinking Water Inspectorate (DWI).
Drinking water taste and odour	**Definition:** The number of times the company is contacted due to the taste and odour of drinking water, reported per 1,000 population. Calculation is the number of contacts for all taste/odour contacts multiplied by 1,000 divided by the resident population as reported to the Drinking Water Inspectorate (DWI).
Replace lead customer pipes	**Definition:** The number of residential properties receiving grants from the company towards removing lead pipes in the home in the 2020–25 period. This is a co-delivery measure with the company's customers to reduce the amount of lead in customer pipes. The performance commitment will apply only in the company's 'Deal' (Kent) water supply zone, where it is trialling this approach to eliminating lead pipes and fittings.
Water supply interruptions	**Definition:** Reducing interruptions to water supply is defined in the reporting guidance for PR19 – Supply Interruptions, published on 27 March 2018: ofwat.gov.uk/publication/reporting-guidance-supply-interruptions. It is calculated as the average number of minutes lost per customer for the whole customer base for interruptions that lasted three hours or more
C-MeX	**Definition:** The customer measure of experience (C-MeX) is a measure of customer satisfaction. A company's C-MeX score is calculated as the weighted average of customer satisfaction (CSAT) scores from customer service (CS) and customer experience (CE) surveys. Standard and higher performance payments under C-MeX depend on a company's performance relative to those of other companies. Higher performance payments are available if the company passes each of the following three 'gates': • the company is one of the top three performers by C-MeX score; • the company is at or above a cross-sector threshold of customer satisfaction performance based on the all-sector upper quartile (ASUQ) of the UK Customer Satisfaction Index (UKCSI); and • the company has lower than the industry average number of household complaints (per 10,000 connections).

Delivering great service

Void properties	**Definition:** The number of household properties classified as void as a percentage of the total number of household properties served by the company. Void properties are defined as properties, within the company's supply area, which are connected for either a water service only, a wastewater service only or both services but do not receive a charge, as there are no occupants. Additionally a property connected for both services that is not occupied, only counts as one void property.
Gap sites	**Definition:** The number of household gap sites identified by the company and brought into charge annually. A gap site is identified as a property that is not recorded on the company's billing database. To add one more site requires the company to add one property to its billing database.
Internal sewer flooding	**Definition:** The internal sewer flooding measure is defined in the reporting guidance for PR19 – Sewer Flooding, published on 27 March 2018: ofwat.gov.uk/publication/reporting-guidance-sewer-flooding The measure is calculated as the number of internal sewer flooding incidents normalised per 10,000 sewer connections including sewer flooding due to severe weather events.
External sewer flooding	**Definition:** The performance commitment will be reported as the absolute number of the company's external sewer flooding incidents per year including incidents caused by severe weather. The external sewer flooding measure is defined in the reporting guidance for PR19 – Sewer Flooding, updated on 28 April 2018: ofwat.gov.uk/publication/reporting-guidance-sewer-flooding
Customer Satisfaction with Vulnerability Support	**Definition:** Percentage of customers that have received non-financial support who believe Southern Water's support addresses their specific requirements and needs. Non-financial support is defined as any support that is provided by the company to a customer with specific requirements or needs which affects the customer for reasons that are not specific to their financial position. This support is provided through the Priority Services Register (PSR) e.g. braille bills or talking bills. Performance will be measured through a survey of customers that have received PSR support. Customers will be asked whether the support provided addresses their specific requirements and needs in relation to their water and wastewater service. Customers will be provided information about the support the company provides as part of the questionnaire so they clearly understand the premise of the question. The questionnaire used will be consistent with that used in the company's baseline survey for 2017–18. Customers will be able to respond with a "Yes" or "No" answer and provide additional comments to give the company feedback on any improvements that could still be made to improve support. The performance will be measured as the total number of yes responses divided by the total number of responses. The company will not include in the survey PSR customers who have not received a service from the company in the reporting period. The survey should be planned and carried out following social research best practice (example any applicable sections of a relevant code such as that published by the Market Research Society). The sample size should be selected to give a reasonable statistical significance for the purpose of the performance commitment.

Delivering great service

Effectiveness of financial assistance

Definition:
The percentage of customers that pay their bills in the immediate twelve months following the receipt of financial assistance.

The measure includes residential customers who have received support through the Essentials social tariff, WaterSure, Water Direct, NewStart Debt Matching scheme and any new financial assistance schemes the company implements. Any new financial schemes introduced by the company for inclusion in this performance commitment should be subject to assurance from the Customer Challenge Group.

Customers 'paying their bills' is defined as customers either having paid in ten distinct months (of twelve) or having paid 90% of the billed value.

Priority services for customers in vulnerable circumstances

Definition:
This common performance commitment is defined in the reporting guidance: 'Reporting guidance – Common performance commitment for the Priority Service Register'.

This performance commitment consists of the following criteria:

- The PSR reach: percentage of households that the company supplies with water and/or wastewater services that are registered on the company's PSR;
- Attempted contact: percentage of distinct households on the PSR that the company has attempted to contact over a two-year period;
- Actual contact: percentage of distinct households on the PSR that the company has actually contacted over a two-year period.

To achieve compliance with this performance commitment the reach, attempted contact and actual contact targets should be achieved.

Properties at risk of receiving low pressure

Definition:
The number of properties receiving or at risk of receiving pressure below the low pressure reference level. This measure is calculated as the total number of properties receiving pressure below standard. This measure is calculated as the total number of properties receiving pressure below standard, minus the number of those properties that are covered by the predetermined allowable exclusion categories as detailed in the reporting guidance.

Low pressure reference level is defined in the reporting guidance published 11 December, 2017 'Properties at risk of receiving low pressure': ofwat.gov.uk/publication/properties-at-risk-of-receiving-low-pressure

Value for money

Definition:
Percentage of customers that state they are satisfied with the value for money of water and sewerage services in their area.

This performance commitment will be measured through an annual survey of customers that is run by CCWater (Water Matters). The measure will take the results for Southern Water customers only.

The proportion of customers that state either 'very' or 'fairly' satisfied on a 5-point scale, as measured by CCWater's annual tracking report 'Water Matters'.

It combines a mean average score of the ratings:

- Satisfaction with value for money for water services; and
- Satisfaction with value for money for sewerage services

CCWater will interview 200 of Southern Water's customers each year in this survey.

The measurement of the survey will be conducted in a consistent way over the 2020 to 2025 period.

If, during the period, CCWater cease measurement of the relevant data set, the company will replace the source data and measurement for this performance commitment with an appropriate equivalent confirmed and assured by an appropriately qualified independent third party.

Fit for the future

Long term supply demand schemes	**Definition:** The expected number of months delay to deliver long term supply-demand capacity benefit of 182.5 Ml/d which is expected to be delivered by 31 March 2027. The capacity benefit (Ml/d) target represents the total of the stated average capacities for the individual schemes, both treatment and transfer, identified by the company within the business plan and the revised draft WRMP. The following schemes are expected to be delivered: • Ford Wastewater Treatment Works (WwTW) indirect potable water reuse (20 Ml/d); • Utilise full existing transfer capacity (3 Ml/d); • East Woodhay Water Supply Works (WSW) (1 Ml/d); • Bournemouth Water supply from Knapp Mill (20 Ml/d); • Coastal desalination - Shoreham Harbour (10 Ml/d); • Sussex Coast – Lower Greensand (2 Mld); • Hardham winter transfer: Stage 2 (2 Ml/d); • Aylesford WwTW indirect potable water reuse – Eccles Lake (18 Ml/d); • Sandown WwTW indirect potable water reuse (8.5 Ml/d); and • Internal interconnections (98 Ml/d).
Sewer collapses	**Definition:** Sewer collapse: A sewer collapse is considered to be where a structural failure has occurred to the pipe that results in a service impact to a customer or the environment and where action is taken to replace or repair the pipe to reinstate normal service. The measure intentionally does not refer to the magnitude of the collapse. The measure includes rising mains. Collapses on the entire network are to be reported. Sewer length: Include the length of the entire network, including sewers that transferred to their responsibility under the Transfer of Public Sewers Regs 2011. The company should separately record the length of transferred sewers, the calculation of this measure should be based on the latest measurements of the length.
Surface water management	**Definition:** Reduction in volume (m3) of surface water entering the surface or combined sewer network as a result of sustainable urban drainage approaches. Solutions include sustainable urban drainage approaches to slow down and reduce the volume of water entering the network. These include, but are not limited to: • Provision of a soakaway, either through providing a grant to the customer or through installation by Southern Water. • Provision of a sustainable drainage system which does not connect to a combined sewer network or which materially attenuates the flow of surface water to the combined network (e.g. a rain garden).
Community engagement	**Definition:** The percentile performance of Southern Water compared to other utility companies in the B4S1 annual report. The company has engaged B4SI, a company that measures corporate community investment and philanthropy, to measure the company's performance in line with organisations both within and outside the sector. The measure will be based on the company's annual ranking of utilities companies in the B4SI annual report, which will be influenced by the company's ongoing commitment to increase hours volunteered, partnering with charities, raising money for charities, flagship programmes such as Learn to Swim, community and outreach events and administering community grants. Each year the company will convert the ranking into a percentile using the excel function "PERCENTRANK.INC" multiplied by 100 and report this. The data will be organised so that the best company will receive the highest percentile.

Fit for the future

Schools visited and engagement with children

Definition:
The The measure is the percentage of feedback the company receives, from schools that have been visited in the year, which the schools have rated as 'good' or 'excellent', based on a survey completed after the visit.

It is measured annually on a reporting year basis.

A 'visit' is defined as any activity involving a school, either at the school premises or other venue, which has as its aim the education of pupils in relation to the company's core activities, including the value of water, water efficiency, 'unflushables' and the water cycle.

'Schools' includes any establishment involved in the education of children under the age of 18.

The survey should be planned and carried out following social research best practice (e.g. any applicable sections of a relevant code such as that published by the Market Research Society).

The sample size should be selected to give a reasonable statistical significance for the purpose of the performance commitment.

Impounding reservoirs

Definition:
This performance commitment measures the progress that the company makes against its programme of work for enhancing the safety of four named reservoir assets, measured as the percentage completion of the schemes. The company must increase the drawdown rates for four of its largest impounding reservoirs to at least the basic levels as set out in the below table for the purposes of measuring delivery under this performance commitment.

The company must comply with the Reservoirs Act 1975.

Statutory reservoir name	Basic drawdown standard rate (metres per day at 50 percentile inflow)	Latest timing of statutory inspection	% completion allocation	Target completion date of the works
Bewl	1.00	2018	48.8	11 Nov 2022
Darwell	0.83	2024	14.8	11 Nov 2024
Powdermill	0.31	2019	19.9	11 Nov 2024
Weir Wood	0.53	2023	16.5	11 Nov 2024

Mains repairs

Definition:
Mains repairs is defined in the reporting guidance for PR19 – Mains Repairs per 1000km, published on 27 March 2018. ofwat.gov.uk/publication/reporting-guidance-mains-repairs-per-1000km
It is reported as the number of mains repairs per thousand kilometres of the entire water main network (excluding communication and supply pipes).

Unplanned water outage

Definition:
Unplanned outage is defined in the reporting guidance for PR19 – Unplanned Outage, published on 4 April 2019. ofwat.gov.uk/publication/reporting-guidance-unplanned-outage

This measure is reported as the temporary loss of peak week production capacity (PWPC) in the reporting year weighted by the duration of the loss (in days). Unplanned outage for each water production site is calculated separately and then summed over the reporting year to give a total actual unplanned outage for the water resource zone.

The company water resource zone weighted outage should then be summed (Ml/d) and normalised based on overall company peak week production capacity to be reported as a percentage.

Risk of sewer flooding in a storm

Definition:
Risk of sewer flooding in a storm is defined within the guidance titled, Reporting guidance – Risk of sewer flooding in a storm, published on 4 April 2019: ofwat.gov.uk/publication/reporting-guidance-risk-of-sewer-flooding-in-a-storm

This measure will record the percentage of the region's population at risk from internal hydraulic flooding from a 1 in 50-year storm, based on modelled predictions.

D-MeX

Definition:
D-MeX is a measure of customer satisfaction. A company's overall D-MeX score is calculated from two components that contribute equally:

- qualitative D-MeX score, based on the ratings provided by developer services customers who transacted with the company throughout the reporting year 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.

The survey results which are used to calculate the qualitative component of the company's D-MeX score will be supplied by a survey agent appointed by Ofwat. This is supplied out of 100 to form the score for the qualitative component of D-MeX.

The set of Water UK performance metrics which are used to calculate the quantitative component of the company's D-MeX score, in place at the time of PR19 final determinations publication, are set out in annex 2 of 'PR19 final determinations: Customer measure of experience (C-MeX) and developer services measure of experience (D-MeX) policy appendix'. For each metric, a percentage is reported and a simple average of these metrics is taken. This is rescaled to be out of 100 to form the score for the quantitative component of D-MeX.

Water supply resilience

Definition:
Number of residential properties at risk of long term loss of supply (>48 hours) in the company's Thanet, Brighton and the Isle of Wight water supply zones.

A property is considered at risk of long term loss of supply (>48 hours) if it is likely to experience a long term supply interruption if one of the key hazards identified in the table below were to occur.

The key hazards and assets that are considered in the assessments are summarised in the table below.

Key hazards	Water supply works	Service reservoir	Booster Pumping Stations	Trunk Mains
Flooding	✓	✓	✓	✗
Critical Asset Failure	✓	✓	✓	✓
Contamination	✗	✓	✗	✓
Raw Water Loss	✓	✗	✗	✗
Malicious Damage	✓	✓	✓	✗
Cyber Security Incident	✓	✓	✓	✗

Use water wisely

Abstraction Incentive Mechanism	**Definition:** The abstraction incentive mechanism (AIM) reduces abstraction of water at environmentally sensitive sites when flow or levels are below an agreed point otherwise known as a trigger. The trigger point is usually based on a level or flow, beyond which the AIM is considered to be "switched on". This trigger will usually be related to the point at which damage is caused and is intended to prevent this from happening or ameliorate the negative impacts. The company has included one site for AIM for the period 2020-25, this is Otterbourne and Twyford. The trigger point for this site is the month of September as this is when impacts on the environment are most severe. The September total abstraction limit for the 2020-25 period is 2280 Ml. The company's stated target is to outperform this by 15 Ml/d. The abstraction incentive mechanism is defined in the reporting guidance – Guidelines on the abstraction incentive mechanism, published in 2016: ofwat.gov.uk/wp-content/uploads/2016/02/gud_pro20160226aim.pdf
Pollution incidents	**Definition:** Pollution incidents is defined in the following guidance for PR19 – Water & Sewerage Company Environmental Performance Assessment (EPA) Methodology (version 3). Published November 2017 by the Environment Agency. ofwat.gov.uk/wp-content/uploads/2017/12/WatCoPerfEPAmethodology_v3-Nov-2017-Final.pdf The total number of pollution incidents (categories 1 to 3) per 10,000km of sewer length for which the company is responsible in a calendar year.
Thanet sewers	**Definition:** The expected number of months delay to deliver an enhancement scheme related to the reduction of exfiltration from sewers located within tunnels in Thanet by 31 March 2025. The specification of the scheme is set out in the company's April 2019 business plan.
Maintain bathing waters at 'excellent'	**Definition:** The number of bathing waters maintained at 'Excellent' each year, as designated by the Environment Agency, based on a four year average. This measures the number of designated bathing waters within the Southern Water region which are assessed as having Excellent bathing water quality at the end of each bathing season. This is based on a four year assessment. If a bathing water is closed for sampling the company will use the most recent classification as reported by the Environment Agency.

Use water wisely

Improve the number of bathing waters to at least 'good'	**Definition:** The cumulative number of named bathing waters that are improved and assessed as at least 'Good' water quality classification by the Environment Agency in the 2020-25 period. The following are the named bathing waters to be taken to 'Good' classification: • Broadstairs Viking Bay • Littlestone • Lancing, Beach Green • Hastings Pelham Beach • Felpham If during investigations an additional bathing water is identified it can be added to this list with the agreement of the Environment Agency. If a bathing water is de-designated during the period, it will not be counted and will reduce the potential for the company to perform. For the 2024–25 reporting year, if a season is classed as 'abnormal' as there are at least two samples two standard deviations away from typical wet weather affected samples, an underperformance payment will not apply for the 2024- 25 year so far that it relates to an 'abnormal' assessment. The performance assessment would be deferred to the following year. The performance assessment for bathing waters assessed as abnormal will not be deferred again. It is expected that any underperformance or outperformance payments for bathing waters assessed as abnormal for the 2024–25 year will apply instead for the year 2025–26, this will be confirmed at the next price review. The overall amount of underperformance or outperformance payments should be the same as if an assessment takes place in 2025–26, had taken place in 2024–25.
Improve the number of bathing waters at 'excellent' quality	**Definition:** The cumulative number of named beaches that are improved and assessed as 'Excellent' bathing water classification by the Environment Agency in the 2024–25 period. At least two from the following four bathing waters will be improved: • Gurnard; • Seagrove; • Ramsgate Sands; and • Pevensey Bay If a bathing water is de-designated during the period, it will not be counted and will reduce the potential for the company to perform. For the 2024–25 reporting year, if a season is classed as 'abnormal' as there are at least two samples two standard deviations away from typical wet weather affected samples, underperformance payments will not apply for the 2024–25 year so far that it relates to an 'abnormal' assessment. The performance assessment would be deferred to the following year. The performance assessment for bathing waters assessed as abnormal will not be deferred again. It is expected that any underperformance or outperformance payments for bathing waters assessed as abnormal for the 2024–25 year will apply instead for the year 2025–26, this will be confirmed at the next price review. The overall amount of underperformance or outperformance payments should be the same as if an assessment that takes place in 2025–26, had taken place in 2024–25.
Effluent re-use	**Definition:** Volume of treated effluent in cubic metres (m^3) made available annually for direct re-use by customers. The measurement will be m^3 of treated effluent utilised by local authorities, businesses, farmers and communities on an annual basis. It measures effluent that the company no longer discharges direct to the environment but instead provide to a third party (at the appropriate quality required) for use. This could be, for example, to a council for watering flower beds or to a grower for crop irrigation.

Use water wisely

Natural capital	**Definition:** The cumulative number of river catchments for which the company establishes and publishes baseline natural capital accounts. The company will establish baseline natural capital accounts for at least three of its ten catchments (the Test, Arun & Western Streams and Medway catchments) supported by natural and social capital metrics that will allow it to monitor and measure changes in natural capital stocks (extent and condition) and the value of water-related ecosystem services over time as a result of it investments/activities.
Distribution input	**Definition:** This measure is reported as an annual average in megalitres per day (Ml/d). Distribution input should be reported using the following criteria: • Distribution input to the system shall be metered with at least daily readings at all locations of water input to the distribution network at treatment works, boreholes and bulk supply locations; • Meters shall be an appropriate size for the flow to be measured and located at appropriate inputs to the network confirmed by record plans. Any treatment works' take-off downstream of a meter shall be excluded from the distribution input calculations; Data validity checks shall be carried out at least monthly; • Any missing data shall be infilled using both pre- and post-data for the location over at least one month, extrapolated from pump hours or use of upstream or downstream meters; and • The data transfer systems from meter output to the central database shall be checked and validated on a risk-based frequency every one to two years. This measure should be calculated consistently with other water balance components. If any missing data is infilled then the same data should be used in leakage and per capita consumption (PCC) reporting.
Treatment works compliance	**Definition:** Treatment works compliance is defined in the reporting guidance for PR19 – Water & Sewerage Company Environmental Performance Assessment (EPA) Methodology (version 8). ofwat.gov.uk/wp-content/uploads/2017/12/WatCoPerfEPAmethodology_v3-Nov-2017-Final.pdf. The discharge permit compliance metric is reported as the number of failing sites (as a percentage of the total number of discharges) and not the number of failing discharges.
Renewable generation	**Definition:** Total renewable electricity generated as a percentage of the company's total electricity consumption. The measure includes all electricity consumed at the company's sites, including both operational sites and offices. All renewable energy generated on the company's sites will contribute towards this performance measure, irrespective of whether it has been generated using assets owned, operated and maintained by it, or on behalf of it by a third party, non-regulated, or subsidiary business unit. In this way performance against the target will be intrinsically linked to behaviours incentivised by the market for the purpose of value creation and not restricted by a traditional operating model. The total amount of renewable electricity generated at the company's sites is measured in kilowatt hours (kWh) at the generation source after deducting any power not used (parasitic loads) and including electricity both consumed on site and any surplus exported into the National Grid.

Use water wisely

Satisfactory bioresources recycling	**Definition:** The overall percentage of company sludge satisfactorily used or disposed of in line with version 3 of the Environment Agency's Water and Sewerage Company Environmental Performance Assessment (EPA) methodology (published November 2017), which includes compliance with certain environmental laws and industry agreements in effect at the date of final determination, including: • the Sludge (Use in Agriculture) Regulations 1989; • Environmental Permitting (England and Wales) Regulations 2010; and • Water company voluntary compliance with the Safe Sludge Matrix. The full methodology, published in 2017, can be found here: ofwat.gov.uk/wp-content/uploads/2017/12/WatCoPerfEPAmethodology_v3-Nov-2017-Final.pdf.
River water quality	**Definition:** The cumulative length of river improved as a consequence of regulatory and legislative drivers. The length of river defined as improved will be based on the delivery of specified schemes in the WINEP. The commitment level will be limited to those schemes with Green status as at 1 April 2019 and which are already confirmed. The length of river water quality improvements will be derived from specified schemes in the WINEP. It is assumed for the purposes of this performance commitment that delivery of the WINEP schemes will deliver the specified improvements to water quality.
Combined Sewer Overflows (CSO) Monitoring	**Definition:** Percentage of CSOs with effective monitoring. To count as effective monitoring under this measure, the following criteria will apply: • The monitor is an 'Event and Duration Monitor', which is a monitor that monitors that a CSO has spilt and the duration of the spill; • The monitor is in place and available providing at least 10 months valid data in any one year; • Data from the monitor has been validated, through either internal or external review; and • Data from the monitor has been made available on the company's website.
WINEP delivery	Has the company "met" or "not met" all of its requirements for WINEP, in the reporting year. This measure tracks the completion of required schemes in each year, as per the latest WINEP programme published by Defra. If any scheme is not delivered by the time specified in the WINEP tracker titled "Completion Date (DD/MM/YY)", the company will report "not met". All WINEP schemes will be included including those reported under other performance commitments.

Protect and improve the environment

Access to daily water consumption data	**Definition:** Number of residential properties provided with a device which can give access to daily water consumption. The measure includes all residential properties.
Water saved from water efficiency visits	**Definition:** Estimated reduction in consumption in cubic meters per days from 1 April 2020. The estimate is based on the number and type of water saving devices fitted and their estimated usage reduction. This will be calculated by the company's water efficiency visit supplier at the time of the visit. A water saving device is any physical device designed to save water (for example, a low flow shower head or tap aerator) or other intervention (for example, dripping tap repair). The estimated saving will be based on the estimated daily saving associated with each device installed and the customer's stated usage. The estimated daily saving associated with each device installed will be published on the company website. The annual savings will be calculated as the sum of the estimated daily savings at each property. The measure includes all residential properties.
Leakage	**Definition:** The percentage reduction of three year average leakage in megalitres per day (Ml/d) from the 2019–20 baseline. The total level of leakage is defined in the Final reporting guidance for PR19 – Leakage, published on 27 March 2018: ofwat.gov.uk/publication/reporting-guidance-leakage. Three-year average values are calculated from annual average values for the reporting year and two preceding years and expressed in megalitres per day (Ml/d).
Per capita consumption	**Definition:** Per capita consumption is defined in the Final reporting guidance for PR19 – Per Capita Consumption, published on 27 March 2018: ofwat.gov.uk/publication/reporting-guidance-per-capita-consumption. Three-year average values are calculated from annual average values for the reporting year and two preceding years and expressed in litres/person/day (l/p/d).
Target 100	**Definition:** Percentage of household population with estimated per capita consumption (PCC) of less than 100 litres/person/day. PCC is defined as the average amount of water used by each customer that lives in a household property

Appendix 3. Board statement on the accuracy and completeness of the data and information (financial and non-financial)

We, the Board of Southern Water (SWS), have carefully considered the requirements of the Board statement on the accuracy and completeness of the data and information (financial and non-financial). The Board is pleased to provide the following Board Statements.

We believe that our stakeholders deserve to have trust and confidence in the integrity of the information we provide in our annual reports. In order to achieve this, our performance reporting is subject to a system of checks to ensure that we meet the highest quality of reported information.

The company has adopted the 'three lines of defence' framework for reporting governance and assurance activity. In relation to non-financial reporting, this has been in place since 2017. The company has a mature internal system of control and helps to assure performance information by applying multiple levels of control. The framework is delivered and reviewed as part of the Final Assurance Plan and the Internal Audit Annual plan (both of which are signed off by the Audit Committee). This work is fully embedded on-going and is on track and is now supporting our operational turnaround plans.

In this context, the Board has actively engaged and challenged the assurance processes that have been adopted by the company. This covers assurance on both the financial and non-financial reporting and assessment of applicable confidence grades. The Board has, over recent years, taken action to ensure that exceptions and weaknesses in the assurance approaches have been addressed. The Board is satisfied that the approaches have appropriately identified and addressed any risks to the provision of accurate and complete data and information. This has been discharged through the SWS Board and its relevant Committees (most notably the Audit Committee).

Detail of this activity is included below:

Financial Reporting

- The Board reviewed the assurance outputs regarding the financial performance and prospects, reported in the 2024–25 Annual Performance Report, from Deloitte relating to the statutory and regulatory accounts. Deloitte presented their views to the Audit Committee on 20 June 2025 and to the final sign-off meeting on 14 July 2025.
- The Board has visibility of the high-level financial governance and controls that are in place around our financial reporting, and this is captured as part of the annual external audit, internal audit reports looking at financial controls and updates on the implementation of new accounting standards as reflected in the Schedule of Matters Reserved to the Board.
- The Board reviews the monthly KPI reports, including performance against budgets.
- The Board, via its committees, monitors the Southern Water internal control framework and, if necessary, how weaknesses are being addressed. This applies to both Financial and Non-Financial controls.
- The Board has approved updates in the Annual Report, Mid-Year Accounts, Annual Performance Report and Data Assurance Summary that detail improvements in governance and controls and has included specific caveats where capability has been improving.

Non-Financial Reporting

- The Board continues to support the company to ensure it maintains the standards required by our regulators and ourselves – for example, data reporting and assurance – work is ongoing to materially improve processes and systems, underpinned by values-based ethical business practice, to ensure the mistakes of the past are not repeated.
- The company has adopted the 'three lines of defence' framework for reporting governance and assurance activity. This has been in place since 2017 and has supported the continued maturity of the internal system of control and helps to assure performance information by applying multiple levels of control. The framework is delivered and reviewed as part of the Final Assurance Plan and the Internal Audit Annual plan (both of which are signed off by the Audit Committee).
- Internal controls are applied and improved processes are now in place to mitigate the risk of supplying incorrect or inaccurate information in all the company's non-financial regulatory reporting.
- The Board and Audit Committee regularly receive and review information and reports on non-financial resources and performance that support the efficient delivery of services to our customers and other stakeholders.

- The Audit Committee reviews progress of non-financial reporting improvement plans and the Ofwat Section 19 undertakings.
- The Board reviewed the assurance outputs regarding the non-financial performance, reported in the 2024–25 Annual Performance Report from Jacobs.
- The Board, via its Audit Committee has received an internal assurance report in March 2025, which reported Southern Water's compliance with its Licence of Appointment.
- The Board, via its committees, monitors the Southern Water internal control framework and, if necessary, how weaknesses are being addressed. This applies to both Financial and Non-Financial controls.
- The Audit Committee has monitored the completion of a risk-based programme of audit and assurance activities during the year.

Data Assurance Summary

The company has published a separate document that details the completed assurance work performed on its reported information for the 2024–25 financial year. The results, both positive and improvement areas are published in the document entitled 'Data Assurance Summary' which is available on the Southern Water website southernwater.co.uk/about-us/our-annual-reporting.

Stuart Ledger
Chief Financial Officer

Keith Lough
Chair

14 July 2025

Appendix 4. Glossary of Regulatory Terms

Appointed business

The appointed business comprises the regulated activities of the company which are necessary for it to fulfil the function and duties of a water and sewerage undertaker under the Water Industry Act 1991.

Arm's-length trading

Where the company treats associate companies on the same basis as external third parties.

Asset Management Plan (AMP)

A plan agreed with Ofwat on a five-yearly basis for the management of water and wastewater assets. The plan runs for a five-year period. AMP7, the seventh plan since privatisation, covers April 2020 to March 2025.

Associated company

Condition A of the Licence defines an associated company to be any group or related company. Condition F of the Licence requires all transactions between the company and its associated companies to be disclosed subject to specified materiality considerations.

C-MeX

C-MeX is Ofwat's measure of customer experience. It comprises two surveys – a survey of customers who have recently contacted their company and a survey of random members of the public in relation to their water company. These are used to calculate a score which can be compared between water companies, with rewards and penalties for the best and worst performers.

Final Determination (FD)

The conclusion of discussions on the scale and content of the Asset Management Plan for the forthcoming five-year period. It includes a determination of the allowable revenues for the period and the performance targets that must be achieved.

K factor

The annual increase, set by Ofwat, in wholesale revenues that companies in the water industry can recover from customers. The amount by which a company can increase (or must decrease) its revenues is controlled by the price limit formula CPIH + or – 'K'. CPIH is expressed as the percentage increase in the Consumer Price Index (including owner occupiers' housing costs) in the year to November before the charging year. 'K' is a number determined by Ofwat for each company, usually at a price review, for each year to reflect the revenues it needs above or below inflation in order to finance the provision of services to customers.

Licence

The Instrument of Appointment dated August 1989 under Sections 11 and 14 of the Water Act 1989 (as in effect on 1 August 1989) under which the Secretary of State for the Environment appointed Southern Water Services Limited as a water and wastewater undertaker under the Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.

Non-appointed business

The non-appointed business activities of the company are activities for which the company as a water and wastewater undertaker is not a monopoly supplier (for example, the sale of laboratory services to an external organisation) or involves the optional use of an asset owned by the company (for example, the use of underground assets for cable television).

Ofwat

The name used to refer to the Water Services Regulation Authority (WSRA). The WSRA is the economic regulator of the water industry.

Outcome Delivery Incentive (ODI)

Performance Commitments with outperformance and/or underperformance payments agreed with customers and Ofwat through the periodic review process.

Performance Commitment (PC)

Performance Commitments are service targets set by Ofwat as part of the Final Determination.

Periodic review

A review conducted by Ofwat each five years for the purpose of determining price controls. Each water and wastewater undertaker submits a business plan covering the five-year period for which Ofwat will set the controls. (PR19 relates to 2020–25; PR24 will cover the period 2025–2030).

Price control

A price control determines the limit on the level of charges or revenues that can be recovered from customers. As part of the price control Ofwat also determines performance targets and other related matters.

Regulatory Accounting Guidelines (RAG)

The accounting guidelines for regulatory accounts issued, and amended from time to time, by Ofwat.

Regulatory Capital Value (RCV)

The capital base used in setting price limits. The value of the appointed business that earns a return on investment. It represents the initial market value (200-day average), including debt at privatisation, plus subsequent net new capital expenditure including new obligations imposed since 1989. The capital value is calculated using the Ofwat methodology (i.e. after current cost depreciation and infrastructure renewals accrual).

Consumer Price Index (CPIH)

CPI is a measure of the change in consumer prices based on the prices of a typical basket of goods and services in the United Kingdom. The CPIH measure, includes owner occupier's housing costs. This is the principal measure of inflation used by Ofwat for regulatory purposes, including inflating allowed revenues or prices.

Totex

Total expenditure is the sum of operating expenditure and capital expenditure. It is used by Ofwat to determine the efficient level of costs as part of the periodic review process.

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