

Chair's statement

Welcome to our **Annual Report** and **Financial Statements** for 2022–23



Highlights

- The continued transformation of Southern Water is delivering progress.
- Our focused two-year Turnaround Plan prioritises areas for performance improvement.
- The role of our investors in enabling the acceleration of our activities continues to be crucial.
- The way we have learnt from five major incidents will help us serve our customers and communities better in the future.
- We have continued to listen to all our stakeholders during a period of intense public scrutiny.
- Water scarcity as a result of population growth and climate change is a reality in the South East, so resilience and protecting the environment are central to our plans.
- We fully expect to receive a two-star rating for the Environment Agency's annual Environmental Performance Assessment.

Southern Water recently published a Turnaround Plan for the final two years of this current delivery period. It is a recognition that we both remain a business in transformation and that we have a clear set of priorities to improve our performance and network resilience. We remain challenged by annual targets set for the business in 2019, but with reinvestment of all profits and additional shareholder support, well beyond funds agreed in our 2019 Final Determination from Ofwat, we are a much-improved, more rigorous and more innovative business.

We are currently in discussions with all the company's shareholders with respect to additional funding in the near term; see page 205 for further information regarding this funding and its effect on going concern, including the related material uncertainty.

The next two years are critical in delivering efficiencies and to prepare for what is understood to be a period of higher investment and customer bills, to tackle the challenges of water sourcing in the South East and the management of surface flows and wastewater into the wider environment. Read more on our Turnaround Plan on pages 17, 50, 56, 64 and 72.

We are not yet where we need to be as a business, but I commend the leadership, our colleagues and supportive stakeholders who are committed to helping us deliver our plans.

I have written before that the greatest risk that our region faces is water scarcity, and last summer's drought highlighted this challenge very sharply. Economic development in the South East and associated population growth make our efforts to preserve every drop of water as part of the water cycle, even more important. We have increased our efforts to reduce leakage and keep as much water in supply as we can, our water saving work with customers continues and we look to develop new sources of water, including water recycling.

Over the next decades, all of these initiatives need to succeed and our long-term water management plans make it clear that major infrastructure investments in regional transfers and new reservoirs require early approval and delivery.

Making sure we are resilient against drought in the longer term, while protecting our communities and



the green spaces around us, forms the basis of our Water Resources Management Plan (WRMP) and our commitments under the Water Industry National Environmental Programme (WINEP). These priorities are generational investments and challenge our traditional funding and planning methods; our priority is to focus on what is right for today and in the future.

Over the past year, public scrutiny of the water industry and Southern Water has been intense, focusing on the impacts of our activities on our customers and the environment. We listen to all our stakeholders as we plan, both for tomorrow and for the future. We have shareholder support and are committed to spend and invest significantly more than the capital investment of £2 billion set in our Final Determination for the period 2020–25.

We welcomed Defra's Storm Overflows Discharge Reduction Plan, published in August 2022. It sets targets for water companies to prevent overflows causing ecological harm, protect bathing waters and ensure no overflow activates above an average of 10 times per year by 2050. We are leading the way, already reducing the average number of spills to the 2025 target set by Defra.

Investing to improve customer service and experience

As a result of five major incidents in both Kent and Hampshire which left Southern Water customers

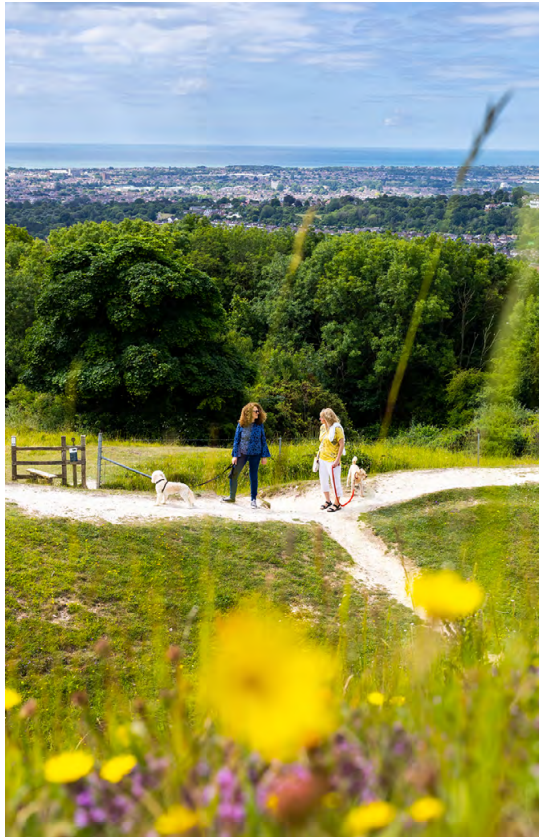
without water for significant periods, we have worked with the Executive team to review the company's incident response, upgrading systems and improving communications.

We have also taken steps to support our customers in financial crisis due to the rising cost of living and increased energy prices, increasing the minimum discount on bills and providing energy grants and financial assistance.

Protecting and improving the environment

The region we serve is a precious natural environment that we want to help protect and improve. From unique chalk streams to national parks, areas of outstanding natural beauty, and more than 700 miles of coastline and 84 bathing waters, we have a responsibility to plan long into the future. That is why we are continuing to focus on driving down pollution incidents, improving leakage and engaging with stakeholders in our catchments with whom we can work and putting customers and communities at the heart of our plans. We wholly support bringing fragmented regulation and environmental investment together in a catchment-wide approach. Our Pathfinder projects to reduce the use of storm overflows point to customer and taxpayer cost benefits from co-operation.

Chair's statement continued



Our Clean Rivers and Seas Task Force is working in partnership to implement innovative sustainable drainage solutions, taking an integrated approach to the management of surface water in our communities by bringing different sectors together.

Our catchment projects also take this approach, partnering with a wide range of local stakeholders including businesses, local authorities and Rivers and Wildlife Trusts, to take practical, realistic and affordable action to tackle pollution and protect precious natural habitats, like our harbours.

This extends to championing sustainable site management to boost local biodiversity and honouring our commitment to the Environment Agency under the Water Industry National Environment Plan (WINEP) in areas such as invasive non-native species management, biosecurity and protected species awareness.

I am encouraged by the 'green shoots' of improvement in our environmental performance, which has been acknowledged by the EPA two-star rating we expect to receive this year.

Corporate governance and Board changes

We are quite rightly expected to uphold the highest standards of corporate governance in all that we do.

I am pleased that after a lengthy process, the distraction of our Cayman Islands subsidiary has finally been taken away, and will play no further part in our financing.

Over the past year we have seen a number of changes on the Board through succession planning, and this has continued into the start of the next period. We benefit significantly from the skills and experience brought to the Board by our non-executive directors, and I thank Martin Bradley, Kevin McCullough, Rosemary Boot and Paul Sheffield for their considerable contributions.

I am pleased that Gillian Guy has agreed to replace Paul Sheffield as our senior independent non-executive director. We have also welcomed Steve Fraser, and more recently, Christèle Delbé, Kerensa Jennings and Phil Swift to the Board as Non-Executive Directors. All will bring a fresh perspective and new skills.

We welcomed Lawrence Gosden to the Board on 1 July 2022, appointing him as CEO and bringing with him almost 30 years of water sector experience. His appointment will continue to move the company forwards, as his Turnaround Plan is implemented and the focus on health and safety as well as innovation are increased.

On behalf of the Board, I would also like to welcome our new Chief Financial Officer, Stuart Ledger, who joined Southern Water as CFO on 3 January 2023. He joined us from Affinity Water, where he was both CEO and CFO, and like Lawrence, he brings many years of sectoral experience. Last year I thanked retiring CEO, Ian McAulay, and I also take this opportunity to thank Sebastiaan Boelen and Nadim Ahmad, respectively CFO and Interim CFO.

All of these changes are more fully reflected in our corporate governance. I am particularly pleased that as our Board reshapes, we bring a greater diversity of membership and views.

I recognise that it is the hard work of our colleagues and partners that enables us to succeed together. My thanks go to each and every one of them for their commitment to serving our customers and caring for the environment. Together we can continue to serve our region, while planning for the future.

Keith Lough

Chair

7 July 2023