

Risk management approach

The purpose of our approach to risk management is to **support better decisions** through an improved understanding of risk.

➔ Read more on our principal risks on pages 114 to 120

Risk management is a core component of our governance and internal control framework, which provides the structure through which we conduct business.

Risk is inherent in our business and we face a diverse range of risk 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. These risks are described on pages 115 to 120.

Managing risk

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

Our risk management framework is the totality of systems, structures, policies, processes and people that identify, measure, monitor, report and control or mitigate internal and external sources of risk.

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. **Risk identification and ownership:** understand the risk environment, identify the specific risks we face and assess potential exposure.
2. **Risk assessment:** determine how best to manage identified risks to balance exposure.
3. **Risk response:** take action to manage the risks we do not want to be exposed to, ensuring our resources are effectively and efficiently prioritised and used.
4. **Risk monitoring, reporting and escalation:** report to the Audit Committee, the Health and Safety and Operational Risk 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. **Risk appetite and communication:** use our analysis to support the Board’s determination of risk appetite and to monitor and report against it.



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:

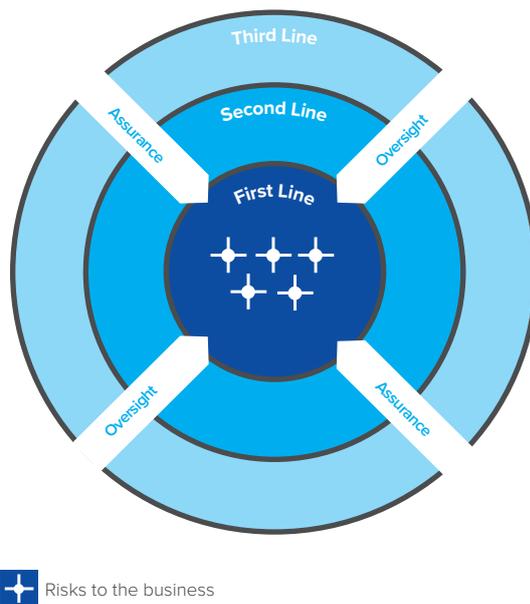
- establish a common understanding of risks on a like-for-like basis, taking into account potential impact and likelihood,
- report risks and their management to the appropriate levels of the company,
- inform prioritisation of specific risk management activities and resource allocation.

All areas of the company review 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 company’s Principal and Emerging Risks.

Three lines of defence

Our approach to risk management adopts the ‘three lines of defence’ model in which risk ownership responsibilities are functionally independent from oversight and assurance:

- Primary responsibility for risk management lies with the business. The risk owner is the first line of defence. An important part of the role of all employees 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 material risks.
- Independent External Assurance and the Internal Audit function act as the third line and provide independent assurance on the business control environment and the effectiveness of the wider system of internal control.



First Line

- The functions that own and manage risk.

Second Line

- The internal functions that oversee risk and regulatory compliance activities.
- Provide guidance, direction and oversight.
- Develop the related assurance frameworks.

Third Line

- Provides independent assurance on the business control environment, and the effectiveness of the wider System of Internal Control.

Always improving

The Board continues to recognise the importance of effective risk and resilience management. Collaborating across the company helps us to better understand the needs of the key stakeholders and identify any gaps and inconsistencies in the existing framework.

As part of our regulatory commitments, we are continuing to improve and enhance our approach to risk and resilience management. Our key milestones include:



The next 12 months

The coming year will see continued integration of our refined risk management framework and approach. This will see risk management efforts focused on maturing our activities in a number of areas, including:

- Continued training across the company to embed our business partnering model and to develop their enterprise risk profiles and support risk-based decision-making.
- Refreshed approach to reporting of risk to the Board, Board Committees and Executive Leadership Team.
- Lead the risk assessment of the business plan in preparation for the business plan submission to Ofwat.
- Delivering on our regulatory commitments to Ofwat through the implementation of our newly implemented Governance, Risk and Control (GRC) system to integrate and support assurance and control work across our risk and compliance teams.
- Driving continuous improvement through our systems of risk-data capture, analysis, and training work with our business partners across the company.
- Strengthening our analytical risk management capabilities to utilise enhanced risk management data and insights to facilitate risk-based decision-making and deliver business intelligence reporting.
- Running interactive risk sessions with the Executive Leadership Team.

The improvements we are making to our risk management approach are setting the company up for future success. As we further embed these improvements, we will be able to demonstrate to our customers and external stakeholders that the decisions we make are considered, well thought through, and demonstrate continued commitment to our values.

Risk oversight and governance

→ Read more about the **Board's role in mitigating risks** on pages 174 to 175

Risk oversight and governance

To successfully embed risk management, the process is supported by a governance structure that defines roles and responsibilities at each level of the company. The Board has overall accountability for risk management but discharges this role through the Audit Committee. It oversees and advises on enterprise and corporate risks, while the restructured Health and Safety and Operational Risk Committee oversees and advises on operational risk.

Role of the Board

The role of the Board is to promote the long-term sustainability of Southern Water and its responsibilities to its shareholders, customers, employees, and the communities in which it operates. It has overall responsibility for risk management within the company.

The Board is responsible for maintaining an effective risk culture and is committed to:

- reviewing, endorsing and monitoring our approach to risk culture and conduct
- forming a view on our risk culture and the extent to which it supports our ability to operate consistently within our risk appetite.

The Board defines our risk appetite, enabling the company, in both quantitative and qualitative terms, to judge the level of risk it is prepared to take in achieving its overall objectives.

Our risk appetite is directly aligned to our principal risks. The risk appetite for each of these underpins our governance and reporting framework and is subject to regular review by the Board. The alignment of our principal risks with risk appetite allows for an informed analysis and discussion of our risk position and provides the Board with the insight to make key-decisions.

As a company we are tolerating a level of risk which is outside our current risk appetite and is reflected in the review of our principal risks in the coming pages. This can result in more focus on short-term issues than longer-term resilience.

The Board ensures the oversight and monitoring of our risk culture, risk appetite and risk management activities through the Audit Committee.

Role of the Audit Committee

The Audit Committee is responsible for the review of the company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems. It advises the Board on

the company's overall risk appetite, tolerance culture and strategy, taking into account the current and prospective regulatory, legal, political, macroeconomic and financial environment with the Board retaining overall ownership and approval.

The Audit Committee oversees and advises the Board on current risk exposure and longer-term strategic risks to determine our future risk strategy. It also has a key role in risk assessment:

- reviewing the company's overall risk assessment processes for enterprise and corporate risks that inform the Board's decision-making, ensuring qualitative and quantitative metrics are used;
- reviewing regularly and approving the parameters used in these measures and the methodology adopted; and
- setting a standard for the accurate and timely monitoring of large exposures and corporate risk types of critical importance.

In addition, the Audit Committee reviews the company's capability to identify and manage new and emerging risk types and reviews reports on any material breaches of risk limits and the adequacy of proposed action.

Role of the Health and Safety and Operational Risk Committee

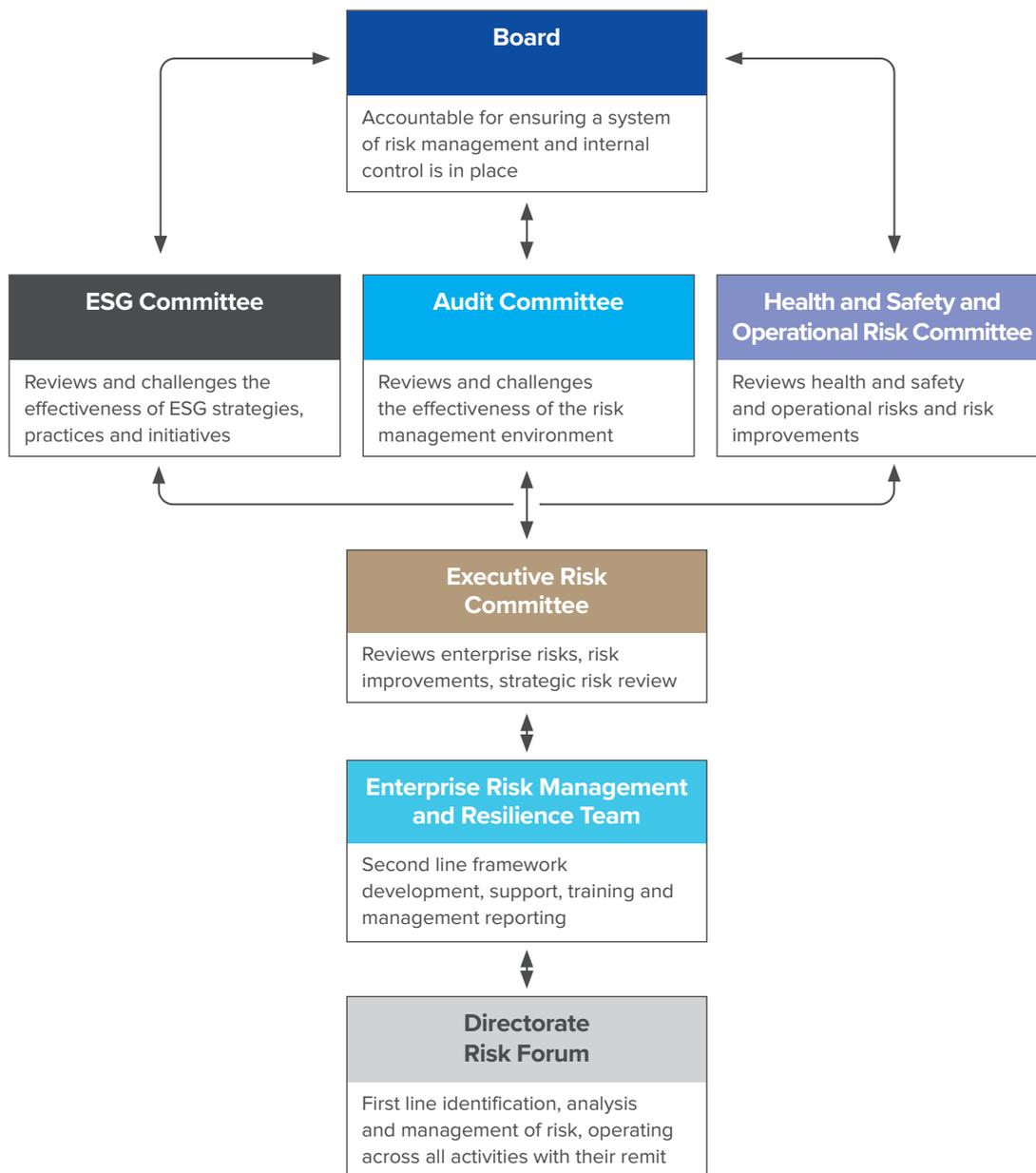
The Health and Safety and Operational Risk Committee is responsible for the oversight and assessment of the overall adequacy and effectiveness, of the health, safety and wellbeing policies, strategies; processes and controls; operational risk management and compliance with relevant legal and regulatory requirements, with the Board retaining overall ownership and approval.

The Health and Safety and Operational Risk Committee has a key role in:

- reviewing the areas of significant corporate and individual health, safety, wellbeing and operational risk whether the executive is managing these risks effectively, including via the supply chain;
- reviewing the company's health, safety, security and wellbeing performance;
- reviewing operational risk and risk management of information security, information governance, water, wastewater and customer services;
- reviewing of the scope, and results, of any: health, safety, wellbeing, information security, information governance, water, wastewater and customer operational risk audits; and
- considering the findings of internal and external investigations and executives' response.

For the upcoming financial year, the Board has approved the formation of an Environmental, Social and Governance (“ESG”) Committee. This committee will be tasked with supporting the Board in defining the company’s strategy relating to ESG matters and in reviewing practices and initiatives relating to ESG matters, ensuring that they remain effective and up to date.

Key risk and governance responsibilities include:



During the year, to enhance our organisational risk governance, the Board decided to change the terms of reference of the Audit and Risk Committees and create two risk-focused committees. The reformed Audit Committee was tasked with focusing on enterprise and corporate risks and the renamed Health and Safety and Operational Risk Committee with a focus on operational risks.

Prior to the change, the Audit and Risk Committees each met three times during the year. Thereafter, the new committees each met once. Going forward each committee will meet a at least four times a year. The reports of the Audit Committee and the Health and Safety and Operational Risk Committee are included on pages 169 and 175.

Emerging and principal risks

➔ Read more on our principal risks on pages 114 to 120

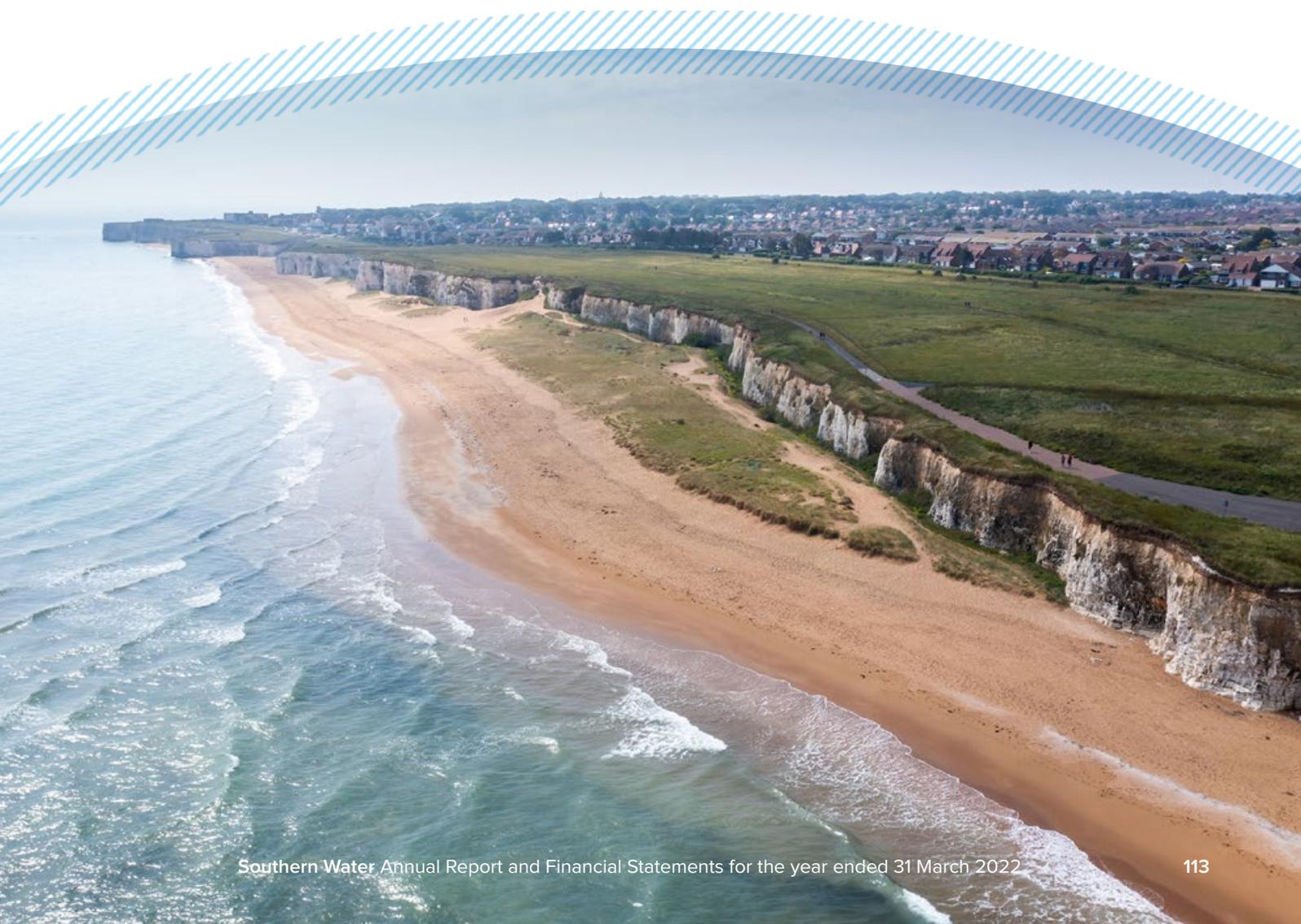
Southern Water regularly considers new, changing, or emerging risks that could affect its ability to achieve long-term objectives. Our risk assessment process monitors management information from a wide variety of internal and external sources when considering emerging risks and analyses potential causes, impacts, likelihood, and the time frame over which a risk could occur. The company considers its emerging risks as:

Emerging risk	Description	Relevant activity
DWI enforcement regime	In early 2021, the DWI began work to change its method of regulatory enforcement to consider a new approach to include a punitive financial penalty regime within its regulatory framework. The company is currently subject to a number of DWI notices; this could lead to a risk of additional financial penalties.	The company continues to work closely with the DWI to respond and resolve our open notices in a timely manner. The company is committed to reform and improve our performance related to our business operations and our provision of a sufficient supply of high-quality drinking water.
Environmental	Environmental stakeholders are increasing pressure on water companies to limit impact on the environment. This has emerged as a national debate on the future use of Combined Sewer Overflows and their impact on the environment.	The company continues to reform and implement business practices to reduce pollution incidents and to comply with our licence conditions for abstraction, wastewater discharge and biowaste treatment to improve biodiversity and ecosystems resilience.
Prolonged supply chain disruptions	The risk that the company will experience prolonged supplier risk events due to supply chain disruption caused by labour issues, extreme weather events, Russian-Ukraine conflict, Brexit trade disputes, recovery from the COVID-19 pandemic and cyberattacks or other factors	The company is taking action to boost resilience through negotiations with our suppliers, strengthening our contract management, the use of localised supply chains where possible, refreshing our outsourcing policy, conducting regular supply chain resilience assessments to define strategy and capability build-out to anticipate and mitigate future disruption.
Prolonged macro-economic downturn and accelerated inflation	The risk that a sustained macroeconomic downturn and inflationary pressures will continue to increase the prices of goods and services and significantly raise the cost of doing business, reduce customer/employee buying power and negatively impact our revenues, debt financing and ability to raise future capital.	The company has implemented measures that can help mitigate the adverse impact including the supply chain strategy, budgetary management processes, vulnerable customer support services and enhanced financial performance measures and metrics to assess cashflows and liquidity.

Those risks that have the potential to have a material impact on our company are our Principal Risks. Southern Water manages, monitors and reports on the principal risks that can impact our ability to deliver our objectives. As part of Southern Water's annual planning process, the Executive Leadership Team and the Board review the business's Principal Risks. These may be updated during the year in response to changes in internal and external circumstances.

We currently have 12 Principal Risks. These are a key feature of our Risk Taxonomy and risk appetite. Our principal risks reflect our commitment to our values: doing the right thing. succeeding together. always improving. We review our principal risks and their risk components on an annual basis, ensuring emerging risks are reflected and that the current structure adequately reflects the risk context in Southern Water.

In March 2022 we recommended to the Board to include "People" as a new Principal Risk to reflect the rising people and skills risk being faced by the company. The "People" risk replaced the former "Transformation" risk, with relevant sub-components from the 2021 "Transformation" risk being split between "Delivery" and "People" in 2022. This appropriately reflects the company's development of our risk management framework and risk management approach.

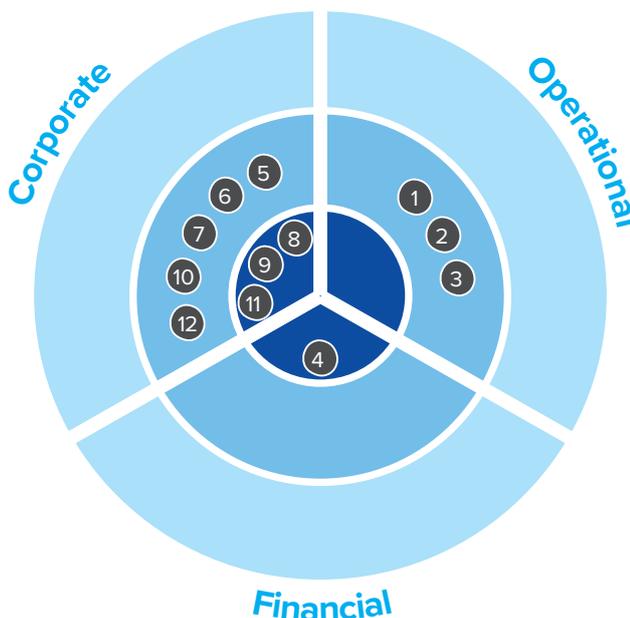


Principal risks

Principal Risk radar

The Principal Risk radar provides an indicative view of the current risk position of each of the Principal Risks, relative to each other.

- Improving
- Stable
- Deteriorating



Risk	Category	Risk climate	Commentary
1 Water	Operational	Stable	We are challenged to manage our water resources through a below average rainfall winter while complying with our regulatory abstraction limits.
2 Wastewater	Operational	Stable	We are challenged to manage an increase in capacity demand and extreme weather events while meeting our regulatory targets.
3 Customer	Operational	Stable	We are managing a tight funding regime with the scale of customer service improvement required to deliver our business plan.
4 Financial	Financial	Deteriorating	We are being impacted by external factors affecting the availability and cost of capital.
5 Compliance	Corporate	Stable	We remain under continued scrutiny by our regulators as we transform the business and deliver on our business plan.
6 Climate Change	Corporate	Stable	We are managing various work programmes for both aspects of climate change, Mitigation and Adaptation.
7 Delivery	Corporate	Stable	We are managing the delivery of TotEX projects which includes our extensive capital investment delivery programme and significant Opex funded strategic projects.
8 Information Technology (IT)	Corporate	Deteriorating	The global heightened cyber security risk arising from the Russia/Ukraine conflict and the underlying risk associated with the Network and Information Systems (NIS) Regulation has increased risk in this area.
9 Resources	Corporate	Deteriorating	The impact of Brexit and prolonged uncertainty in the global markets in post-COVID operations has increased risk in this area.
10 Health, Safety	Corporate	Stable	Work is underway across the business to embed and enhance our Health, Safety, Security and Wellbeing improvement plan.
11 Corporate Affairs	Corporate	Deteriorating	The ongoing debate on the future of Combined Sewer Overflows (CSOs) which could lead to a significant change in our operating environment.
12 People	Corporate	Stable	We are adapting our ways of working to the longer-term impact of the COVID-19 pandemic.

Risk climate ▲ Improving ▶▶ Stable ▼ Deteriorating

Risk Climate Key:
 ▼ Deteriorating
 ▲ Improving
 ◀ Stable

Principal risks and uncertainties

Operational risk

① Water
<p>We must ensure we can supply enough good quality drinking water to cater for a growing population of more than 2.6 million people across the region. Should operational water treatment processes or control systems fail, the water supply become contaminated, or our water distribution network fail:</p> <ul style="list-style-type: none"> • there is a risk that water could be supplied to customers that is unfit for consumption, • customers could find their water supply becomes cut off, • harmful chemicals could be released to the environment.
<p>Executive accountability: Managing Director – Water</p>
<p>Risk climate: ▶▶</p> <p>Our risk profile has remained static from last year but is still in a challenging position. This has been caused by a below average rainfall winter alongside the amendment of regulatory limits on the amount of water that can be abstracted for water supply in our Western region. Increased demand from our customers, continues to place additional stress on our asset infrastructure. We are also dealing with significant levels of asset risk on some of our key operational sites and this is reflected in key performance metrics including Interruptions to Supply, Compliance Risk Index (CRI), Event Risk Index (ERI) Supply Demand Balance Index (SDBI) and Leakage. Much of this risk position has been mitigated by strong event management and incident management processes, which have helped maintain service levels (most notably during the Storm Eunice event).</p>
<p>Risk driver(s):</p> <ul style="list-style-type: none"> • Ageing infrastructure increasing the frequency and severity of asset failure • Challenge of new asset integration while sites in operation • Non-adherence to established processes and procedures when under pressure of operational incidents • Challenges of power resilience on operational sites • Fluctuation and severity of weather events.
<p>Mitigating strategy:</p> <ul style="list-style-type: none"> • Water for Life – Hampshire – programme of significant capital and asset improvements to provide long-term resilience. • Water First, our improvement programme strengthening internal processes and asset performance. • Creation of new logistics team that will manage the inventory of materials and equipment in the field including in-sourcing of water tankering capability. • Implementation of new control centre initiative that will enhance operational response to adverse conditions by boosting control shift resource and out of hours management.
<p>Forecasted business impact: Medium term</p>
<p>Cross reference:</p> <ul style="list-style-type: none"> ➔ Read more about how we Deliver great service on pages 76 to 80 ➔ Read more about how we Use water wisely on pages 81 to 82

Operational risk

② Wastewater
<p>Our region benefits from a high-quality environment, both inland and coastal. We are fortunate to have some extremely rare habitats, as well as some of the best quality river fishing and coastline in the UK. Reliable wastewater services are essential to maintain public health and protect the environment.</p> <p>Should operational wastewater treatment processes fail, or our sewers and pumping stations become blocked or fail, our assets may discharge sewage, which is not of the required standard, to the environment. This may cause risks to the environment or public health from pollution and/or sewer flooding. This could lead to prosecution and fines by the Environment Agency and a reduction in stakeholder and customer confidence.</p>
<p>Executive accountability: Managing Director – Wastewater</p>
<p>Risk climate: ▶▶</p> <p>The level of risk remains steady but at a high level. Our performance has been challenging, specifically in light of increased capacity demand, fluctuations in extreme weather events and challenging regulatory targets that are becoming increasingly onerous. A national debate on the use of storm overflows has intensified over the last year. We are also under significant scrutiny from the general public and stakeholders with respect to our impact on the environment; with a key focus on spills to the environment in rivers, chalk streams and bathing waters.</p>
<p>Risk driver(s):</p> <ul style="list-style-type: none"> • Asset capability performance due to ageing infrastructure • Increase in regional power outages • Investment requirements to support growth schemes for new housing developments • Meeting the required standards of wastewater treatment and asset management to protect the environment and/or public health from pollution and/or sewer flooding • Non-adherence to established processes and procedures when under pressure of operational incidents.
<p>Mitigating strategy:</p> <ul style="list-style-type: none"> • Over £1.5 billion investment to 2025 to improve the capacity and capability of our wastewater network across the region. • Storm Overflow Task Force to reduce the harm from storm overflows. • Ongoing Pollution Incident Reduction Plan. • Wholesale strategic programme of projects to support key capability including asset maintenance, digitalisation and improvements to the control centre, and a new approach to logistics.
<p>Forecasted business impact: Medium term</p>
<p>Cross reference:</p> <ul style="list-style-type: none"> ➔ Read more about how we Protect and improve the environment on pages 83 to 87 ➔ Read more about how we plan to ensure our services are Fit for the future on pages 88 to 91

Principal risks and uncertainties continued

Risk Climate Key:

▼ Deteriorating

▲ Improving

◀▶ Stable

Operational risk

3 Customer
<p>Providing an excellent customer experience is a key objective for us. We recognise the importance of prioritising our customers, and that accomplishing our strategic goals is reliant on us providing the level of service expected by our customers and our regulators. We may not be able to provide the desired standard of service to our customers if there is inadequate capability in our people, process or systems.</p>
<p>Executive accountability: Chief Customer Officer</p>
<p>Risk climate: ▶</p> <p>The scale of the challenge is significant if the business plan for 2020–25 is to be delivered; we face a tight funding regime and the level of customer service improvement required to deliver our plans is significant. Our performance on key metrics is improving although we remain in the bottom third of companies for both our customer satisfaction (C-MeX) and developer satisfaction (D-MeX) scores. There has been no significant change in our risk profile during 2021–22. We continue to deliver improvements through our Customer Transformation programme (Velocity). Improvements to how we run our developer services channels continue to be implemented strengthening performance in this area.</p>
<p>Risk driver(s):</p> <ul style="list-style-type: none"> • Customer and wholesale business impact on our C-MeX and D-MeX performance • Manual processes, which may lead to errors that require automating • Transformation project (Velocity) does not deliver an improvement to cost to serve.
<p>Mitigating strategy:</p> <ul style="list-style-type: none"> • The customer transformation project (Velocity) continues to develop the processes and technology that underpin our customer service • Contractual targets in place for customer service provided by third-party suppliers • Cross functional C-MeX working group established to ensure appropriate accountability and management focus across all relevant parts of the business • Dedicated team in place to proactively engage with local authorities and new-build developers, to ensure the appropriateness of supply planning and connection • Specific incident management process and procedures for customers in the event of service impacts • Process in place to support vulnerable customers affected by operational incidents.
<p>Forecasted business impact: Medium term</p>
<p>Cross reference:</p> <ul style="list-style-type: none"> ➔ Read more about how we Deliver great service on pages 76 to 80 ➔ Read more about how we plan to ensure our services are Fit for the future on pages 88 to 91

Financial risk

4 Financial
<p>Exposure to financial markets and other macro-economic factors, given our requirement to raise finance to fund the capital investment programme and to refinance debt maturities, results in Southern Water being impacted by external factors affecting the availability and cost of capital. A failure to maintain certain credit ratings could lead to an increase in interest cost and reduced availability of capital. This could put pressure on our ability to finance our capital investment programme or refinance our existing debt maturities. We enter into treasury transactions to manage inherent risk and support prudent funding, and not to speculate. We also manage our internal financial resilience and ability to manage budget overspends and other pressures on our financial position.</p>
<p>Executive accountability: Chief Financial Officer</p>
<p>Risk climate:</p> <p>Our risk profile has deteriorated over the year. We have seen an improving position in relation to the investment from our new shareholders, a fund managed by Macquarie Asset Management. This has injected new capital into the business strengthening the balance sheet, and providing funds for investment, which has resulted in an improved outlook for our credit ratings. However, we have experienced pressure on operating budgets and budget overspends. We continue to be at risk of a credit rating downgrade as a result of our poor operational performance versus our peers and the 2019 Price Review Final Determination. We continue to invest in improving performance. Our credit ratings are provided on page 101.</p>
<p>Risk driver(s):</p> <ul style="list-style-type: none"> • Accuracy of forecasts to meet long-term liabilities and obligations. • Ability to access cost effective capital through maintaining an appropriate credit rating. • Ability to manage internal cost challenges and pressures.
<p>Mitigating strategy</p> <ul style="list-style-type: none"> • Liquidity testing and reporting is carried out on a regular basis, forming part of the 'going concern' assessment • Sufficient cash and facilities are maintained to mitigate such risks as bond market closures • Flexible dividend policy supports management of financial risk • Detailed budgetary scrutiny of operational spend • Improved operational performance, such as the pollution reduction plan – see page 27 • Continued use of a Sustainable ESG Framework during the year with the issue of dual tranche sustainable bonds.
<p>Cross reference:</p> <ul style="list-style-type: none"> ➔ Read more about our financial performance on pages 92 to 101

Risk Climate Key:
 ▼ Deteriorating
 ▲ Improving
 ◀▶ Stable

Corporate risk

5 Compliance
<p>We are a highly regulated business and high standards of compliance are expected. Inadequate resources, processes, structure, capability, culture, governance and assurance could result in failure to meet these high standards consistently. The consequences can be regulatory enforcement, fines, legal action and, in the worst case, the loss of our licence to operate as a water and wastewater company. As with all companies we are also required to comply with corporate legislation (for example Competition Law and the Bribery Act). Existing and changing legal and regulatory requirements encourage the business to operate in an agile way to ensure continued compliance with our obligations.</p>
<p>Executive accountability: Director of Risk and Compliance</p>
<p>Risk climate: ▶▶</p> <p>Our risk posture for compliance is complex and has remained static over the last year, albeit at a high level. We remain under continued scrutiny by our regulators. During the year we were prosecuted by the Environment Agency (EA) for wastewater permit breaches from 2010–15. We continue to assist the EA with its ongoing investigations into legacy issues relating to wastewater sampling compliance. The Drinking Water Inspectorate (DWI) and the EA continue to monitor our delivery of regulatory schemes (outputs) and this is likely to continue in the future.</p> <p>Our CRI performance continues to improve but further improvement is required. Our one-star performance on the EA's Environment Performance Assessment (EPA) has declined from 2020, with four metrics rated as 'Red'. Ofwat continue to focus on our performance and compliance with our Section 19 Undertakings. Ofwat and the EA have both begun industry wide investigations into wastewater treatment flow compliance.</p>
<p>Risk driver(s):</p> <ul style="list-style-type: none"> • Failure to comply with the requirements of our licence • Failure to meet our obligations with the EA, as reflected in the Environmental Performance Assessment (EPA) • Meeting our Water Quality obligations as reflected in key performance metrics (CRI and ERI) and DWI notices and enforcement.
<p>Mitigating strategy:</p> <ul style="list-style-type: none"> • Delivery of key transformation and training programmes in both water and wastewater parts of the business. • Ensuring appropriate governance through the embedding of a robust three lines of defence compliance model • A compliance framework with internal monitoring and assurance and an ethical business framework • Compliance with company procedures is reviewed through self-assessment every six months.
<p>Forecasted business impact: Short term</p>
<p>Cross reference:</p> <ul style="list-style-type: none"> ➔ Read more about our three lines of defence on page 109 ➔ Read more about the EA investigation on page 38

Corporate risk

6 Climate change
<p>The impacts of climate change continue to increase our related risks, such as impacts on our water resources, increased drought and flooding, and extreme weather events. We supply drinking water to a growing population in areas already classified as under 'severe water stress'.</p> <p>If we are unable to improve our resilience to the extreme weather events predicted by the physical impacts of climate change:</p> <ul style="list-style-type: none"> • we will find it increasingly difficult to supply sufficient water to meet the growing demands of our customers though scarcity of water resources, heat stress or contamination by saline intrusion of existing water reserves • the assets on our sites, or our sewer system network, could more easily be overwhelmed by storm events, leading to flooding or pollution in our region; and • our coastal sites may become inundated from rising sea levels or at risk of coastal erosion and subsidence.
<p>Executive accountability: Chief Environment and Sustainability Officer</p>
<p>Risk climate: ▶▶</p> <p>We are working on both aspects of climate change. Mitigation to reduce our contribution and adaptation to ensure our resilience to the existing and future impact of climate change.</p> <p>Our risk profile remains stable. Extreme weather events such as flooding, and storms are becoming more frequent and impact our ability to supply sufficient water to meet the growing demands of our customers.</p> <p>While stringent abstraction licences continue to challenge our ability to meet customer demand while also protecting the sustainability of our natural resources and the environment.</p>
<p>Risk driver(s):</p> <ul style="list-style-type: none"> • Failure to adapt to the long-term effects of climate change • Challenging regulatory and societal targets • Increased customer demand • Fluctuation, severity and frequency of weather events.
<p>Mitigating strategy:</p> <ul style="list-style-type: none"> • Climate Change Adaptation Report (published December 2021) • Net Zero Plan • 50-year Water Resources Management Plan • Target 100 water efficiency programme • Drought Plan • Investment in new infrastructure • Drainage Wastewater Management Plans.
<p>Forecasted business impact: Medium term</p>
<p>Cross reference:</p> <ul style="list-style-type: none"> ➔ Read more about our approach to tackling climate change on pages 56 to 60 ➔ Read our Climate Adaptation Report: southernwater.co.uk/our-performance/reports/climate-adaptation-consultation

Principal risks and uncertainties continued

Risk Climate Key:

▼ Deteriorating

▲ Improving

◀▶ Stable

Corporate risk

Corporate risk

7 Delivery
<p>We have a planned totex investment programme of £2.1 billion between 2020 and 2025. We have plans in place to ensure we will deliver this and we are working hard to ensure our focus is maintained to complete all works on time.</p> <p>If we are unable to deliver significant parts of the programme on schedule, our ability to provide an excellent service to our customers could be compromised or prevent us from fulfilling the promises that we have made in our business plan and commitments to our regulators.</p>
<p>Executive accountability: Chief Operating Officer</p>
<p>Risk climate: ▶▶</p> <p>The scale of the requirements of the capital investment delivery programme combined with a tight financial settlement in the period 2020 to 2025 has maintained risk in this area.</p> <p>The size and scale of the requirements of the investment delivery programme, plus stringent requirements from regulators to deliver extensive programmes of work continues to exert pressure in this area. Managing changes to the programme delivery within established financial envelopes and contractual relationships is a challenge.</p> <p>In addition we have significant Opex funded strategic projects which will help the performance of the business; we are also delivering the planning and production of our next business plan.</p>
<p>Risk driver(s):</p> <ul style="list-style-type: none"> • Tight Financial Determination from Ofwat has put pressure on capital delivery budgets. • Challenging delivery efficiencies that are required to deliver value for the wider business.
<p>Mitigating strategy:</p> <ul style="list-style-type: none"> • We have brought significant investment capability in house including: <ul style="list-style-type: none"> – An embedded in-house engineering and capital delivery function – An established long-term delivery partner supply chain • Risk and value are considered at each step of the investment cycle to provide best value for money to our customers • Monitoring the delivery of our Final Determination obligations, continually assessing our financing status.
<p>Forecasted business impact: Medium term</p>
<p>Cross reference:</p> <ul style="list-style-type: none"> ➔ Read more about our five-year delivery strategy to 2030 on page 51 ➔ Read more about our Long-Term Priorities on page 50

8 Information Technology (IT)
<p>If we do not maintain the resilience of our operational and enterprise IT systems, their failure could have a significant impact on our business reputation, ability to operate, and the resilience of our operational assets.</p> <p>Additionally, we hold and process personal and payment data about our customers and employees so it is important that we treat this information with respect and in accordance with the requirements of information governance.</p> <p>Failure to properly protect the data we hold could lead to reputational damage and loss of confidence from our customers, as well as significant fines under Data Protection (GDPR) and the Network and Information Systems (NIS) Directive.</p>
<p>Executive accountability: Chief Information Officer</p>
<p>Risk climate: ▼</p> <p>There has been an increase in the risk climate. The conflict in Ukraine has heightened the overall cyber security risk, in addition to underlying risk associated with the NIS directive. We continue to rebuild our IT capability. This transformation has been ongoing for the past five years and seen an improvement in our IT estate.</p>
<p>Risk driver(s):</p> <ul style="list-style-type: none"> • Insufficient cyber security controls and monitoring in place for business systems to avoid malicious attacks • Technology failure through the use of and dependency on legacy systems • Mishandling or deliberate sabotage of data • Inability to monitor and manage operational functions (telemetry and control) or to provide IT supported customer services, including billing or new service provision. • Weakness in the security of SW's telemetry OT network, where physical access to the network can be obtained.
<p>Mitigating strategy:</p> <ul style="list-style-type: none"> • Business continuity processes reducing impact on IT systems • Active programme for migration of services off heritage infrastructure and onto new fully-managed infrastructure • Migration of existing critical and core service applications into the new data centres • Enhanced suite of IT general controls identified following alignment to the Network and Information System (NIS) – Cyber Assessment Framework • Continued investment in cyber threat mitigation strategies in response to the ever-changing risk landscape.
<p>Forecasted business impact: Long term</p>
<p>Areas impacted: Customer experience, Business disruption, Brand and Reputation, Legal and Regulatory, Financial.</p>

Risk Climate Key:

▼ Deteriorating

▲ Improving

◀▶ Stable

Corporate risk

9 Resources

The nature of our business model includes the use of long-term contracts for the provision of critical goods, services and works, as well as some outsourced activities. Some of our most critical resources include the supply of chemicals, fuel, and spare parts to ensure continuity of service, as well as the energy required to power our operational equipment on a continuous basis, at a commercially viable price.

Inflationary pressures and disruption in production capacity and the global supply chain has reduced availability, delayed supply and driven protracted price hikes to increase the risk in this area.

There is a risk that a failure to have the required external market capability and capacity, would lead to Southern Water being unable to deliver its commitments to our customers, stakeholders, and shareholders.

Executive accountability:

Chief Operating Officer

Risk climate: ▼

As we enter the post-COVID-19 period, respond to the impact of BREXIT and the uncertainty in global markets our risk climate has deteriorated.

Risk driver(s):

- Russia being one of Europe's largest providers of oil and gas, and sanctions hitting exports, energy prices have subsequently soared to record highs.
- Periods of global disruption can completely transform the sourcing landscape, turning items once considered low-risk commodities into business-critical inputs overnight and impacts on the value of the commodities.

Mitigating strategy:

- Hedging strategy is in place for energy cost fluctuations/increases to manage impact to end customers.
- The Contract Management framework is in place to effectively work with suppliers to mitigate risks of supply and impacts of inflationary issues, with no material impacts occurring.

Forecasted business impact:

Short term

Areas impacted:

Business Disruption, Brand and Reputation, Financial.

Cross reference:

➔ Read more about our suppliers on pages 10 and 70

Corporate risk

10 Health and safety

The health, safety, security and wellbeing of our employees and the public is of the highest priority. The nature of our work requires that our employees and contractors undertake activities or use equipment which, if uncontrolled, have the potential to cause significant harm.

Failure to comply with our Health and Safety Management System and associated procedures could result in death, serious injury or adverse health effects. We could be liable for prosecution under the Health and Safety at Work and Corporate Manslaughter Acts, civil claims and employers' liability and professional liability.

Executive accountability:

Chief Executive Officer

Risk climate: ▶▶

Our risk profile remained stable in 2021–22. During the year we formed a Health and Safety and Operational Risk Committee. We also undertook a complete review of our processes and procedures and are working on an enhanced improvement plan to reduce our existing risks.

Risk driver(s):

- Incident occurrence from deteriorating assets, trips and hazards, and poor behaviours impact asset security and personal safety
- Failure to adopt standardised approach and guidelines within the business
- Asset damage, disturbance and nuisance from our external operating environment.

Mitigating strategy:

- Significant review of our health and safety approach, processes, procedures and capabilities
- Enhancements to our safety communications and reporting,
- Continued improvement of training and development programmes.
- A renewed focus at board level with a health safety and operational risk committee.
- Clearly defined strategy, safety protocols and standards in line with legislation and industry best practice
- Front-line team accountability
- Site safety inspections and audits
- Suppliers and delivery partner standards
- Enhanced incident reporting and investigation including near misses and lost time incidents
- Mandatory health, safety and wellbeing training.

Forecasted business impact:

Short term

Areas impacted:

Business Disruption, Brand and Reputation, Legal and Regulatory, Financial.

Cross reference:

- ➔ Read more about employee safety on page 64
- ➔ Read more about our new Health and Safety and Operational Risk Committee on pages 174 to 175

Principal risks and uncertainties continued

Risk Climate Key:

▼ Deteriorating

▲ Improving

◀▶ Stable

Corporate risk

Corporate risk

11 Corporate affairs
<p>Failure to effectively monitor and adapt to any changes in our political and regulatory frameworks, or a failure to influence change to the political or regulatory landscape, may lead to potential un-forecasted increases in administrative costs, reduced revenue, and ultimately non-compliance.</p> <p>Our current business plan and approved pricing structure runs until 2025. We are under stringent financial constraints, performance incentives and targets, making longer term resilience more challenging.</p> <p>There is a risk that changes in the political landscape, new legislation and Ofwat’s approach to the 2025–30 price review may cause costly consequential impacts on the water sector to which we will have to adapt.</p>
<p>Executive accountability: Chief Environment and Sustainability Officer</p>
<p>Risk climate: ▼</p> <p>Our risk profile has deteriorated during 2021–22 in relation to the debate on the future of Combined Sewer Overflows (CSOs) which could lead to a significant change in our operating environment.</p>
<p>Risk driver(s):</p> <ul style="list-style-type: none"> • Inability to meet assumed performance as reflected in Operational Delivery Incentive (ODI) performance • Ineffective regulatory change horizon scanning • Lack of influence in shaping the outcomes of change, including in relation to the price review for the period 2025–30 • Ability to adapt and transform the business to meet the changing environments in which we operate • Inability to influence the perception of the business following past events.
<p>Mitigating strategy:</p> <ul style="list-style-type: none"> • Monitor developments in the requirements from all of our regulators on key issues • Maintain close dialogue with Government, Ofwat and other regulators on key issues • Work with our customers to understand their perception of our delivery, and future ambitions • Continue to engage constructively with all of our regulators in regards to the water scarcity challenges • Work with our regulators on how we better understand and address our customers’ needs to enable successful outcomes in the next price review period 2025–30.
<p>Forecasted business impact: Long term</p>
<p>Areas impacted: Customer Experience, Brand and Reputation, Legal and Regulatory</p>
<p>Cross reference:</p> <p>➔ Read more about our Long-Term Priorities and five-year delivery strategy on pages 50 to 51</p>

12 People
<p>The attraction, retention, and succession of the right people, with the right skills for the role, is a central part of our long-term strategy and our ability to ensure the company is agile and adaptable to change.</p> <p>We have designed our people risk framework to support a diverse and inclusive culture that promotes employee engagement and demonstrates the desired conduct and behaviours that align with our values. It includes building and retaining an industry-leading workforce and managing our people to upskill and develop our talent. This means we can ensure that we have the right resources to support our operations while implementing HR processes and procedures that support, protect and manage our people, and provide a fair and transparent reward and recognition programme.</p>
<p>Executive accountability: Director of HR</p>
<p>Risk climate: ▶▶</p> <p>Our risk profile during 2021–22 has remained consistent – our execution plans are comprehensive, however we continue to face challenges, especially in relation to talent attraction. We continue to adapt to the longer-term impact of the post-COVID pandemic in relation to employees, contractors and our ways of working.</p>
<p>Risk driver(s):</p> <ul style="list-style-type: none"> • Ability to attract and retain the right skills (Technical and STEM) to perform and deliver on our strategic priorities • Regional challenges related to location and reward packages • Negative impact on employee morale and fatigue through continued change.
<p>Mitigating strategy:</p> <ul style="list-style-type: none"> • Ongoing workforce planning analysis and high-level strategic talent reviews take place across the business to assess capability and capacity needs • Launched employer brand • Our Management Academy supports in-role development and career progression • Our recruitment strategy streamlines out best route to market • Our annual engagement surveys assess our employee satisfaction to develop action plans • Inclusion and diversity action plan.
<p>Forecasted business impact: Medium term</p>
<p>Areas impacted: Customer Experience, Business Disruption, Legal & Regulatory, People, Financial</p>
<p>Cross reference:</p> <p>➔ Read more on our people on pages 62 to 65</p>