

Chair’s statement



Welcome to our Annual Report and Financial Statements for 2021–22.

➔ Read more about our **Capital Structure** on pages 102 to 107

Highlights

- Against continuing challenges, our transformation continues apace positioning the business for the upcoming price review and to deliver benefits to our customers.
- The acquisition of a majority stake in our parent company by a fund managed by Macquarie Asset Management in August 2021 is enabling us to increase investment and accelerate our business plans.
- Our effective incident response meant that fewer than 300 of our 2.6 million water customers experienced an interruption to supply during Storm Eunice.
- We are making good progress in meeting the obligations of our Section 19 undertakings with Ofwat as part of our continued focus on compliance.
- Strengthening of the Board.

“We have made ambitious delivery commitments backed up by new investment to help us drive customer benefits.”

Keith Lough
Chair

Over the past year, Southern Water and the communities we serve have continued to face significant challenges. Throughout this time, the provision of essential services has continued, due to the commitment of our colleagues and suppliers. My thanks go to all those who have been part of this excellent team effort, for their dedication and hard work while taking care of the wellbeing of each and every person. We want all our people to feel comfortable with bringing their authentic selves to work every day, and respecting equality, diversity and inclusion.

While we have been moving out of the pandemic, Storm Eunice and other extreme weather events have tested our teams. The impacts of climate change and an increasing population in our region present real challenges, making protecting our water resources and fulfilling our purpose even more important.

Living and breathing our values of succeeding together, doing the right thing and always improving in everything we do, is helping us to rebuild trust with our stakeholders. This follows mistakes we made in the past, resulting in a record fine last year from the Environment Agency. Our focus is now on delivering for the here and now, and for the future.

The announcement of the acquisition of a majority stake in our parent company by a fund managed by Macquarie Asset Management in August 2021 has enabled us to increase investment and accelerate our business plans. This acceleration means we can take huge steps forward in reducing pollution incidents and leakage by improving the resilience of our network. This will have a positive impact for our customers, the local environment and the regional economy.



During 2021, we received the best bathing water quality results we have ever had. We know our industry needs to do more but to ensure that our rivers and seas are kept clean by reducing the use of storm overflows during heavy rain.

Keeping the environment at the centre

We welcomed the government's amendment to the Environment Bill in October, aimed at reducing any negative impacts from storm overflow releases over time. These releases, used by the industry when sewer networks struggle to cope with heavy rain, act as a pressure release valve to avoid flooding to properties and businesses. We recognise the negative impact of these releases on our rivers and seas is no longer acceptable. The regulatory and public scrutiny in this area demonstrates the need to find positive solutions as soon as we can. In November, we set up our own Storm Overflow Task Force, to take the lead in this area. Its groundbreaking pathfinder projects will require extensive partnership working involving many stakeholders, including other water companies, regulators, agriculture, industry and developers.

Looking forward to the next business plan period 2025–30, our environmental stewardship will

be vital in achieving a water-resilient South East where the environment is protected and enhanced. Our new Independent Strategic Environment Group will inform and drive collaborative work in this area, accelerating actions to decarbonise as well as to adapt to climate change. We have already expanded our Catchment First programme, reflecting the importance of our catchment work and we are embedding natural and social capital decision-making into our day-to-day plans.

We have also formed a Customer and Community Challenge Group to help inform our next business plan. Sessions have already started and we will continue to have conversations with this group to focus on areas such as engagement with communities and plans for water efficiency.

Maintaining essential services for all our customers

Coming out of the pandemic, and in the wake of cost of living increases, we continue to support our most vulnerable customers. We know that higher fuel prices and living costs will all have an impact on our customers. Affordability is a priority for us, and we will continue to monitor the situation and provide direct support where we can.

Chair's statement continued

➔ Read more on the **EA's investigations** on page 38

We saw some exceptionally severe storms during 2021–22, challenging our operational teams who work around the clock to keep our customers' taps flowing and toilets flushing. As a result of Storm Eunice, we lost power to 330 of our water and wastewater sites between Friday morning and Monday afternoon, as 112mph gusts of wind battered the South East of England. Despite this, our teams managed to keep water supplied to all but 300 of our 2.6 million water customers. They also managed to ensure that there were no major pollution incidents. This is something I am extremely proud of and I would like to thank everyone involved for their contribution.

➔ Read more on our **Sustainable Bond Impact Report** on pages 74 to 75

We use digital channels to provide essential services to our customers and employees. Digital resilience and cyber security are therefore kept under constant review to make sure that we can keep everyone updated and supported.

Moving forwards

Our inaugural Sustainable Bond Impact Report updated our investors on how we are supporting the financing of our investments and activities to deliver sustainable outcomes across a number of our core priorities, including pollution prevention, compliance and leakage. The report shows that in addition to the £825 million of sustainable bonds issued in May 2020, we issued a further £300 million in March 2021. These funds contribute to our investments in our water and wastewater services to 2025.

We are making good progress in meeting the obligations of our Section 19 undertakings with Ofwat as part of our ongoing focus on compliance. Our work in this area is now focused on embedding new ways of working which help us maintain compliance and protect the environment. In accordance with our Section 19 Undertaking, we also published our latest environmental performance reporting data on our website in March 2022, showing pollution, final effluent compliance, flow and spill reporting data. We also published Defra's bathing water quality results.

We remain under scrutiny as a company and as an industry. An Environment Agency investigation into our wastewater sampling compliance for the period 2013–17 is ongoing, and we continue to provide all possible assistance. As announced in the media in November 2021, all water and wastewater companies in England and Wales are subject to a separate investigation into flow at sewage treatment works and enforcement cases have been opened into six water companies so far,

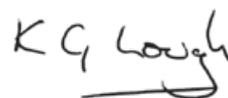
but not us. We have provided a significant amount of information to our regulator and will continue to assist with any investigations.

As we move into the third year of our five-year delivery plan, I would like to acknowledge the exceptional work done by our retiring CEO, Ian McAulay. The Board and I would like to thank him for the leadership and skill he has shown in carrying Southern Water through an enormously challenging period since he joined the company in 2017. He has led the transformation across the business and its culture, putting in place strong governance, operational and systems changes, which have enabled new investment in our business and from which we will now build. Ian's report as outgoing CEO follows mine.

The recruitment for a successor has been completed, with the appointment of our Chief Operating Officer, Lawrence Gosden, as CEO from 1 July 2022. This smooth succession will allow us to continue our capital investment programmes and transformation at pace. Lawrence's extensive knowledge and leadership within the industry will be invaluable as we drive the business forward. Importantly he will now lead us through the development of the next business plan for the period to 2030.

Our CFO, Sebastiaan Boelen, is also moving on and Nadim Ahmad will be appointed as interim CFO later in July 2022. I would like to thank Sebastiaan for his continuing careful stewardship throughout the past three years. More information about changes to our Board is available in the Corporate Governance section of this report on pages 125 to 175.

In closing, I would like to thank our colleagues and partners for demonstrating our company values throughout their work. The commitment and dedication of our people to support the communities we serve, continues to make a positive difference and the hard work is greatly appreciated.



Keith Lough

Chair

15 July 2022