South Staffs Water

Cambridge Water

To help create a world where essential services and infrastructure deliver for customers, clients and our planet

Annual Report and Financial Statements

For the year ended 31 March 2025

South Staffordshire Water PLC

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About this document

This document sets out South Staffordshire Water PLC's annual report and financial statements for the year ended 31 March 2025.

You can click on any of the chapter headings in the contents to go straight to that chapter.

There are also other clickable links throughout the document, which will give you more information. These are underlined and highlighted in blue to make them easy to find in the text.

If you want to learn more about the work we do every day to deliver for our customers and the environment, there are a number of ways you can engage with us.

Registered Office:
Green Lane, Walsall, West Midlands WS2 7PD
Registered in England and Wales, number 02662742.

Welcome from the Chair and Managing Director

Welcome to our annual report and financial statements for the year from 1 April 2024 to 31 March 2025. This is the first report from both of us, and we hope you enjoy reading about the work that has been carried out during 2024/25.

At South Staffordshire Water, we're committed to delivering the essential services our customers expect and pay for. In addition, we're committed to protecting and enhancing the environment we all rely on and enjoy, recognising the role it plays in delivering benefits for health and wellbeing.

We're also committed to demonstrating good corporate governance and being transparent in communicating our performance in a way that is meaningful for our customers and other stakeholders. We believe this annual report and financial statements – and the detailed annual performance report that sits alongside it – help to demonstrate that commitment.

This report describes some of our successes during the reporting year. This includes the completion of our ambitious upgrade programme at the largest water treatment works in our South Staffs region. It also includes significantly exceeding our target for the number of customers we've helped during the year with our financial and other support packages. We think this is important when set within the context of the impact of the ongoing cost-of-living crisis on household bills and finances.

However, it also describes some of the areas where our performance has not been as good as our customers – and we – would expect. We've not met our targets for a number of key measures – for example, in relation to customer experience, supply interruptions, and finding and fixing leaks quickly. Where we've not met our targets, we explain some of the work we're doing to get our performance back on track in the coming year.

Of course, it's not possible to deliver an essential public service each day without our people. In the short time we've both been with the business, we've been impressed by their diligence, their passion to always deliver good customer service and their commitment to living our values of being professional, trusted, impactful and community focused. We're excited to be working with such dedicated people and look forward to working with everyone across our Cambridge and South Staffs regions to deliver our ambitious plans for the five years to 2030.

Sara Vaughan
Chair

Elena Karpathakis
Managing Director

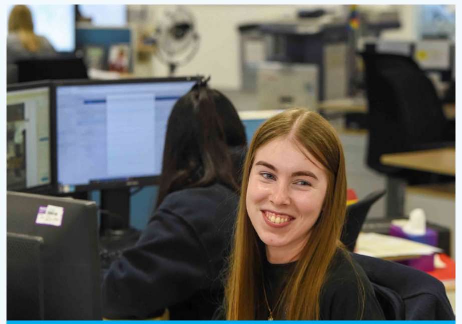
South Staffs Water Cambridge Water

About South Staffordshire Water

South Staffordshire Plc

We are part of the South Staffordshire Plc group of companies

We are a water only company and do not take away and treat waste water



We operate Cambridge Water and South Staffs Water

Ofwat

We are regulated by Ofwat, the Environment Agency and the Drinking Water Inspectorate

We have been a successful, privately run business for more than 170 years. We have never been in public ownership

We provide high-quality, clean drinking water to nearly 1.8 million people and 42,000 businesses every day

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Our vision, purpose and values

Our vision

To help create a world where essential services and infrastructure deliver for customers, clients and our planet.

Our purpose

For more than 170 years, we have provided high-quality water supplies to customers in our Cambridge and South Staffs regions. Our purpose, as defined by our Articles of Association, is to safely provide an essential service of high-quality drinking water for customers in an affordable, trusted and sustainable way.

To ensure we can always provide this essential public service, we conduct our business and operations for the benefit of the communities we serve, while creating long-term value and delivering positive outcomes for the environment, customers and our people. This means:

- putting customers' needs at the heart of all our decision-making;
- actively working in partnership with local communities;
- acting as the guardians of our assets, building resilience with regular investment;
- working hard to protect and enhance the natural environment; and
- running an efficient business in everyone's interests.

By doing this, we are helping to **secure the water future** for our Cambridge and South Staffs regions, while at the same time making sure the interests of our customers and the environment are always our primary objective.

Our values

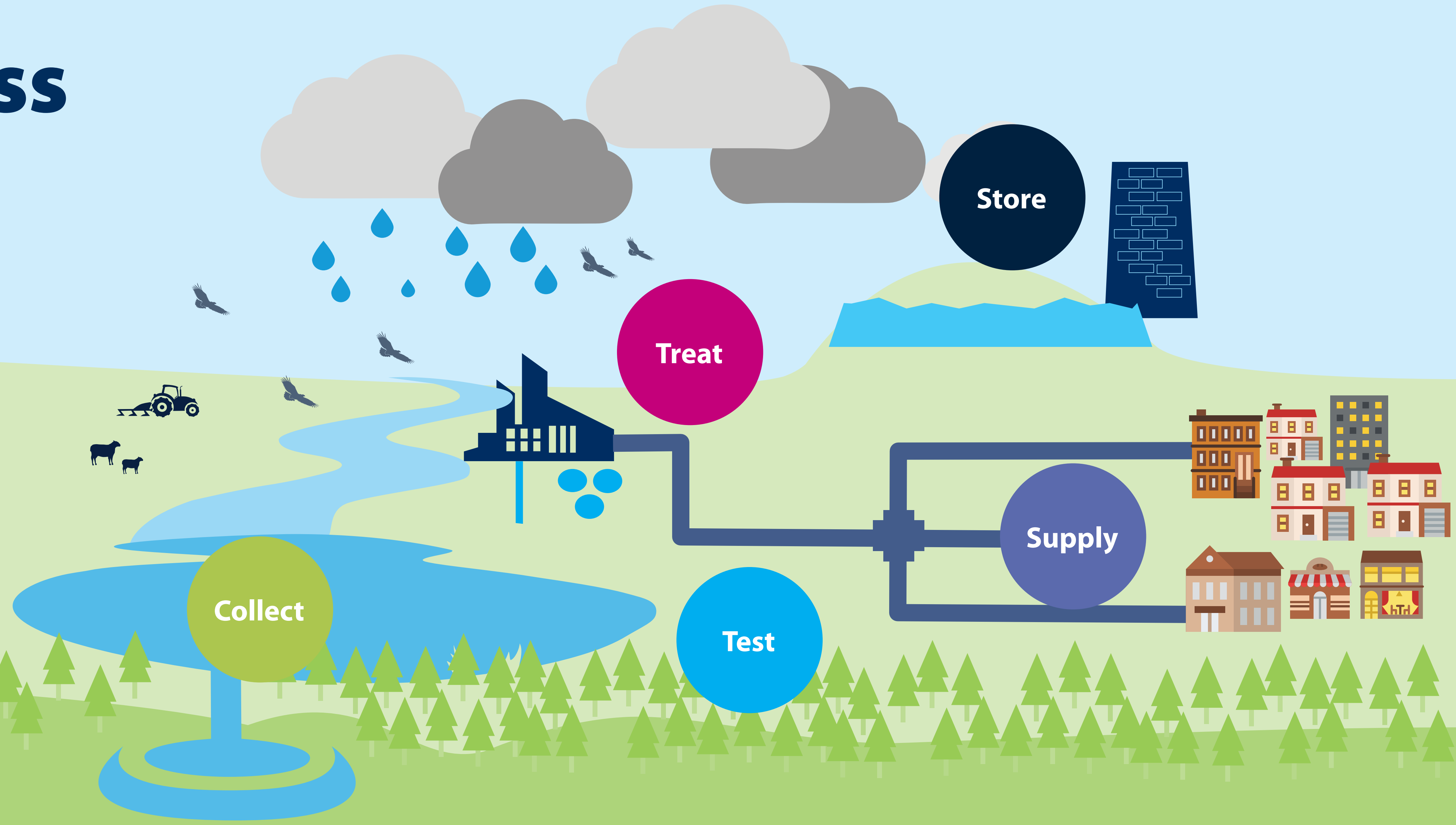
Our vision and purpose are underpinned by our values.

- **Professional**
- **Trusted**
- **Impactful**
- **Community focused**

These values are reflected in our people's objectives and the work they do to deliver for customers, communities and the environment every day.

Our business model

Every day, our people work hard to deliver outcomes for our customers, our communities, our service, the environment and our business, in accordance with our vision, purpose and values.



Collect water

We collect water from 2 surface water reservoirs and 43 borehole sites across our Cambridge and South Staffs regions

Treat water

We treat the water we collect at 41 water treatment works

Test water

Each year, we carry out tests on more than 14,800 compliance samples.

This is to ensure the water we supply to our customers is always of the highest quality

Store water

Once treated, we store the water in 70 service reservoirs and water storage towers until it is needed

Supply water

Each day, we put an average of 405 million litres of water into supply (85 million litres in our Cambridge region and 320 million litres in our South Staffs region)

We use 8,765 km of pipes and 113 pumping stations to move water round our networks

We supply water to 720,905 household properties and 41,739 business/non-household properties

Our business comprises wholesale, household retail and non-household retail functions

Wholesale	Household retail	Non-household retail
Water resources	Billing	Billing
Water treatment	Meter reading	Meter reading
Network and asset management	Customer service	Customer service

We also collect wastewater charges on behalf of Anglian Water in our Cambridge region and Severn Trent in our South Staffs region

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The year at a glance

Ofwat approved our £926 million investment programme for 2025/30

Provided financial and other support to 69,797 customers

Engaged 6,692 young people about using water wisely

Completed the upgrade programme at our largest water treatment works

Disappointed to have missed some key customer and service targets

Submitted two successful bids to Ofwat's Innovation Fund – awarded £2.75 million

Started work on our ambitious universal metering programme

Started developing our new Assure Essential Saver tariff

Strategic report

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Elena Karpathakis

The year in review

Welcome to this report on South Staffordshire Water's performance over the year from April 2024 to March 2025. This is my first review since joining the business in March and I hope you enjoy learning – as I have – a bit more about the work that has been done over that time.

It's been a busy and at times challenging 12 months for the business. A key piece of work for us has been the completion of the economic regulator Ofwat's PR24 price review process, developing ambitious plans to deliver for our customers and the environment over the five years to 2030.

These plans are set within the context of a challenging macro environment. This is still continuing to have an impact, with global conflicts and a new administration in the USA having a direct bearing on decisions made by the UK Government, which in turn impacts our day-to-day operations.

In addition, the England and Wales water sector has continued to be viewed negatively by politicians and other commentators. We're all still seeing news stories and social media posts that focus on water company failures to deliver the services their customers expect and pay for.

However, even though I've only been with the business a short time, I've seen a number of successes for which everyone here can rightly feel very proud to have delivered during the reporting year. Individuals and teams across the business have continued to go above and beyond every day – with all of them living our values by being **professional, trusted, impactful and community focused.**

In the following pages and chapters, I'll share some of those successes with you. But I'll also highlight those areas where we've not performed as well as I or our people would have liked. In addition, I'll set out what we're doing to put things right as we look ahead to the next five-year planning period to 2030 – what we call 'AMP8'.

Setting the context – a sector-wide view

The water sector has been under intense scrutiny over the past couple of years. During the reporting year, questions have continued to have been asked about the sector's legitimacy, company ownership, the role of some investors and shareholders, and financial resilience. This in turn has caused a fall in the trust customers have in the services water companies provide.

Following the General Election in July 2024, the new UK Government committed to rebuilding that trust. In September, it introduced the Water (Special Measures) Bill into Parliament. The aim of the Bill was to address poor performance in the water sector, covering a number of themes. These include:

- poor financial management;
- water pollution; and
- outcomes for customers.

"The Water (Special Measures) Act 2025 includes a number of provisions that will have a direct impact on our business going forward"

The Bill passed into law in March as the **Water (Special Measures) Act 2025.** It includes a number of provisions that will have a direct impact on the business going forward. For example, it creates a new framework for holding water companies and their Chief Executives accountable through new governance and remuneration measures for delivering the required performance across a range of areas.

In addition, it enables the Secretary of State for Environment, Food and Rural Affairs to introduce a single social tariff. It also requires all water companies to report each year on the action they are taking to reduce pollution incidents in their operating areas.

Along with my Executive team and other colleagues, I'll continue working with the Government and our trade body Water UK on the implementation of the measures set out in the Act. This includes, for example, the work we've done already to update our Articles of Association (the Articles) to make delivering for the environment and our customers a primary business objective. You can read more about this on page 32.

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Alongside the Water (Special Measures) Act, in October 2024 the Government launched the **Independent Water Commission** headed by Sir Jon Cunliffe, a former Deputy Director of the Bank of England. The Commission has been tasked with making sure there is a sufficiently robust and stable regulatory framework to:

- attract investment in the future;
- speed up infrastructure delivery; and
- restore trust and confidence in the water sector.

The business has proactively engaged with the Commission since its launch. This includes responding to the Commission's call for evidence, which was launched in February and which closed just after the end of the reporting year in April 2025. At the time of writing, the Commission was preparing its final report for the Government. We'll consider its recommendations as a business and share any updates in next year's annual report and financial statements.

Delivering against our AMP7 performance targets

The reporting year is the last one in the five-year planning period from 2020 to 2025, also known as 'AMP7'. Throughout the year, everyone across the business has continued to work hard to deliver for our customers, our communities and the environment.

The largest single element of our AMP7 plans was the **upgrade programme for the two largest water treatment works** in our South Staffs region. Over the past five years, we've invested £72 million to install new treatment processes at both works.

The work to introduce a second filtration stage at the first of the two works was completed in March 2023, in line with the target date agreed with the water quality regulator the Drinking Water Inspectorate (DWI).

We revisited our upgrade proposals for the second works, securing agreement from Ofwat to invest an additional £17.6 million to install innovative ceramic membrane filtration technology in the first retrofit of its kind in an existing water treatment works.

I'm pleased to report that we completed the upgrade work at the works in line with the 31 March 2025 target date agreed with the DWI. At the time of writing, customers were already experiencing enhanced water quality from the works. Throughout AMP7, this has consistently been the top priority for them – and the most important area in which they wanted us to invest.

This is also reflected in our performance against the target to **reduce customer contacts about their water quality.** We measure this in terms of contacts per thousand of population. Having outperformed this measure in each of the first four years of AMP7, we've again exceeded our target. This puts us in a reward position for this measure during the reporting year.

We've also outperformed our target for the number of **customers helped with our financial and other support packages.** We've helped 69,797 customers during the reporting year, considerably exceeding our target of 40,000. This is particularly important for the business, especially when set within the context of the ongoing cost-of-living crisis and the issue of bill affordability for some customers.

Another area where we've performed well is the number of **young people engaged with our education outreach activity.** During the reporting year, we exceeded our target by engaging with 6,692 young people through our in-person programme of interactive assemblies and workshops. This is especially pleasing as we've struggled to get performance in this area back on track following the COVID-19 pandemic.

But there are a number of areas where our performance has not met our expectations – both for the business and for our customers.

In particular, I'm disappointed that we've not met our target for **supply interruptions.** This is an area where we performed very well during the first four years of AMP7, setting a high benchmark for the rest of the water sector.

Unfortunately, we experienced a small number of significant bursts during the reporting year, particularly in our South Staffs region. This has had a negative impact on performance – causing us to substantially miss our target for the year and putting us in a penalty position for the first time.

For example, over the weekend of 2 to 4 November 2024, we experienced successive bursts in Wednesbury, Tipton and Bloxwich. These bursts impacted around 21,000 properties, resulting in an incident response that involved more than 120 of our people at various points over the three days. At the same time, we continued to deliver clean drinking water to other customers across our South Staffs region as part of our business-as-usual activities.

Creating a culture of learning – improving our incident response process

Between 2 and 4 November 2024, the business experienced some significant bursts in Wednesbury, Tipton and Bloxwich in our South Staffs region.

During any incident of the magnitude of these, our primary concern is to restore water supplies to customers as quickly as possible. At the same time, we make sure that those customers who have the most need – because of medical reasons, for example – receive supplies of bottled water.

We have an established incident response process, developed over a number of years. But we are conscious of the need to always improve our response, building on the things that work well and learning from those that did not.

A key learning from these incidents is the need to inform local and national elected officials earlier and to keep them updated regularly. We now have emergency contact numbers for MPs across our Cambridge and South Staffs regions, as well as current contact details for all our local councillors.

We have also carried out mock scenario testing at all levels of the business and have run real-time incident training exercises across our Cambridge and South Staffs regions, including on deploying alternative water sources. Our aim with these is to ensure that, in the event of a major incident, our people are always well-prepared to deliver a timely, efficient and proportionate response.

Our performance for **C-MeX – the measure of household customer experience** – has also not met our expectations. C-MeX is measured relative to other water companies in the sector and I'm disappointed that we finished the year considerably below our upper quartile target. We've put plans in place to deliver improvements in our customers' experience of the services we provide, and I'll discuss these in more detail in next year's annual report and financial statements.

In addition, we've also not met our target for the **Compliance Risk Index (CRI)**, the principal water quality regulatory measure set by the DWI. We've experienced failures for turbidity, coliforms and odour at a number of sites across our Cambridge and South Staffs regions during 2024, which have put us in penalty for the reporting year. We've taken a number of actions to address these issues, including:

- carrying out tank cleaning and other maintenance at our sites;
- replacing sample points; and
- raising awareness with customers about tap hygiene.

We expect to get our performance back on track during AMP8. To help with this, we've created a new Network Scientist role within the Water Quality team to enhance our water quality monitoring. You can read more about this in the case study on page 78 below.

Supporting customers with the greatest need

As the provider of an essential service, we're committed to our public duty to ensure the water services we provide are safe and available to all consumers in our Cambridge and South Staffs regions.

We also recognise that we've got an important role to play in safeguarding our customers. Across both regions, we serve a wide variety of customers – from some of the most deprived urban populations in England to remote and sometimes isolated rural communities. This means we've got a range of different socio-economic and demographic circumstances among our customers that we need to understand and consider.

In addition, we're mindful that vulnerability can be changing and multi-layered for people. This can make it difficult to have a continuously comprehensive and precise picture of the circumstances that can move people into a position of vulnerability.

During the reporting year, we used our experience in serving and engaging those who need tailored support to develop a more sophisticated approach to tackling vulnerability. The aim is to build a more up-to-date and granular picture of the vulnerability issues that affect our customers – both from a financial and a health perspective.

“We’ve got an important role to play in safeguarding all our customers from urban populations to isolated rural communities”

We consider that improving the knowledge of our customers’ needs is important in ensuring the work we do to support them is effective and helps shape our strategy and implementation plans in a more targeted way.

In June 2024, we submitted our draft vulnerability strategy to Ofwat. To support this, we carried out a review of the current and expected future landscape, which influenced the decisions in our draft strategy. This included developing a demographic model that could be updated regularly to identify how the needs of our regional populations might change over time – and how this might alter our strategy to ensure the best outcomes for our customers.

Working with Sustainability First in partnership with data specialists Kelp, we produced a data source that we could use to underpin decision-making in our vulnerability strategy and reflect the ambition of our AMP8 plans. A key objective of this work was to identify the gap between our current Priority Service Register (PSR) provision and the potential need for these services.

We adopted a robust methodology to ensure the best outcomes. This included:

- developing a comprehensive set of PSR needs codes that go further than those we currently have available;
- determining the total number of people potentially eligible for the PSR; and
- developing a robust approach to determining future need for PSR support.

We consider this approach will deliver a lasting impact for us, ensuring all our customers are being supported effectively. It’ll also help us to understand how vulnerability changes over time.

This learning and the tools developed during this project underpin our final vulnerability strategy, which was submitted to Ofwat and published on our website outside the reporting year in June 2025. I’ll report on our progress with this important work in next year’s annual report and financial statements.

Securing the water future – finalising our AMP8 plans

In last year’s annual report and financial statements, my predecessor Andy Willicott referenced the culmination of the work to develop and shape our AMP8 plans as part of Ofwat’s PR24 price review process.

We submitted our ‘Securing your water future’ business plan to Ofwat in October 2023 for detailed analysis and scrutiny against both our previous performance and other water companies’ plans. We then received Ofwat’s initial decision – known as the ‘draft determination’ – on our plans in July 2024. We welcomed that Ofwat found these plans to be robust and ambitious. For us, this was a recognition of the support we received from our people and our customers in helping us to develop well-evidenced and well-supported plans set within a long-term context.

However, although we welcomed the positive and responsive way Ofwat supported our AMP8 plans, we made representations in a number of areas that we considered were critical to our business going forward.

These included the changes Ofwat had proposed to its outcome delivery incentives (ODI) framework, which is reflected in our targets for delivering improved services to customers and the environment. We also provided more evidence in support of our individual household water use – what we call ‘per capita consumption’ or PCC – and power costs claims. Here, we cited the uniqueness of our location and topography – particularly in the South Staffs region – as evidence for this.

Ofwat announced its final decision on our plans in December 2024. It is allowing us to invest £926 million in services and assets across the Cambridge and South Staffs regions over the course of AMP8. I’ve outlined the key elements of our regulatory settlement below.

- We’ve been **allowed £55 million to fit AMI-enabled (‘smart’) meters** across the Cambridge and South Staffs regions through our universal metering programme. This is the largest single element of our AMP8 settlement, helping us to achieve our ambition to get as close to universal metering as possible across both regions by 2035.
- We’ve also been **allowed £40 million to tackle raw water deterioration at a number of sites** across our Cambridge and South Staffs regions. We’ll invest this in treatment upgrades and resilience schemes at these sites.
- In addition, we’ve been **allowed £16 million to deliver our environmental obligations** as part of the Water Industry National Environment Programme (WINEP). This is to help us further improve our resilience to drought and flooding, as well as to protect and enhance the environment.
- And we’ve been **allowed £20 million to increase the resilience of our assets**. This includes increasing our protection against the impact of power failures and to protect our sites from extreme flooding.

I was pleased to see that Ofwat also shifted its position on some of our draft decision representations. This included accepting the regulatory capital value (RCV) run-off rate that we set out in our business plan. This is the percentage of the RCV that is depreciated each year, which is added to the amount we're allowed to recover through customers' bills.

"We recognise the need to maintain a balance between delivering meaningful climate change resilience and restoring and enhancing the environment

In addition, Ofwat partially accepted our representations on our unique geographical circumstances in relation to our PCC performance, particularly in the South Staffs region, and rebased our targets. It also modified its energy costs modelling, recognising the significant challenges that all water companies are facing in relation to energy prices.

Perhaps most importantly, Ofwat recognised that its package of ODIs was significantly skewed to negative. This would have impacted our ability to meet and outperform the targets against our performance commitments going forwards. Again, Ofwat took our representations into account and made changes to the ODI package across the water sector.

It should be noted that the size of our regulatory settlement does mean that customers' bills will have to rise. Over AMP8, household customers' average bills will increase by 21% to £195, excluding the impact of inflation. This is one of the lowest bill rises in the water sector.

I appreciate that any bill increases are unwelcome. But they are necessary to ensure the business can finance and deliver the required service and environmental improvements that our customers have told us they want and are willing to pay for.

I'm acutely aware of the impact of bill increases and the wider impacts of the ongoing cost-of-living crisis; because of this, I'm committed to making sure we support even more customers who may be struggling to pay their water bills.

We currently have a number of discounted tariffs available, including our new Assure Essential Saver tariff, which we'll be trialling during the coming year. The case study on page 104 discusses this in more detail. In addition, we offer flexible ways to pay, payment plans and payment breaks. We're also focusing our attention on raising the profile of our PSR with customers, making sure that those who need extra help get the targeted support they need, when they need it.

Adapting to a changing climate over the long term

In January 2025, we submitted our latest climate change adaptation report to the Department for Environment, Food and Rural Affairs (Defra). This describes the long-term impact climate change could have on the water supplies, infrastructure and environment in our Cambridge and South Staffs regions.

We submitted our report under the Government's adaptation reporting power (ARP4). This means it was submitted alongside the reports of other businesses and organisations from a range of critical infrastructure industries, including water, energy and transport.

The purpose of these reports is to enable the Government to assess the degree to which the UK's essential services and infrastructure are preparing for a changing climate. They also serve to identify any barriers that could prevent that from happening.

The Government is using the information from these reports to feed into the UK's Climate Change Risk Assessment and National Adaptation Programme, which is published every five years.

For our part, we recognise the need to maintain a balance between playing our part in delivering meaningful climate change resilience and restoring and enhancing the environment. At the same time, we recognise the need to keep bills affordable for our customers. We continuously integrate climate change risks into our business planning, including through our long-term delivery strategy and the water resources management plans for our Cambridge and South Staffs regions.

In the short term, we've got an ongoing programme of managing water supplies, maintaining our assets and infrastructure and putting contingencies in place to manage water outage incidents. Over the long term, we're exploring a range of approaches, including:

- upgrades to our water treatment and storage assets to maintain safe and reliable supplies for our customers;
- reducing the volume of water we take ('abstract') from our sources to protect the environment; and
- investing in new water sources to provide resilience against the impact of reduced water availability.

We identified a number of key risks in our climate change adaptation report, under the themes of:

- securing future water supplies;
- delivering a resilient supply of good quality water;
- maintaining asset reliability and resilience;
- minimising the impact of our activities on the environment; and
- managing independent risks.

The report also described what we're doing to mitigate those risks now and the activities we're exploring for the future. You can read more about our climate change risks on pages 125 to 141.

Delivering long-term, resilient water supplies

Alongside the work we carried out to finalise our AMP8 plans, we also published the latest long-term water resources management plans for our Cambridge and South Staffs regions. These set out how we'll provide high-quality and reliable water supplies over 25 years in a way that is both affordable and sustainable.

At South Staffordshire Water, we operate under a single water supply licence, covering the Cambridge Water and South Staffs Water operating areas. But they're geographically and hydrologically diverse. So, at least every five years we consult on and publish a separate water resources management plan for each region, reflecting their individual circumstances and their respective water resource challenges and opportunities.

"We operate across two geographically and hydrologically diverse regions – we develop long-term plans that reflect their individual circumstances"

Both our Cambridge and South Staffs water resources management plans recognise the challenges we'll face over the next 25 years in terms of:

- greater demand, because of population growth;
- the need to plan for large reductions in the volumes of water we abstract from our underground water sources;
- the need to increase our resilience to drought to mitigate the impact of us having to take extreme water-saving measures such as standpipes or rota cuts;
- the impact the COVID-19 pandemic is continuing to have on household water use, particularly in our South Staffs region; and
- the expectation on us to do more to reduce leakage on our network of pipes and to help customers use water wisely.

A key driver for our **Cambridge water resources management plan** is the need to protect the rare chalk stream habitats that are a feature of the region. This is set within the context of needing to secure sustainable long-term water supplies for customers. For our **South Staffs water resources management plan**, it's about reducing demand for water in a meaningful and sustainable way.

To help us realise these ambitions, we've set ourselves a number of targets to deliver. These include:

- a 50% reduction in leakage from 2017/18 levels by 2050;
- household water use of 110 litres per person per day;
- a 9% reduction in non-household water use by 2038;
- implementing our universal metering programme; and
- developing sustainable new water sources in the Cambridge region, with a bulk supply transfer from our neighbour Anglian Water's Grafham reservoir and the new Fens reservoir strategic resource option.

We report our progress in meeting our water resources management plan targets each year. I'll also highlight key aspects of our performance in next year's annual report and financial statements.

Looking to the year ahead

I know it's been a year of change for the business. Since joining South Staffordshire Water in March, I've been impressed by just how passionate everyone is about the work they do and how that translates into the services delivered for customers. Everyone has made me feel so welcome and I'm looking forward to working with them to deliver our ambitious AMP8 plans.

I'd like to thank to my predecessor Andy Willicott for his leadership and for successfully steering the business through such a critical period.

Looking ahead, I'll be building on our great legacy. This includes strengthening the Executive team to ensure the business is well set up to deliver our key business objectives. It also includes making sure we always deliver a positive customer experience and that people across the business are engaged and always feel empowered to do their best.

I'm excited about what the next 12 months will bring, and I look forward to sharing news about our performance with you in next year's annual report and financial statements.

Elena Karpathakis
Managing Director

Our strategy

Ours is a long-term business. Making sure we plan for the future is part of our DNA, as we were founded in 1853 in the interests of public welfare to supply clean water to both the University of Cambridge and the industrial Black Country.

We have continued to supply customers across our Cambridge and South Staffs regions since then, evolving our business strategy as appropriate to ensure we always deliver the services they expect and at a price they are willing to pay.

Our long-term strategy

At the heart of our long-term strategy to 2050 are a number of key priorities, which we outline below. These are to ensure we demonstrate our value to customers and society as the provider of an essential public service, now and in the future.

Ending water poverty

We will:

- keep prices affordable;
- use data-driven approaches to identify customers who may be struggling to pay their water bills; and
- offer the right levels of help and support to all customers who need it.

Protecting and enhancing the environment

We will:

- take less water from the environment, including the rare chalk stream habitats in our Cambridge region;
- work with farmers and landowners to improve water quality; and
- create or enhance habitats that support a wide range of plants and wildlife.

Adapting to a changing climate

We will:

- encourage sustainable practices within our business and supply chain;
- use more renewable energy; and
- make sure our network of treatment works, water mains and pumping stations can withstand extreme weather events.

Meeting the needs of a growing population

We will:

- develop new water sources, such as the Fens reservoir in our Cambridge region;
- make the most of our existing water sources; and
- work with developers to encourage more water efficiency.

Remaining financeable over the long term

We will:

- take more advantage of green or sustainable financing initiatives, while always meeting our legal, regulatory and financial obligations.

Taking account of the changing expectations of customers and regulators over time

This could include placing more emphasis on one of these priorities over another to reflect a change in circumstances, for example. Key to this remains the need for us to understand our customers' priorities, and to be fully embedded at the heart of the communities we serve.

Understanding what is important to our customers

Underpinning our long-term strategy are the 'golden threads' that drive our engagement with customers. These are the overarching themes that customers continually reflect back to us. The five golden threads are as follows.

Transparency and engagement

Customers consistently tell us they want regular and effective communication and education. This is to help them understand the context – and any impact – of proposed changes to their water services and the role they can play in ensuring the best outcomes.

Focus on fairness and collective action

It is essential that we develop policies that are seen to be 'fair' for all customers – particularly those in vulnerable circumstances. When customers are informed, we see more calls for collective responsibility to tackle the challenges we face. This includes when maintaining water supplies and tackling affordability issues.

Concern for the environment

This links to a growing awareness among our customers of the impact of climate change on public services – for example, more floods and prolonged periods of drought. Customers say they want us to play a more prominent role in restoring and protecting the water environment for future generations.

The need to protect vulnerable customers

A majority of our customers support the need for us to subsidise those households who are struggling to pay their water bills. Alongside this is the need to ensure our services are accessible to all customers across our Cambridge and South Staffs regions. The ongoing cost-of-living crisis is keeping this at the forefront of customers' minds.

Affordability

Linked to the theme above, in recent years, customers' preferences have become more influenced by pressures on household bills resulting from the cost-of-living crisis. This has caused many customers to consider their own situations carefully in relation to the water service investments they want us to make. For our part, it means making sure we continue to have the right support in place for customers who are struggling to pay their water bills.

We will continue to track these golden threads, and the drivers behind them, through our comprehensive customer engagement and insight programme. This helps us to ensure that our strategy going forward continues to reflect the things that are important to our customers and their long-term priorities for the services we provide.

Setting the context for our long-term strategy

Our long-term strategy is set within the context of the following ambition statements. These have been co-created by our people and the Board of Directors (the Board).

Our service

We will use **cutting edge technology** and ensure the infrastructure is in place so that customers always receive resilient, high-quality water supplies.

Our environment

We will lead in **protecting and enhancing the environment** – working with partners to ensure sustainable water supplies and flourishing local habitats.

Our customers

We will innovate to exceed customers' expectations of our service, **end water poverty** and make sure help is always available.

Our community

We will use partnerships and education to lift our communities, **creating space and opportunities** to help people work and thrive.

Our business

We will lead in **adapting to climate change** and will run a safe, efficient and sustainable business, with a highly-skilled workforce.

Delivering our purpose and demonstrating our values

In common with other water companies, the way we conduct our business and operations is defined by the Articles. This is a document that governs how South Staffordshire Water is operated and managed.

Our Articles are more than just a formality – they are legally binding on our Directors and shareholders. They also play a vital role in preventing disputes, clarifying expectations for everyone involved and ensuring the smooth running of our business.

During the reporting year, we worked with the Board, the South Staffordshire Plc group of companies (the Group) and our shareholders to update our Articles. In doing this, we have placed customers and the environment at the heart of our purpose, making them our primary business objective.

Our purpose, as defined by our Articles, is to "safely provide an essential service of high-quality drinking water for customers in an affordable, trusted and sustainable way". This means we conduct our business and operations for the benefit of the communities we serve, while creating long-term value and delivering positive outcomes for the environment, customers and our people.

We will reflect this purpose in our business strategy going forward. It will help to drive all our decision-making, planning and investment decisions over the long term.

Assumptions underpinning our strategy

In developing our strategy, we made a number of assumptions. This is because of the inherent uncertainty associated with long-term planning. Recognising this uncertainty, we used data-driven tools and models to assess some elements of our strategy. But we also had to make judgements in a number of areas where there is insufficient data. Underpinning these judgements are the activities we need to carry out to appropriately account for the uncertainty and to enable us to understand our future investment requirements. We set out the key assumptions below.

Our people

It is critical for us to make sure our people have the skills they need to deliver our customer and business objectives. We remain committed to running an efficient business where our people are empowered to make decisions and where they possess the requisite skills to realise our long-term goals. All our people play a crucial role in bringing our strategy to life. Their dedication and hard work are integral to securing a sustainable water future for our customers and society.

Partnership working

Looking ahead, we want to be a sustainable business that always delivers value for money for our customers, society and the environment. Key to this is the work we do in partnership with our communities and stakeholders. This is to ensure we generate positive impacts for society and that we leave the environment in a better state for future generations.

Collaboration and open data

We think that fostering a culture of collaboration within and outside our business and a commitment to open data will enable us to tap into additional cost efficiencies and opportunities for partnership working. This includes continuing to work with industry groups such as UKWIR, the principal research platform for the water sector.

Innovation

We think innovation is key if we are to achieve our ambitions. This means testing and discovering new solutions to sourcing funds from innovation competitions and third party organisations. It also means fostering a strong culture of innovation within our business-as-usual activities. This is important if we are to continually deliver the improvements our customers have told us they expect and are willing to pay for.

There is more information about our long-term strategy and ambitions in 'Looking to the future – long-term delivery strategy 2025 to 2050'.

"Our regulatory settlement from Ofwat reflects the ambition of our plans and the efficiency of our operating costs"

Delivering our strategy in the short to medium term

In December 2024, we receved the final decision (or 'determination') from Ofwat on our plans for the five years from 2025 to 2030. This followed an intensive and complex process of discussion, planning and challenge that started with the publication in May 2021 of Ofwat's ideas and ambitions for its PR24 price review process.

As our Managing Director Elena Karpathakis outlined in her review of the year, our final determination allows us to invest **£926 million in assets and services** over the five years to 2030. This regulatory settlement reflects the ambition of our plans and the efficiency of our operating costs.

We have been allowed **£55 million to fit AMI-enabled meters** across our Cambridge and South Staffs regions. This is the largest single element of our plan, and it will touch every part of the business. It also represents a significant step change from our plans over the five years to 2025. Installing AMI – or advanced metering infrastructure – meters will enable us to target the services our customers expect and pay for more effectively, delivering a more personalised approach.

In July 2021, the Environment Agency classified our Cambridge and South Staffs regions as seriously water stressed. This means we are able to explore compulsory metering – or what we call 'universal metering' – if we can demonstrate adequate levels of customer support. Over the past five years, we have seen a shift in customer support on this issue, as long as there are sufficient controls in place to protect customers in vulnerable circumstances.

So, we are implementing a universal metering programme to enable us to meet targets set out in the Environment Act 2022, in the areas of:

- individual water use (PCC) – for household customers;
- non-household water use – for businesses and commercial customers; and
- leakage reductions.

Our ambition is to get as close to universal metering as possible over the ten years to 2035. In our Cambridge region, the level currently stands at around 75%; in our South Staffs region, the figure is closer to 43%. But we accept there are some properties where it may not be possible to install AMI-enabled meters, such as those with shared supplies.

Our original plan had been to install AMR meters. This is a technology that takes drive-by automated meter readings. But Ofwat challenged us to be more ambitious and install AMI meters instead. This represented a significant change in scope for us. But we are rising to the challenge and have acknowledged that we should always have been trying to achieve this.

So, during the reporting year, we started to develop our plans for rolling out our universal metering programme. This included considering how we will communicate the changes to customers and other stakeholders. We have also explored how we will deliver this large-scale and complex project efficiently. For example, we consider that adopting a geographic approach focusing on different postcode areas will be the most effective.

We think that implementing universal metering across our Cambridge and South Staffs regions will deliver a number of benefits for our customers and for us.

For our customers, it will give them the power over their water use, helping them to save water and perhaps money. For our part, it will give us more granular water use data. This will enable us to target services more effectively to customers. It will also enable us to introduce more innovative tariffs over the long term.

We recognise that this significant change will need careful communication. So, we also started work during the reporting year to develop our communication and engagement plans, putting care for our customers at the heart of the decision-making for our universal metering programme.

In addition, we have been allowed **£40 million to tackle raw water deterioration** at a number of sites across our Cambridge and South Staffs regions. 'Raw' water is water from lakes, rivers and other water bodies that has not been treated. We have also been allowed **£20 million to increase the resilience of our assets**. This includes increasing our protection against the impact of power failures and to protect our sites from extreme flooding.

In terms of our environmental commitments, we have been allowed **£16 million to deliver our environmental obligations** under WINEP. This sets out the actions the Environment Agency has asked us to deliver over the five years to 2030. The aim is to help us protect and enhance the natural environment.

Included among our WINEP obligations are projects to protect veteran trees and remove invasive non-native species (INNS) such as Himalayan Balsam from our sites. They also include eel management programmes and work with Natural England to protect Sites of Special Scientific Interest (SSSIs) across our Cambridge and South Staffs regions.

Other areas of investment include the following.

- **Lead pipe replacement.** Over the five years to 2030, we will carry out trials that will inform our long-term lead strategy. This includes carrying out end-to-end replacements for vulnerable groups – at primary schools and care homes, for example.
- **Infrastructure renewals**. We will focus our attention on the strategic mains across our Cambridge and South Staffs regions. We will also increase the number of condition assessments we carry out on our critical infrastructure, including assets like pipe bridges and air valves.
- **Cyber security.** We will invest in both our information and operation technology (IT/OT) to ensure we are resilient to the risk of criminal cyber-attacks.
- **Power resilience.** We will install new generators at eight of our sites, helping to make us more resilient to power outages.
- **Ongoing business-as-usual maintenance.** We will continue with our ongoing programme of maintenance across our facilities, including our water production sites, water treatment works, boreholes and reservoirs. This is to ensure we can continue to always supply the high-quality clean drinking water supplies that our customers expect and pay for.

Of course, we cannot achieve our strategic ambitions without our people. They are experts in their respective fields. So, we will continue to invest in our people – making improvements to processes and systems to enable them to carry out their roles effectively and efficiently. This will help us to secure the water future for our customers, our communities and the environment.

South Staffs Water Cambridge Water

Financial performance

Our financial performance has remained strong, alongside the continued support we provide to our customers. The macro-environment is still continuing to impact our business, our people and our customers.

This means we are continuing to experience significant pressure on energy, chemical and borrowing costs driven by inflation.

We agreed a 5% pay award for our people in the year and continue to offer financial support to our customers who are struggling to pay their water bills, by enhancing our existing assistance programmes.

Our balance sheet remains strong. At 31 March 2025, our covenant net debt was £385.4 million (2024: £369.9 million) and our RCV was £580.6 million (2024: £540.5 million). Our gearing stands at 66.4% (2024: 68.4%).

We use several financial key performance indicators (KPIs), which include, but are not limited to the following.

This means we are continuing to experience significant pressure on energy,

	2025	2024
Turnover £m	153.4	151.6
Operating costs £m	133.9	133.9
Adjusted EBITDA £m[1]	57.6	55.1
Operating profit before exceptional items £m[2]	30.2	27.3
Net debt reported for borrowing covenants £m[3]	385.4	369.9
Gearing[4]	66.4%	68.4%
Regulatory capital value (RCV) £m[5]	580.6	540.5
Return on regulated equity (RORE)[6]	(1.14%)	2.04%

	2025	2024
Operating profit before exceptional items £m	30.2	27.3
Exceptional £m	(0.5)	0.9
Depreciation : intangible assets £m	1.2	1.1
Depreciation : non-infrastructure assets £m	25.7	24.9
Depreciation : infrastructure assets £m	4.5	4.4
Capital contributions £m	(3.5)	(3.5)
Adjusted EBITDA £m	57.6	55.1

Notes:

1. EBITDA reconciliation is shown below.
2. Operating profit is stated before exceptional items.
3. Net debt reported for borrowing covenants in £m (see page 243).
4. Gearing reported on a covenant basis (see the note to the cash flow statement on page 243 for details).
5. Regulatory capital value (RCV) is an Ofwat measure used to assess a company's market value plus the value of accumulated capital investment assumed at each price review (see page 243).
6. Return on regulated equity (RORE) is a measure Ofwat uses to assess the impact of regulation and price controls on water companies' performance and returns (see page 39).

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Turnover

Turnover in the year increased slightly by £1.8 million driven predominantly by an increase in regulated tariffs of 2.7%. Non-appointed revenues have reduced by £0.1 million, mainly within our Aqua Direct spring water business.

Our disclosure of commissions earned shows both the turnover and the associated operating costs. Commissions are earned on the collection of amounts billed for other water companies for sewerage services they provide to customers, and through an agreement to identify customers to offer insurance policies.

Additional information on the movement in our turnover by category is set out on page 253.

Operating profit

Alongside the increased turnover noted above, our costs have decreased slightly compared with the prior year, as a result of inflationary pressures and the impact of two large bursts in our South Staffs region, being offset by lower power costs and no catch-up on abstraction charges, which were incurred in the prior year.

We have incurred significant uplifts in our net labour costs as a result of the 5% annual pay award and one-off bonus.

We have continued with our infrastructure renewals expenditure in line with our plans for the five years to 2025.

We have reviewed the offerings we have in place for future support of our customers. This includes our Assure tariff, which offers bill discounts for eligible customers. We have amended the criteria to receive this support to enable us to help more customers in need. We continued to ensure our customers in vulnerable circumstances know that we are there for them with targeted communications and support through our PSR.

Our bad debt debt provision assumptions have remained largely consistent with the prior year and our calculation represents around 4% of household revenue (2024: 4%). We continue to monitor our cash collection position closely, while keeping our future customer support offerings under review, given the inflationary pressures associated with the ongoing cost-of-living crisis.

Capital investment

We have continued to make progress in delivering our ambitious capital programme to ensure our assets remain in good condition and continue to provide resilient supplies of high-quality, clean drinking water to our customers. We have completed the upgrade programme at the largest water treatment works in our South Staffs region in line with the target agreed with the DWI. This was the largest single element of our five-year plan to 2025.

Overall gross capital expenditure for the year was £48.8 million (2024: £73.8 million). Overall net capital expenditure, net of contributions, was £41.2 million (2024: £59.4 million).

Treasury, net debt and borrowing costs

The main purpose of our financial instruments, including derivatives, is to finance our operations and limit risk from fluctuations in external indices outside our control. This includes entering floating to fixed interest rate swaps, where this is considered appropriate. During the reporting year and the prior year, our policy has been not to carry out any trading in financial instruments. Our policy in relation to cash, loans receivable and borrowings is to maintain flexibility with both fixed and floating rates of interest, and long- and short-term borrowings.

To support the long-term financing needs of the business, we have increased our revolving credit facility by a further £45 million, which is currently undrawn.

Our balance sheet on 31March 2025 showed cash and cash equivalents of £15.5 million (2024: £21.2 million) and we had drawn facilities amounting to £30 million (2024: £30 million) and undrawn facilities amounting to £45 million (2024: £nil).

Our net debt includes index-linked debt, bank loans and debenture stock less cash. During the reporting year, we updated our index-linked debt to reflect the movement in actual RPI in the period. This has significantly decreased our financing costs versus prior year. The reconciliation between covenant net debt and book net debt is shown in the notes to the cash flow on page 243. Standard & Poor's (S&P) continues to rate the business as BBB+ in stable outlook, with Moody's rating us at Baa2/stable; both are within investment grade.

The return on regulated equity (RORE) is a key performance indicator for our business and reflects the combined performance on total expenditure (totex), customer ODIs and financing against the base return allowed in our PR19 final determination from Ofwat.

RORE for the reporting year under actual returns and notional equity was (1.14%). This is 5.41% lower than that allowed in our final determination of 4.27%. The main drivers for the underperformance are:

- lower returns from a higher actual cost of debt (-0.46%);
- underperformance on totex and retail costs (-3.47%). This is partly driven by £12.3 million of additional expenditure on the Fens reservoir strategic water resource scheme, which was reconciled at PR24; and
- underperformance on ODIs (-1.72%), which includes an underperformance on CRI and penalty on supply interruptions following two large bursts in November 2024.

We set out a detailed reconciliation of RORE on page 115 of the annual performance report published alongside these financial statements.

Dividend payment

Our dividend policy aims to ensure we distribute dividends that reflect the equity value created by the business, subject to:

- meeting the range of outputs promised to customers and required by regulators;
- credit quality metrics that are consistent with a Baa1 credit rating; and
- there being sufficient liquidity to meet investment and operational needs for the foreseeable future.

Ahead of the business making the decision on dividend payments, the Board considers carefully the financial position and performance of the business. As we continued to perform well against most of our regulatory targets during the reporting year, the business paid an interim dividend during the reporting year. The Board approved the interim payment totalling £5.0 million (2024: £5.3 million), with due consideration to the cyber-attack position at the time.

The dividend comprised:

- £4.1 million from the appointed business (2024: £4.6 million); and
- £0.9 million from the non-appointed business (2024: £0.7 million).

This represents approximately 2.1% of regulated equity (2024: 2.7%).

On 25 June 2025, a second interim dividend of £1.84 million was approved for the year ended 31 March 2025 after the end of the reporting year. In total, the Board has approved interim dividend payments of £6.84 million for the financial year 2024/2025 (2024: £5.3 million).

There is more information on dividends, including on our dividend policy, on pages 68 to 74 of the annual performance report published alongside these financial statements.

Approach to taxation

We take the legal and social responsibilities for meeting our tax obligations seriously. We have no operations outside the United Kingdom (UK). As a result, the following information has specific reference to UK taxation only.

We are committed to complying with tax laws in a responsible manner. This means balancing our obligations to the Government and the public with our duty to manage our affairs efficiently so that we can deliver cost-effective services to customers, while generating an economic return to investors.

We make timely and accurate tax returns that reflect our fiscal obligations to the Government. In particular, we:

- do not engage in aggressive tax planning;
- do not engage in artificial tax arrangements;
- seek to maintain a transparent and collaborative relationship with HM Revenue & Customs (HMRC), principally through our Customer Compliance Manager; and
- seek independent professional tax advice on material matters, where the application of tax law is complex or uncertain.

We make use of applicable tax incentives provided by the Government within the terms outlined above. These may include, for example, preferential rates of capital allowances, and certain designated capital assets that add efficiency to our operations. Such incentives have been put in place to encourage appropriate business investment. These incentives have the effect of reducing customers' water bills.

As well as corporation tax, we contribute to the UK Exchequer by means of several other taxes and levies. This includes, but is not limited to:

- employment taxes, National Insurance and the Apprenticeship Levy;
- carbon taxes and other energy-related taxes and levies;
- fuel duty and other vehicle-related taxes;
- business rates; and
- regulatory charges and licences, such as water abstraction charges.

We are committed to paying the right amount of tax at the right time. Alongside corporation tax on profits, deferred tax, we incur a range of other taxes and charges required by Government agencies. These tax charges total approximately £16.0 million (2024: £11.0 million).

The table below shows a split of the main tax charges. In addition, we also pay Environmental Agency charges (which are not included in the table).

Our approach to risk management applies to tax as it does to other business areas, with key issues escalated to the Board. All material tax matters are discussed with our Finance team and significant issues are escalated to the Board. The independent Group Risk, Control and Assurance function also reviews significant risk areas where appropriate.

We have identified financial resilience as a key risk area. One possible factor considered within this area is economic uncertainty in relation to the possibility of unexpected tax law and policy changes by the Government. To mitigate this, we carefully monitor published tax legislation, guidance and policy documents to ensure we can assess the compliance requirements and the economic implications for us. We also engage with HMRC, where our tax position is likely to be materially affected by policy changes.

The corporation tax charge has increased from last year to £1.7 million (2024: £1.5 million tax credit), based on the impact of the adjustments in respect of prior years.

UK tax rules specify the rate of tax relief available on capital expenditure. Typically, this is greater in the early years than the rate of depreciation used to write off the expenditure in our accounts.

The impact of this timing difference applied across our significant and recurring capital programme tends to reduce our adjusted effective current tax rate and corporation tax payments in the year. Accounting standards require that we make a provision for the tax we would pay in future periods, if the depreciation charge arising on expenditure for which tax relief has already been received is not offset by further tax allowances in those periods.

However, the nature of our business, including a significant rolling capital programme and the long lives of our assets, means we do not expect these timing differences to reverse for the foreseeable future. This is a significant component of our deferred tax position.

	31 March 2025 (£'000)	31 March 2024 (£'000)
Corporation tax – current tax	922	1
Corporation tax - deferred tax	756	(1,453)
Business rates	4,292	4,061
Employers NI	2,022	1,880
Environmental tax	7,669	5,896
Fuel duty	396	623
Total	**16,057**	**11,008**

Note: All of the above are tax charges and are not necessarily cash settled.

Operational performance

Performance against our targets

Outcome	Performance commitment	Unit of measurement	2020/21 performance	2021/22 performance	2022/23 performance	2023/24 performance	2024/25 target	2024/25 performance	Target met
Our customers	Great customer service to household customers	C-MeX score	81.89	83.38	79.87	76.29	Upper quartile	74.4	×
	Great service to developers	D-MeX score	83.59	84.4	87.57	88.48	Upper quartile	88.03	×
	Great customer service to our business market suppliers (retailers)	R-MeX score	76	87.3	82.2	85.1	93.3	77.3	×
Our community	Financial support for household customers struggling to pay their bills	No. of customers helped	49,279	58,611	55,993	61,752	40,000	69,797	✓
	Ensuring customers who need assistance are registered with us	% registered on Priority Services Register (PSR)	5.8	8.7	10.6	11.6	8	14.9	✓
	'Extra care' support for customers who need assistance	% on PSR receiving extra care support	5.0	5.1	4.7	5.1	5	5.5	✓
	Education programme, working with schools about the need to use water wisely	No. of pupils engaged	297	2,284	3,672	6,310	6,000	6,692	✓

Outcome	Performance commitment	Unit of measurement	2020/21 performance	2021/22 performance	2022/23 performance	2023/24 performance	2024/25 target	2024/25 performance	Target met
Our service	Delivering upgraded water treatment works	% completion	8	18	63.2	92.1	100	100	✓
	Always meeting water quality standards – drinking water quality	Compliance Risk Index (CRI) score – water quality measure	1.09	0.90	1.39	10.90	0	6.58	✗
	Always meeting water quality standards – taste, smell and colour	Contacts per 1,000 population	0.98	0.76	0.65	0.59	0.76	0.5	✓
	Maintaining a reliable supply – supply interruptions	Average interruptions in minutes/seconds	04:33	03:15	04:29	03:32	05:00	15:04	✗
	Maintaining a reliable supply – severe supply restrictions	% of customers at risk	0	0	0	0	0	0	✓
	Reducing the number of water production failures	Unplanned outage as a % of total production capacity	0.57	0.90	1.47	1.60	2.34	1.09	✓
	Finding and fixing visible leaks more quickly	% of visible leaks repaired within a set no. of days	90% within six days	90% within five days	90% within four days	90% within four days	90% within four days	90% within five days	✗
	Reducing the number of burst mains	No. of bursts per 1,000 km of mains	130.0	109.6	150.8	113.3	122.4	117.9	✓
Our environment	Reducing leakage levels – Cambridge region	% reduction from baseline	5.1	13.5	16.7	18.6	13.8	21.8	✓
	Reducing leakage levels – South Staffs region	% reduction from baseline	3.0	5.8	9.4	10.2	15	13.9	✗
	Reducing how much water each person uses (per capita consumption) – Cambridge region	% reduction from baseline	-3.2	-3.5	-5.6	2.0	6.3	7.2	✓

Outcome	Performance commitment	Unit of measurement	2020/21 performance	2021/22 performance	2022/23 performance	2023/24 performance	2024/25 target	2024/25 performance	Target met
	Reducing how much water each person uses (per capita consumption) – South Staffs region	% reduction from baseline	-5.9	-10.3	-14.9	-11.2	1	-9	✗
	Not taking too much water from environmentally sensitive sites	Abstraction Incentive Mechanism (AIM) score	-0.07	0	0.19	-0.6	0	0	✓
	Delivering Water Industry National Environment Programme requirements	Milestones	Not met	Not met	Met	Met	Met	Not met	✗
	Protecting wildlife, plants, habitats and catchments	Hectares of land managed	245.8	542	783	840	690	899.4	✓
	Supporting water-efficient house building	Volume of water saved (megalitres)	2.2	15.5	16.6	29.1	30.6	42.7	✓
	Reducing our carbon emissions	Kilograms per connected property	35.5	46.7	40.5	47.4	61	41.9	✓
Our business	Treating all our suppliers fairly and paying small businesses quickly	% of small businesses paid within 30 days	29	69	69	79	100	71	✗
	Making sure our property records are up to date	% validated	100	100	100	100	100	100	✓
	Reducing our bad debt so customers do not pay more than they need to	Bad debt as a % of revenue	3.23	3.44	2.52	3.04	2.75	2.73	✓
	Making sure all our people love their jobs	Net Promoter Score (NPS)/ achieving Investors in People (IIP)	IIP achieved. NPS not achieved	IIP achieved. NPS not achieved	IIP achieved. NPS not achieved	IIP achieved. NPS not achieved	IIP achieved and 10pt increase in NPS from baseline	IIP achieved. NPS not achieved	✗

Outcome	Performance commitment	Unit of measurement	2020/21 performance	2021/22 performance	2022/23 performance	2023/24 performance	2024/25 target	2024/25 performance	Target met
Core outcomes	Delivering services that are value for money	% of satisfied customers	74	71	75	63	85	62	×
	Making sure customer have a high level of trust in us	Score out of 10	8.16	7.85	7.68	6.97	8.3	7.13	×

Delivering for our customers

Our promise to our customers:

“We will offer a great customer experience and get feedback to help us keep improving”

Preparing for AMP8: our universal metering programme

In 2021, the Environment Agency updated its classification of water stressed areas in England. Both our Cambridge and South Staffs regions were determined to be ‘seriously water stressed’. This means we are able to adopt compulsory – or universal – metering if we have sufficient support from customers.

We have seen a shift in customer support for metering in recent years. Even so, we recognise how important it is to take our customers along with us on this journey. So, we are putting customer care at the heart of our universal metering programme. From initial notification about installation through to the billing experience, we will deliver every stage with extra care and clear communication. Providing the right levels of support for customers who need extra help during this transition is also critical for us. We will draw on best practice from the rest of the sector when communicating with our customers, taking on board key learnings from companies who are further ahead in their metering programmes.

During the reporting year, we started planning every aspect of our ambitious universal metering programme, having been awarded **£55 million** in funding by Ofwat in our PR24 final determination – set within the context of putting customers at the heart of all our decision-making and giving them more power over the water they use. Over the five years to 2030, we have committed to installing **161,458** Advanced Metering Infrastructure (AMI) meters across our Cambridge and South Staffs regions – a considerable step change on what we have done previously. For comparison, during the five-year planning period to March 2025, we installed around **9,000** meters a year using Automated Meter Reading (AMR) technology.

We will install the new AMI meters across both our Cambridge and South Staffs regions during the course of AMP8. The advantage of using AMI meters is that they are read remotely and can provide near real-time data on water use. Our goal with this to reach as close to universal metering as possible in both regions by 2035. As our South Staffs region currently has lower levels of household meter penetration at **45.2%**, most of the new installations will be there. Metering levels in our Cambridge region are higher – at 76.4%. But we still have targets to meet in line with our latest water resources management plan for the region. We will also be extending the programme to our non-household customers across both regions.

We will officially launch our universal metering programme in August 2025 and will report on our progress in next year’s annual report and financial statements.

Great customer service – household customers

Common or bespoke performance commitment: **Common**

Target met: **No**

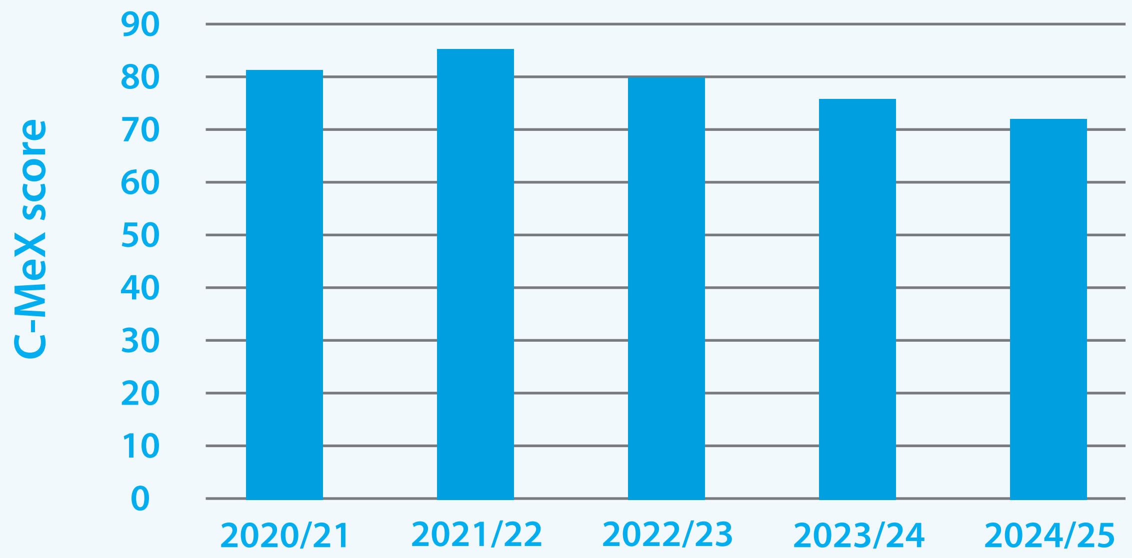
What we are measuring

Level of satisfaction among our household customers, as measured by C-MeX (the customer measure of experience).

Unit of measurement

C-MeX score and position in the sector relative to other water companies.

How we have performed



C-MeX is a relative measure, and our performance is compared with that of other water companies in England and Wales. For this reason, we do not have a fixed numerical target. Instead, we aim to achieve an upper quartile (top four) ranking out of all the companies in the water sector. The chart above shows the score we achieved during the five years to 2025.

We are disappointed that our performance against this measure has not met our – and our customers' – expectations, having finished the year considerably below our upper quartile target. We have put plans in place to deliver improvements in this business critical area.

Great customer service – developers

Common or bespoke performance commitment: **Common**

Target met: **No**

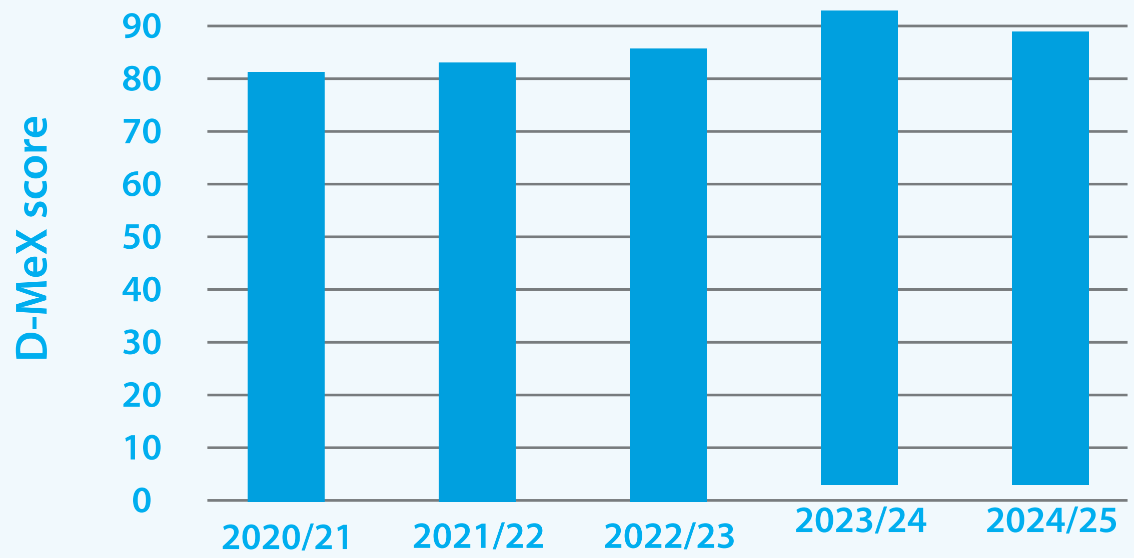
What we are measuring

Level of satisfaction among our developer services customers, as measured by D-MeX (the developer measure of experience).

Unit of measurement

D-MeX score and position in the sector relative to other water companies.

How we have performed



The developer services measure of experience – or D-MeX – comprises a range of service metrics related to the developer services environment. The chart above shows the score we achieved during the five years to 2025.

Throughout this time, our aspiration has been to achieve upper quartile in the water sector for this measure. While we have seen some improvements in our D-MeX performance level, we have not met our target for the reporting year. We have put plans in place to deliver improvements in this area.

Great customer service – business market retailers

Common or bespoke performance commitment: **Bespoke**

Target met: **No**

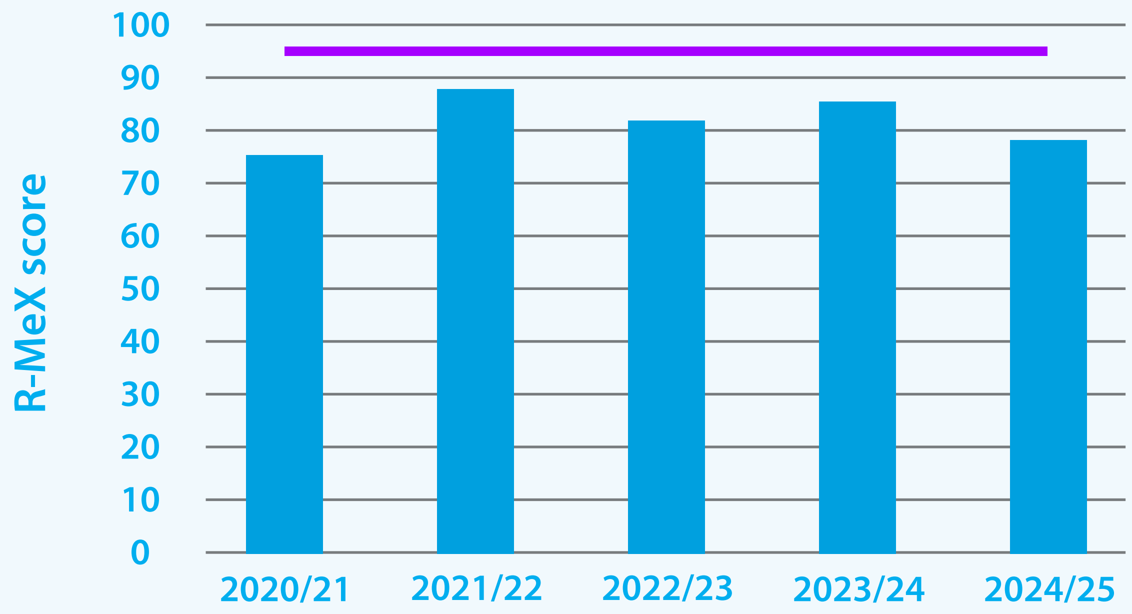
What we are measuring

Our performance as a wholesaler operating in the business market, incorporating the existing market and operational performance standards, and a satisfaction measure.

Unit of measurement

Composite R-MeX score.

How we have performed



We introduced our bespoke R-MeX measure in 2020 as an average of the following three metrics.

- Retailer satisfaction score.
- Market performance standards.
- Operational performance standards.

We have seen some improvements in this measure during the reporting year. But we have not met our target in any of the five years to 2025. This is an area where we know we need to improve.

We have already taken some important steps forward, including relocating our Wholesale Service team from our contact centre alongside our customer-facing and operational teams and recruiting additional resource. We also have an action plan in place with the market operator MOSL to help drive the improvements we have identified.

Delivering for our community

Our promise to our community

“We will offer our customers the right level of support for their individual needs and help everyone learn how to use water wisely”

Engaging future customers through our education outreach programme

We have a long-established education outreach programme. This is underpinned by our performance commitment to reach 6,000 young people a year with our in-person interactive workshops. We offer a range of sessions for Early Years, Key Stage 1 and Key Stage 2 pupils. These include:

- our ‘Wendy the Water Waster and Suzie the Super Saver’ session for young children, which uses dolls to explain how everyone should use water more wisely; and
- our ‘Little Drop’ and ‘Captain Efficient and the Water Wasters’ workshops for children in years 1 and 2, which explain the water cycle and water efficiency in a fun and engaging way.

For older children (years 3 to 6), we explore the water cycle in more detail. This includes introducing key scientific vocabulary and exploring the impact the weather can have on water supplies. In addition, the children have the opportunity to learn more about the water treatment process. Furthermore, they get to construct their own water filters.

We also offer a 'Water Crimes' workshop for children in years 3 to 6, which focuses on water efficiency. The children complete five activities, including creating a radio jingle and making water efficiency stickers to display at home or school. The workshop enables the children to develop 'Top Trumps' style cards with tips for their chosen water efficiency activity. This gives them the chance to play water detective and look around their school environment to spot any water crimes being committed – a tap left running, for example – and think about how they can prevent this in the future.

We always want to improve our educational offering. So, getting feedback from the schools we visit is very important to us. After each workshop, we ask the host school to score the sessions from one to five, where five is 'excellent'. We also ask them to suggest potential areas for improvement.

We are pleased to report that we exceeded our target for reporting year, delivering our workshops to **6,692** young people across our Cambridge and South Staffs regions. This is especially rewarding as the COVD-19 pandemic early in the 2020 to 2025 period made it difficult to deliver our workshops in a school setting.

Looking ahead, we intend to link our education outreach work with our universal metering programme, emphasising the benefits of having a water meter. In addition, we are exploring the potential for site visits across our Cambridge and South Staffs regions. We are also considering introducing workshops for parents so that they can support what their children have learned in school. Finally we are looking to develop leaflets and other material that children can take home to share with their families.

Financial support for household customers

Common or bespoke performance commitment: **Bespoke**

Target met: **Yes**

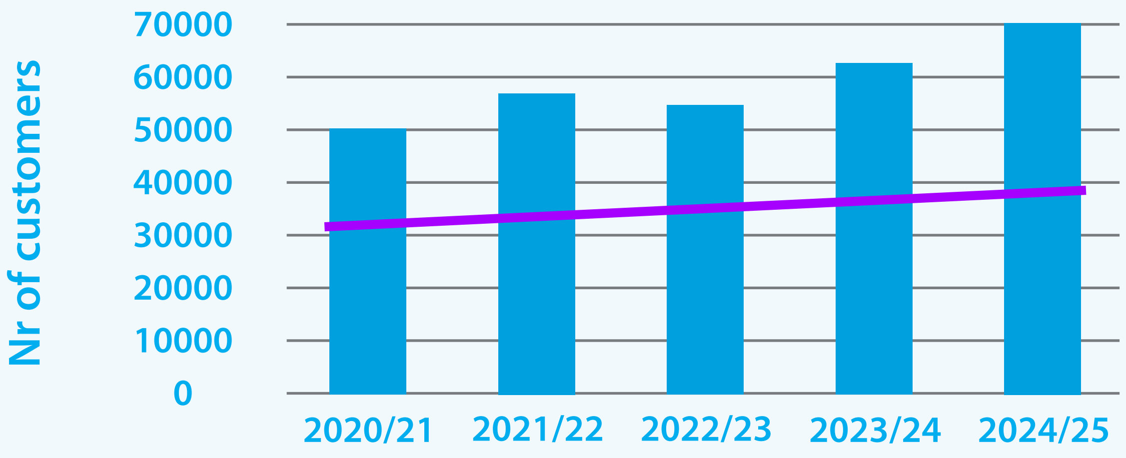
What we are measuring

The number of household customers we are helping with their water bills, using financial assistance schemes such as our Assure tariff, our Charitable Trust, payment plans and other types of help.

Unit of measurement

Number of customers helped.

How we have performed



We are committed to delivering a wide package of support for customers who find themselves in a position of vulnerability. We have a number of financial and non-financial schemes available to help customers who need additional assistance.

These have been hugely successful, with a far greater number of customers taking up these support options than expected. We have significantly exceeded our target (shown as a **purple** line) in each year of the five-year planning period to 2025.

We are rightfully proud of our work in this area and are trialling a new tariff, called the Assure Essential Saver, for customers who are above the income threshold for our Assure tariff, but who are still struggling to pay their water bills. Going forward, we will continue to ensure support is always available to all those customers who need it.

Household customers registered on our Priority Services Register

Common or bespoke performance commitment: **Common**

Target met: **Yes**

What we are measuring

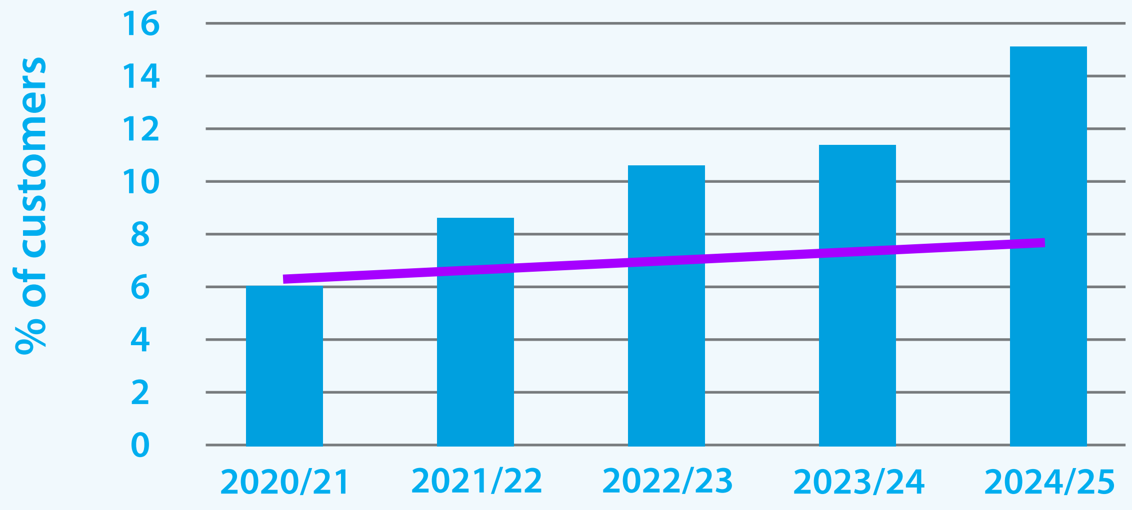
The number of household customers registered on our Priority Services Register (PSR), with the proportion validated every two years.

This performance commitment comprises three elements: reach, attempted contact and actual contact.

Unit of measurement

Percentage of customers registered.

How we have performed



Our PSR is a valuable service for customers who have additional health or financial needs and vulnerabilities. It is a measure where we have shown year-on-year improvements during the five years to 2025, reaching an increasing number of customers in vulnerable circumstances.

The reporting year is no exception, with us considerably exceeding our target for the number of customers helped (shown as a **purple** line) and outperforming all three elements of the measure.

We will continue to drive improvements in this area through our vulnerability strategy.

'Extra care' support for household customers

Common or bespoke performance commitment: **Bespoke**

Target met: **Yes**

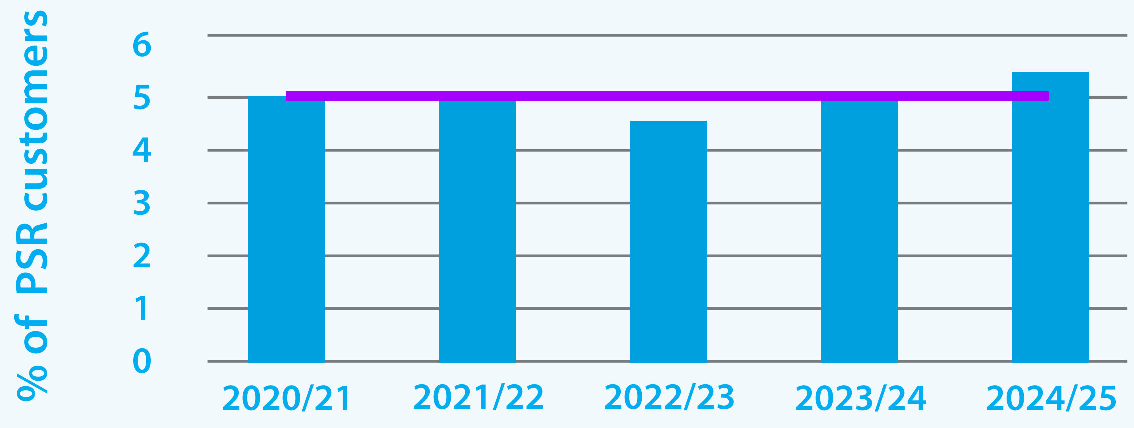
What we are measuring

Proportion of household customers registered on our PSR who we help with our 'extra care' additional support options.

Unit of measurement

Percentage of PSR customers receiving 'extra care' support.

How we have performed



Our extra care programme is a targeted package of additional support options aimed at the most vulnerable of customers on our PSR. At the start of the current five-year period, we set ourselves a target of 5% of customers on our PSR expected to receive additional assistance through the extra care support package.

We are continuing to make sure we have a wide-ranging package of support options available for those customers who need it. This is reflected in our performance for the reporting year, where we outperformed our target.

Education outreach

Common or bespoke performance commitment: **Bespoke**

Target met: **Yes**

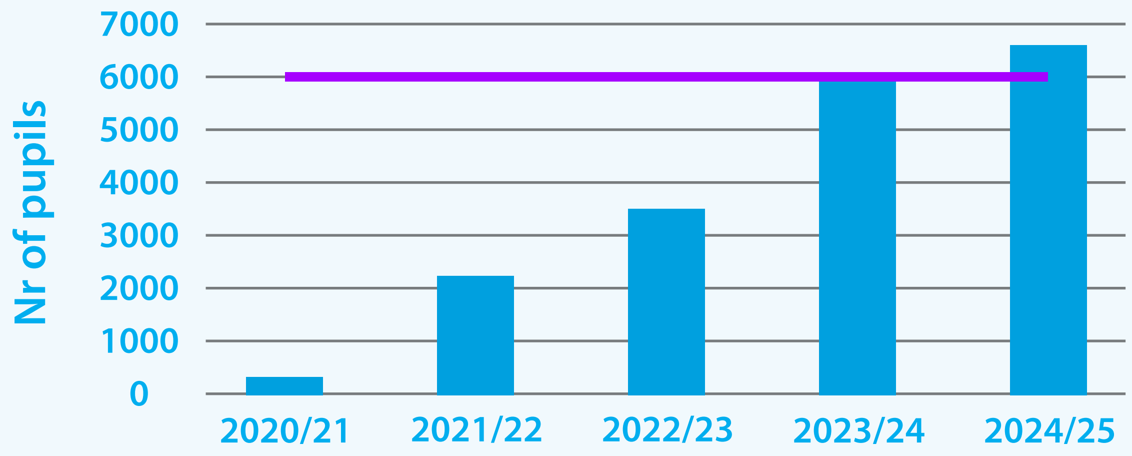
What we are measuring

The number of young people we reach with our education services, working with schools to educate future generations about the need to use water wisely.

Unit of measurement

Number of pupils engaged.

How we have performed



Future generations of customers are important to us, and we want to play our part to support their education about where water comes from and how it can be used wisely. We run an interactive, in-person education outreach programme for children of all ages, working with schools across our Cambridge and South Staffs regions to deliver this content.

Earlier in the 2020 to 2025 period our ability to deliver our education outreach programme was impacted by COVID-19 restrictions in place at various times. Our programme is designed to be interactive and the restrictions meant we were unable to visit schools to deliver this effectively. So, we are pleased to report that we outperformed our target for this measure, ending the year in a reward position.

Delivering a reliable service

Our service promise

“We will provide clean, high quality and reliable water supplies now and in the future”

Monitoring the health of our water system

We have been working with a research student from Sheffield University on a project with a focus on adaptive monitoring of system health (AMoSH). The project is funded by the Engineering and Physical Sciences Research Council (EPSRC) and facilitated by the Water Infrastructure and Resilience centre of doctoral training.

The project is investigating how data assurance and mobile strategies for water quality monitoring can be used to inform the proactive management of the water networks in our Cambridge and South Staffs regions. This will help to determine the impact of the investment in our assets.

The current processes for managing discolouration within the water network are generally reactive, with a focus on turbidity events. Turbidity can be caused by a number of different factors. These include sediment build up, rainfall overflows and decomposed matter or organic material. The aim of the project is to explore how turbidity instrumentation can be deployed more effectively to proactively inform our asset maintenance programme and reduce contacts from customers about the colour, smell and taste of their water.

In addition, the project will demonstrate water quality monitoring capabilities and track network health. In particular, it will assess the benefits of investments we have made in our networks while using a small number of mobile monitors on a ‘lift and shift’ basis. It will also devise protocols to support data quality assurance and criticality confidence in absolute turbidity values.

Initially, four monitors, calibrated at the University of Sheffield, will be deployed in our South Staffs region. These will be in place in one location for two weeks before being moved to other parts of the network on rotation for the duration of the project. Monitoring will be carried out before planned capital and operational investments are made. The key outputs will be a series of turbidity metrics for reporting purposes. This will help us to target our investments for effectively and efficiently.

We will report on the progress of this project in future annual reports.

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Delivering upgraded water treatment works

Common or bespoke performance commitment: **Bespoke**

Target met: **Yes**

What we are measuring

The delivery of upgraded treatment processes at the two largest water treatment works in our South Staffs region in line with the agreed target dates and budget.

Unit of measurement

Percentage completed.

How we have performed

Our two largest water treatment works in the South Staffs region are critical assets for us. And our ambitious upgrade programme at both works was the largest single element our investment programme over the five years to 2025.

We delivered the upgrade programme at the first of the two works in March 2023, in line with the target date agreed with the DWI.

We are pleased to report that we delivered the upgrade at the other works during the reporting year in line with the target date agreed with the DWI.

Following the completion of the principal construction work and the assembly of the new filtration units in 2023, we started work to install the ceramic membranes in April 2024, with all the filtration units in full operation in the autumn. Our customers are now receiving the benefit of enhanced water quality from the works.

Always meeting drinking water quality standards

Common or bespoke performance commitment: **Common**

Target met: **No**

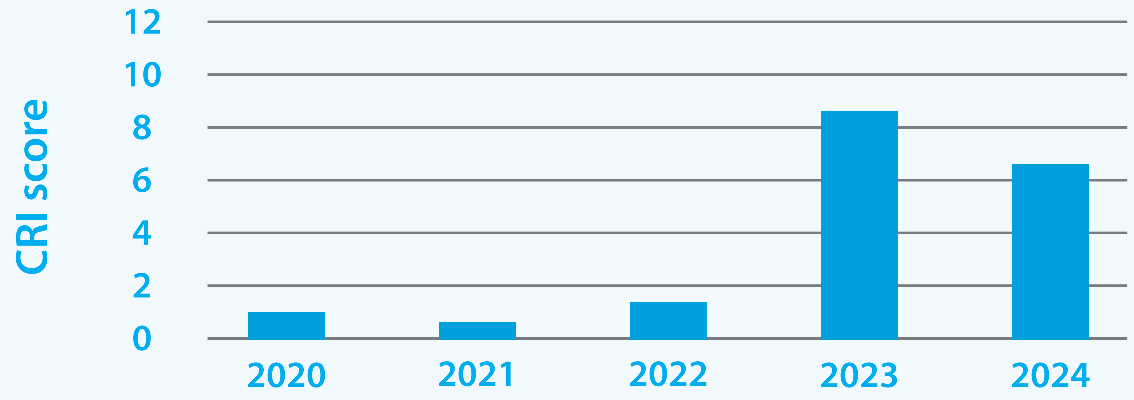
What we are measuring

Our compliance with drinking water quality regulations, as measured using the DWI's Compliance Risk Index (CRI) metric. This is a calendar year measure.

Unit of measurement

CRI score.

How we have performed



During 2024, we experienced failures for turbidity, coliforms and odour at several sites across our Cambridge and South Staffs regions. These compliance failures have caused us to significantly miss our CRI target of zero, putting us in a penalty position for the reporting year.

We have taken steps to address these issues, including carrying out tank cleaning and maintenance at our sites and replacing sample points. We have also recruited a Network Scientist within our water quality team to enhance our water quality monitoring. See the case study on page 78 for more information.

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Always meeting drinking water standards for appearance, smell and taste

Common or bespoke performance commitment: **Bespoke**

Target met: **Yes**

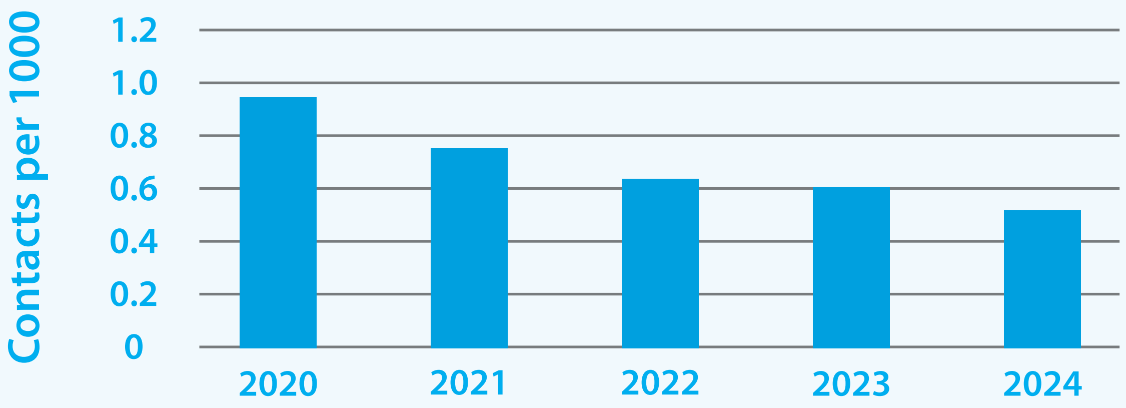
What we are measuring

The number of customer contacts we get each year about the appearance, smell and taste of their water, or any perceived illness. This is a calendar year measure.

Unit of measurement

Contacts per 1,000 of population.

How we have performed



Our customers' perceptions about and their direct experiences of the quality of water we supply to them is extremely important to us. When customers get in touch with us about the quality of their water, we always take these contacts very seriously.

Over the five years to 2025, we have carried out activities across the network in our Cambridge and South Staffs regions to reduce the root causes of customer contact. Most of the contact is about discoloured water. This is often the result of disturbed sediment in our water mains, which can occur when we get rapid changes in water flow – for example, following a burst. So, we have routine flushing and network calming programmes in place to ensure we can minimise the risk of such disturbances.

Our continued focus on customer acceptability contacts is showing demonstrable improvements against our target (shown as a purple line). We review contact data at a working group level every month, escalating any changes to the Executive team as necessary. We also carry out deep dives into potential root causes and to help us identify and implement any remedial actions we need to take.

Maintaining a reliable supply – supply interruptions

Common or bespoke performance commitment: **Common**

Target met: **No**

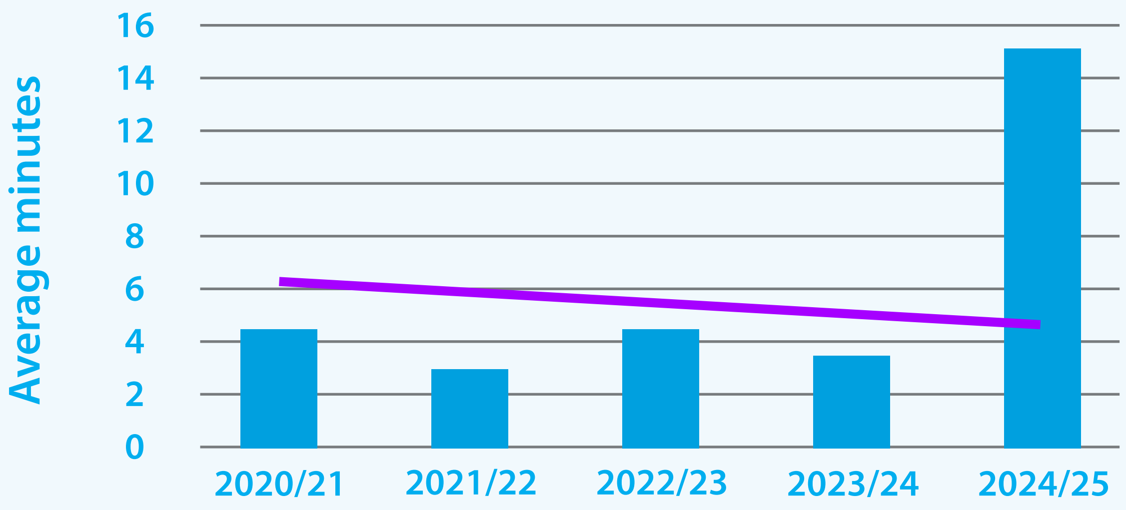
What we are measuring

The average minutes of interruption each property experiences for interruptions of three hours or more.

Unit of measurement

Average interruptions in minutes and seconds.

How we have performed



This commitment measures the average amount of time our customers are without water in an event of three hours or more in duration. So, it is a measure of the reliability of our water supply to customers. This is a high priority for them and when unplanned supply interruptions occur, our aim is to return their supplies to normal as quickly as possible.

We have previously been one of the best performers in the water sector for supply interruptions. But a small number of significant bursts in our South Staffs region in early November 2024 has had a negative impact on our performance. This caused us to substantially miss our target for the year, resulting in us exceeding the penalty collar for the first time and incurring the maximum penalty for this measure.

Maintaining a reliable supply – severe supply restrictions

Common or bespoke performance commitment: **Common**

Target met: **Yes**

What we are measuring

Customers at risk of severe supply restrictions in a 1-in-200-year drought scenario.

Unit of measurement

Percentage of customers at risk.

How we have performed

This measure is an indicator of risk to the supply of water to customers under a defined 1-in-200-year drought scenario. We assess this risk in our water resources planning and report on it through this measure each year.

As a measure of risk, the performance reported is not something that directly impacts customers (unless the event actually happens, which it has not). The level of risk is influenced by the plans we have for dealing with water scarcity, leakage and customer demand.

Based on the plans and measures we have delivered during the five years to 2025, the risk level to customers from this performance commitment currently remains at zero. This is the level we planned for in the 2019 water resources management plans for our Cambridge and South Staffs regions and is based on us delivering all approved schemes. We will continue to monitor this in the five years to 2030.

Reducing the number of water production failures

Common or bespoke performance commitment: **Common**

Target met: **Yes**

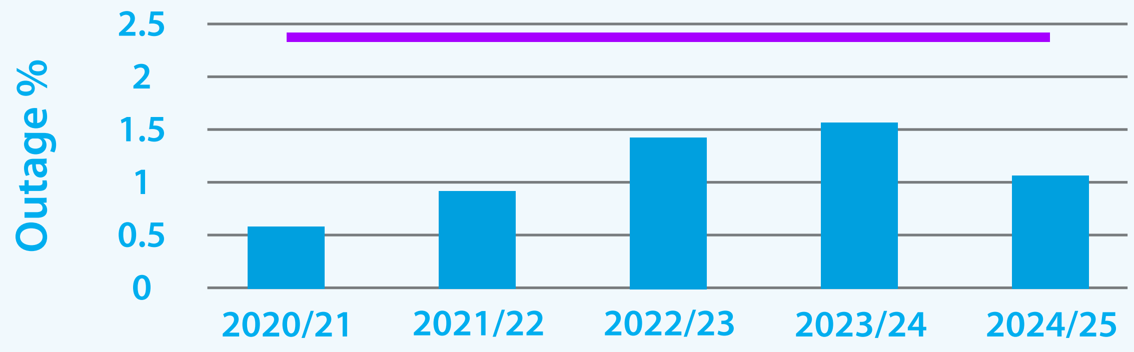
What we are measuring

Water production capacity lost through unplanned outage.

Unit of measurement

Unplanned outage as a percentage of total production capacity.

How we have performed



We measure unplanned outage to indicate the health of our water production assets. These include the pumps, electrical equipment and treatment works we use to treat, store and supply water to our customers.

It is normal that we have a small level of unplanned outage. All equipment fails periodically, and we have many mitigations in place to ensure customers are not normally impacted when this happens.

We have outperformed this target in every year of the current planning period.

Finding and fixing visible leaks more quickly

Common or bespoke performance commitment: **Bespoke**

Target met: **No**

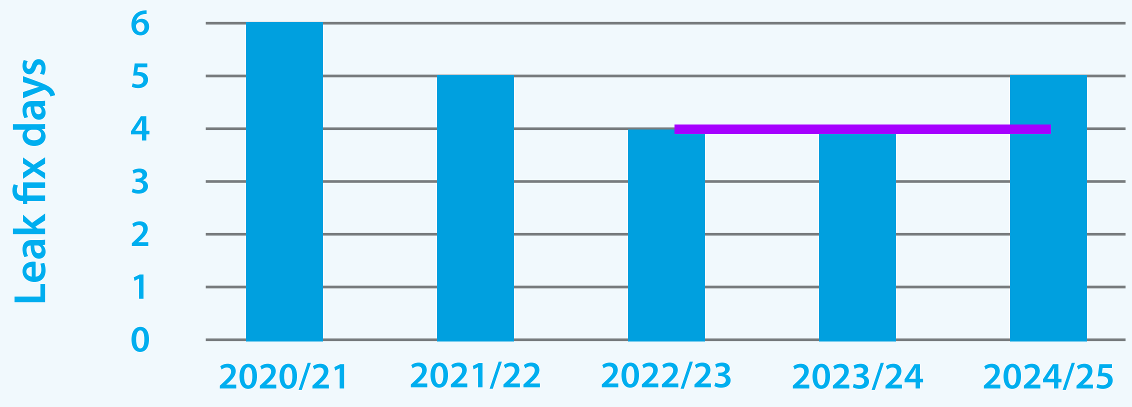
What we are measuring

The number of days we take to repair 90% of visible leaks on our networks, measured from the time the leak is found or reported.

Unit of measurement

Percentage of visible leaks repaired within a set number of days.

How we have performed



We know how important it is for our customers – and for our business – that we reduce leakage levels on our networks of water mains and pipes. We have significant overall leakage reduction targets, which we report separately for our Cambridge and South Staffs regions.

But we also know that when customers see visible leaks in the road, and report them to us, they want to be sure those leaks are fixed quickly – even though they may be small in some cases.

With this target, there is always a potential risk to performance around weather-related events. In such instances, we can take a strategic decision to pause visible leak repairs to maintain supplies to customers as a priority.

We are disappointed to have missed this target during the reporting year, having met it in the previous four years of the current planning period.

Reducing the number of burst mains

Common or bespoke performance commitment: **Common**

Target met: **Yes**

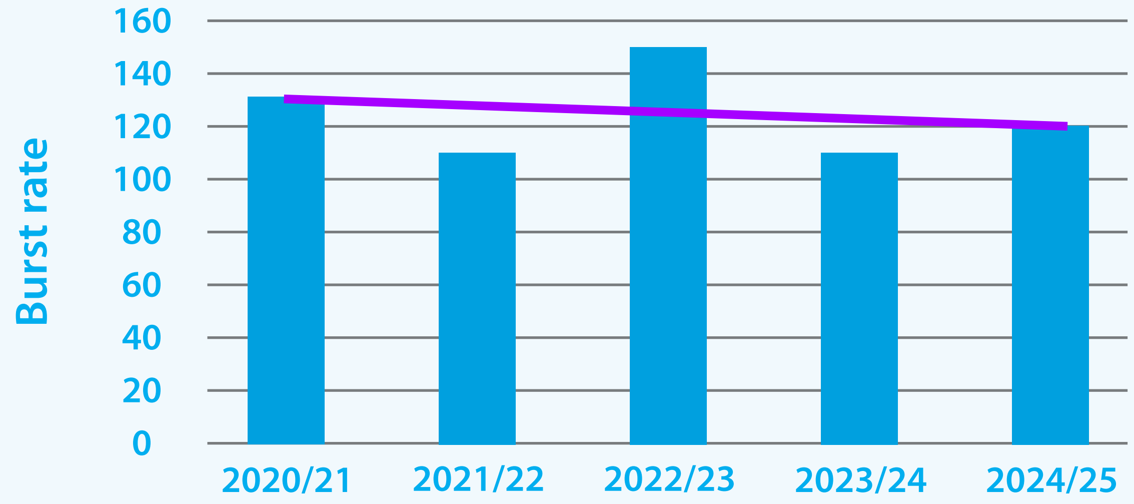
What we are measuring

The number of burst water mains on our networks in the Cambridge and South Staffs regions.

Unit of measurement

Number of bursts per 1,000 km of mains.

How we have performed



The number of burst mains we experience in any given year is an indicator of the health of the networks in our Cambridge and South Staffs regions. Over a long period of time, underground water mains can deteriorate and burst. Expressing the number of burst mains as a rate per 1,000 kilometres of pipe in our networks makes it easier for us to compare our performance with that of other water companies in the sector.

We track the number of bursts we experience over time to ensure these assets are not deteriorating at a faster rate than we are repairing or replacing them. This is to ensure we maintain a high level of supply reliability to our customers.

Mains bursts can be a volatile measure. This is because they can be sensitive to weather conditions – particularly high or low temperatures. These changes in weather can cause the ground to expand or contract, which can, in turn, cause mains to fracture.

Despite the small number of significant bursts we experienced in our South Staffs region during the winter months in 2024, as we have discussed elsewhere in this document, we ended the reporting year on target.

Delivering for the environment

Our environment promise

"We will protect the environment, reduce leakage, and support the building of water efficient homes"

Opportunities for water re-use: taking a collaborative approach

We have been collaborating with Anglian Water, Wessex Water and Water Resources East (WRE) as part of a working group to consider the opportunities for re-using water for non-potable – that is, non-drinking water – purposes. We have examined a wide range of sources, as well as the uses for and users of recycled water. As part of this work, we have drawn on national and international case studies to help us identify barriers and solutions – legal, financial, environmental and technological.

The main output of this work is a summary report, published just outside the reporting year in April 2025. This includes an analysis of the opportunities and constraints for water re-use projects, as well as recommendations for further work. The Environment Agency has considered the working group's findings and recommendations as part of its work to update the National Framework for Water Resources, which was published outside the reporting year in June 2025.

The summary report is also available to other water companies in the sector that are potentially considering water re-use schemes as alternative water sources. In addition, we think it would be helpful for the Government, regulators and other stakeholders involved in developing policy and supporting changes.

A key feature of the report is a water use hierarchy, which starts with managing the demand for water. Sitting beneath this is the need to maximise the re-use of existing water sources, before turning to using drinking water and abstracting from the environment. At the same time, it acknowledges that a combination of options may be required to meet the full non-potable water demand of end users.

The report also highlights some examples of water re-use schemes. These include:

- rainwater capture and harvesting, which entails collecting rainwater from properties, urban drainage systems and run-off from roads;
- localised building re-use, which means re-using water that has already been 'used' within a building, such as grey water and industrial effluent; and
- taking advantage of local water sources, such as the water from old mines.

For all these examples, a key consideration is the level of treatment required to ensure the water can be re-used for non-potable purposes.

The report also makes a number of recommendations to help facilitate the uptake of water re-use projects across the sector.

We will continue to contribute to this work through the National Framework for Water Resources non-potable re-use working group.

Reducing leakage levels – Cambridge region

Common or bespoke performance commitment: **Common**

Target met: **Yes**

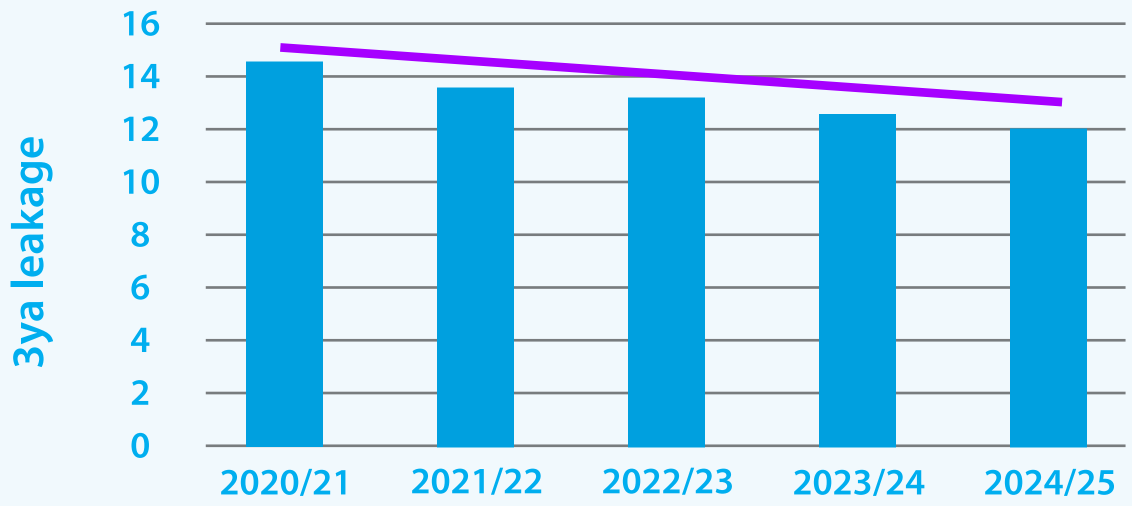
What we are measuring

Leakage levels in the Cambridge Water supply area.

Unit of measurement

Percentage reduction from baseline.

How we have performed



We measure leakage as a three-year average. This is to smooth out the volatility that weather can cause. We are pleased to have met our leakage target in our Cambridge region. This is despite seeing a rise in leakage levels in the autumn and winter.

Looking ahead to the five years to 2030, Ofwat has allowed us funding to drive our leakage reduction work forward. Alongside this, we are continuing with our rolling mains replacement programme across the Cambridge region. We are replacing old mains on the network with new ones made of modern, high-performance materials that are less likely to fracture.

Reducing leakage levels – South Staffs region

Common or bespoke performance commitment: **Common**

Target met: **No**

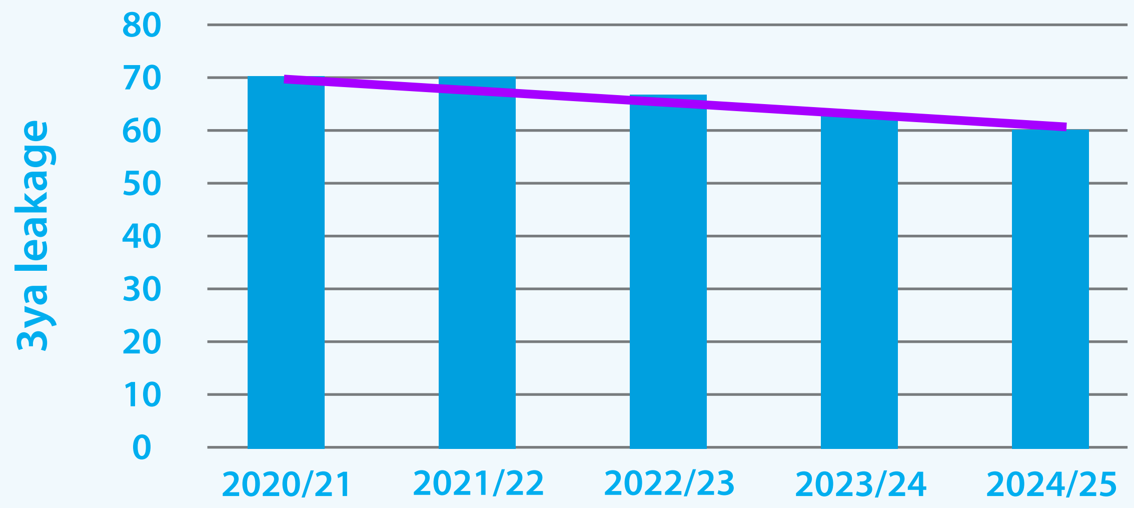
What we are measuring

Leakage levels in the South Staffs Water supply area.

Unit of measurement

Percentage reduction from baseline.

How we have performed



We measure leakage as a three-year average. This is to smooth out the volatility that weather can cause. We have not met our leakage target in our South Staffs region following a number of freeze-thaw events over the winter. In addition, the significant bursts we experienced in Wednesbury, Tipton and Bloxwich in early November 2024 also contributed to us just missing this target and ending the year in a penalty position for this measure.

Looking ahead to the five years to 2030, Ofwat has allowed us funding to drive our leakage reduction work forward. Alongside this, we are continuing with our rolling mains replacement programme across the South Staffs region. We are replacing old mains on the network with new ones made of modern, high-performance materials that are less likely to fracture.

Making small changes to deliver a big impact

In last year's annual report and financial statements, we shared information about our award-winning 'Can for the Cam' campaign.

Building on the success of this, we launched a supplementary campaign during the reporting year called 'Yes we Cam'.

The aim of this campaign was to encourage customers to make small changes in their water use behaviour to make even greater water savings – helping to protect the rare chalk stream habitats that are a feature of our Cambridge region.

At the heart of the campaign was a call for collective action, with six pledges for customers to sign up to and the offer of a free visit by a plumber to fix any 'leaky loos'. These pledges included things like showering for two minutes less than normal and running a washing machine on eco mode.

A key message for us during the campaign was that if we all used less water each day, more would be left in the environment for the benefit of the chalk streams.

Research carried out by our independent partner Explain showed that awareness of our campaign among customers was high and that they had understood its overarching aim to encourage water conservation. This is something we will build on for the future.

Reducing how much water each person uses – Cambridge region

Common or bespoke performance commitment: **Common**

Target met: **Yes**

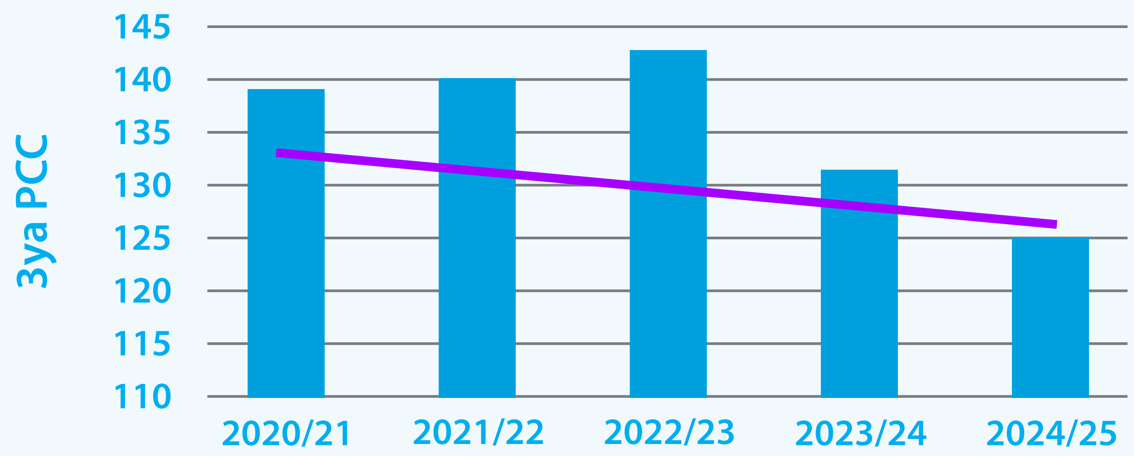
What we are measuring

The average water consumption by individual household consumers in the Cambridge Water supply area (per capita consumption, or PCC).

Unit of measurement

Percentage reduction from baseline.

How we have performed



PCC is measured as a three-year rolling average. Because water consumption in our Cambridge region rose significantly between 2020 and 2022 compared with pre-pandemic levels, we have not met our target in the first four years of the 2020 to 2025 period.

So, we are delighted to report that we outperformed against our target during the reporting year. This reflects the work we have done through our 'Can for the Cam' and 'Yes We Cam' campaigns to encourage behavioural change among our customers.

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Reducing how much water each person uses – South Staffs region

Common or bespoke performance commitment: **Common**

Target met: **No**

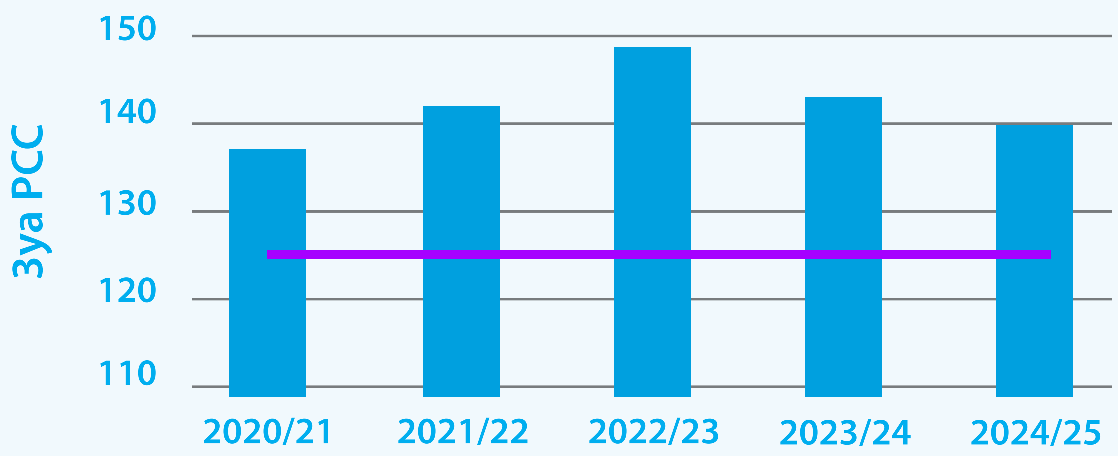
What we are measuring

The average water consumption by individual household consumers in the South Staffs Water supply area (per capita consumption, or PCC).

Unit of measurement

Percentage reduction from baseline.

How we have performed



PCC is measured as a three-year rolling average. Because water consumption in our South Staffs region rose significantly between 2020 and 2022 compared with pre-pandemic levels, we have not met our target in the first four years of the 2020 to 2025 period.

While PCC in our South Staffs region has fallen since 2022/23, we have still underperformed against our target during the reporting year. We think our universal metering programme will help us with this measure. This is because it will give our customers the power to control how much water they use.

Not taking too much water from environmentally sensitive sites

Common or bespoke performance commitment: **Bespoke**

Target met: **Yes**

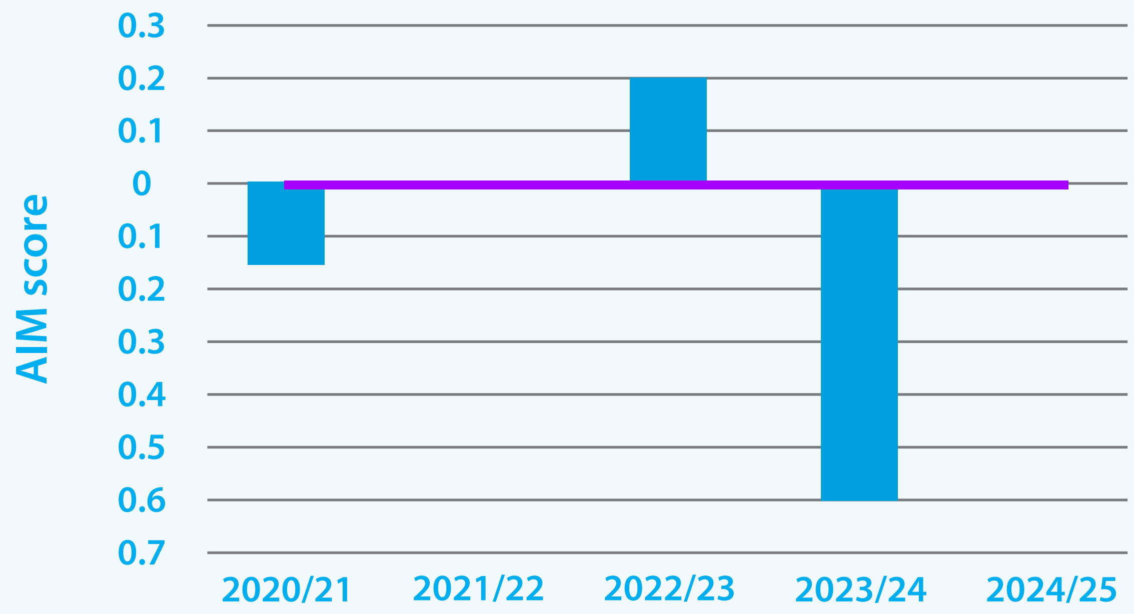
What we are measuring

Our compliance with pre-defined water abstraction thresholds for our designated Abstraction Incentive Mechanism (AIM) sites in our Cambridge and South Staffs regions.

Unit of measurement

AIM score.

How we have performed



The AIM is a composite score of under- or over-abstraction from a specific set of groundwater sources where local water courses have been identified as being at risk of over-abstraction.

We have one active AIM site in our Cambridge region. We carefully monitor the volumes of water we take ('abstract') from this site. When there is a low flow trigger on the local water course, we measure how our abstraction during this period compares with our allowed levels. We did not trigger AIM at this site during the reporting year.

Delivering our WINEP requirements

Common or bespoke performance commitment: **Common**

Target met: **No**

What we are measuring

Delivery of our obligations under the Environment Agency's Water Industry National Environment Programme (WINEP).

Unit of measurement

Milestones set by the Environment Agency.

How we have performed

We have continued to progress with our WINEP obligations, liaising with both the Environment Agency and Natural England, where relevant. This includes working on WINEP schemes across our Cambridge and South Staffs regions to:

- enhance biodiversity;
- remove invasive non-native species; and
- protect key habitats.

It also includes work we have carried out to ensure sustainable abstractions for the long term across both regions.

We did not deliver five of our agreed WINEP schemes during the reporting year – three in our Cambridge region and two in our South Staffs region. This was because:

- the Environment Agency considered we did not fully meet the requirements in relation to our work with farmers in the Lower Blithe catchment;
- we overlooked the installation of an eel pass at one site, meaning we missed the window to complete the work; and
- we missed an engagement target for some of our catchment work.

We are working with the Environment Agency to agree the requirements for signing off these outstanding schemes.

Protecting wildlife, plants, habitats and catchments

Common or bespoke performance commitment: **Bespoke**

Target met: **Yes**

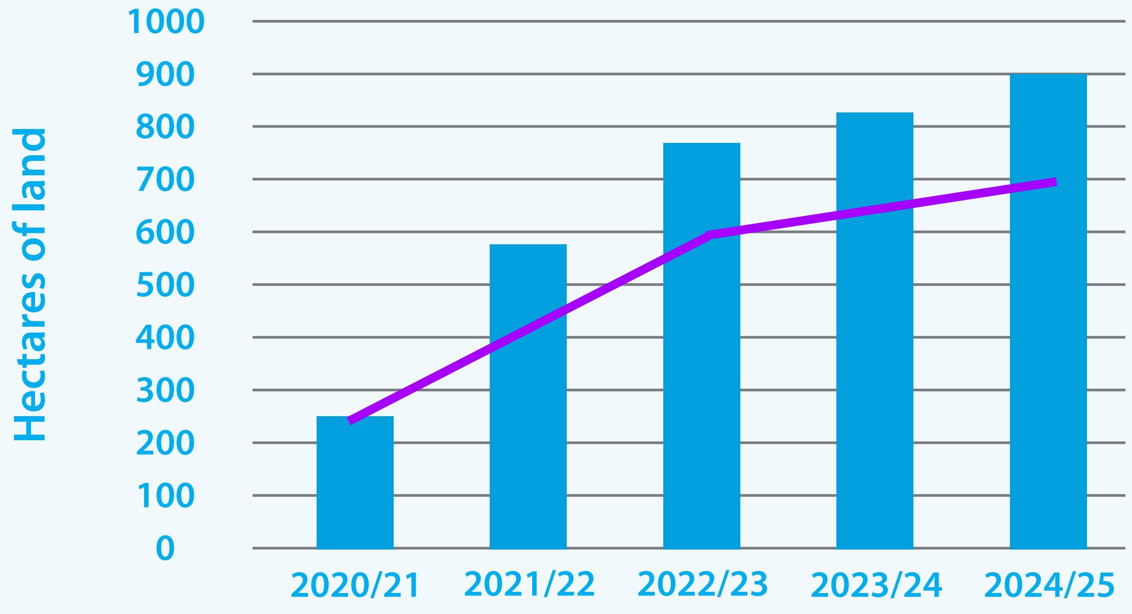
What we are measuring

The area of land that we manage actively in our Cambridge and South Staffs regions to protect wildlife, plants, habitats and catchments.

Unit of measurement

Hectares of land managed.

How we have performed



We have significantly increased the area of land we manage for biodiversity in each year of the 2020 to 2025 period. And we are delighted to have again outperformed our target in this area during the reporting year.

We have continued with our SPRING catchment management programme across both regions. And we have built on the increasing popularity of biodiversity enhancement measures within agriculture. Through SPRING, we have supported a range of measures, including flower-rich margins, beetle banks and planting wild bird or pollen-rich seed mix. We have also funded buffer strips, field margins and under sowing of crops, which also have soil health and nutrient benefits.

In addition, we have made sure that habitats on our Sites of Special Scientific Interest (SSSIs) remain in a favourable condition for the target species, such as wading birds. And we have continued to provide biodiversity and community benefits through our PEBBLE fund. This includes funding projects to protect and enhance chalk streams, create wildlife and community gardens, and to support natural habitats.

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Supporting water efficient house building

Common or bespoke performance commitment: **Bespoke**

Target met: **Yes**

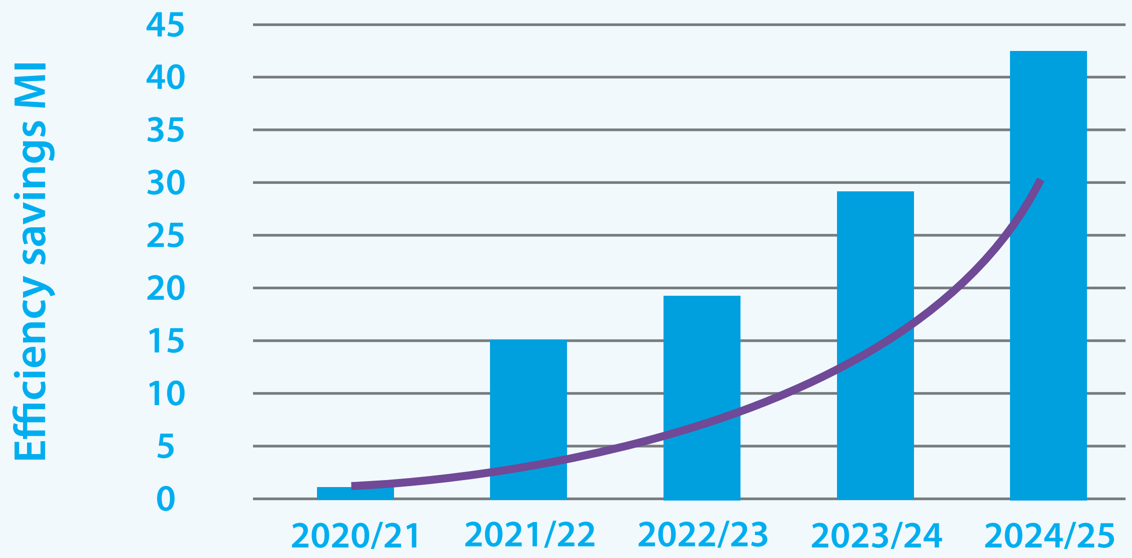
What we are measuring

The volume of water saved from new residential properties being built to HQM or BREEAM standards, and which meet a water efficiency level of 100 litres per person per day (l/p/d).

Unit of measurement

Volume of water saved in megalitres. (Note: a megalitre, or Ml, is one million litres.)

How we have performed



As well as providing targeted water efficiency programmes for household customers in our Cambridge and South Staffs regions, we also work closely with housing developers to incentivise them to design new dwellings to improved water efficiency standards. We do this by offering financial incentives to developers adopting the HQM or BREEAM 100 l/p/d standard.

We have performed ahead of our target for four out of the five years in the planning period to 2025. For the reporting year, we saved more than 42 Ml of water through this measure.

Reducing our carbon emissions

Common or bespoke performance commitment: **Bespoke**

Target met: **Yes**

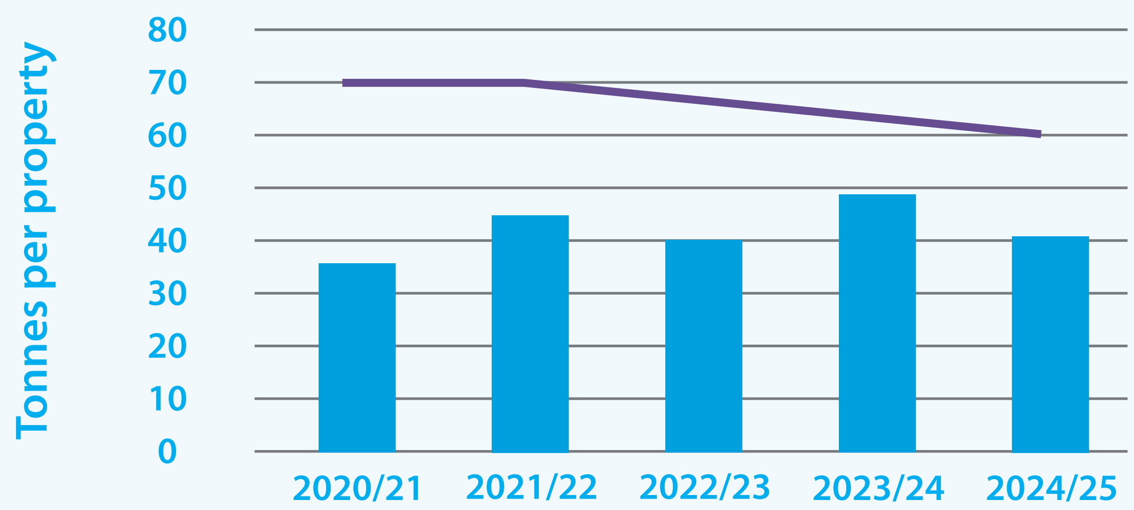
What we are measuring

The amount of operational carbon emissions from our operations, per connected property.

Unit of measurement

Kilograms per connected property.

How we have performed



We operate an energy-intensive business, and use large amounts to enable us to abstract, treat and pump water from source to tap. We are committed to reducing our carbon footprint wherever possible so that we can play our part towards achieving the water sector's ambitious net zero goals.

We are pleased to report that we have outperformed our target in every year of the 2020 to 2025 period. During the reporting year, we saved nearly 42 kg of carbon per connected property. Initiatives such as a green energy purchase scheme, small-scale solar generation and energy efficiency improvements across our asset base have helped us to achieve this.

In future, we intend to go further by continuing to reduce our emissions, and by making sure the energy we use in our operations is sourced as cleanly as possible.

Delivering for our business

Our business promise

“We will run an efficient business with happy employees, where our suppliers are treated fairly”

Enhancing our approach to water quality

To ensure water quality remains a top priority and continues to improve for our customers, we have introduced a new Network Scientist role within our Water Quality team. The role has been key in helping us to serve our customers better by enhancing our water quality monitoring and optimising our processes. It has also helped to ensure we assess risks to customers from source to tap.

Our customers rely on us to always provide consistent and safe water quality. Maintaining the highest standards in a complex clean water distribution system can be challenging. In the past, while our Water Quality team was highly effective in monitoring and managing water quality, we recognised the need to improve our understanding of our network performance. We also recognised the need to proactively address risks in the system, such as water travel time through our network and lead in customers’ supply pipes.

The Network Scientist’s job is to carry out network modelling, data analysis and cross-sector benchmarking to better understand how water quality is impacted by changes in the water distribution network. The addition of this role within the team has given us a more scientific, data-driven approach which perfectly complements the team’s operational experience. For example, by using sample data and analysis, the Network Scientist is able to risk assess where water quality issues might arise. This enables us to take action such as proactive mains flushing to prevent water quality concerns from arising.

Looking ahead, our Network Scientist will use the data analytics we have installed in our distribution system to monitor water quality at different points in the network. This will allow the wider Water Quality team to identify potential issues, such as contamination or pressure changes, before they impact customers. With a dedicated focus on water quality from both an operational and scientific perspective, we are able to implement continuous improvement practices. This ensures the water we supply to our customers always remains at the highest standard.

Treating all our suppliers fairly

Common or bespoke performance commitment: **Bespoke**

Target met: **No**

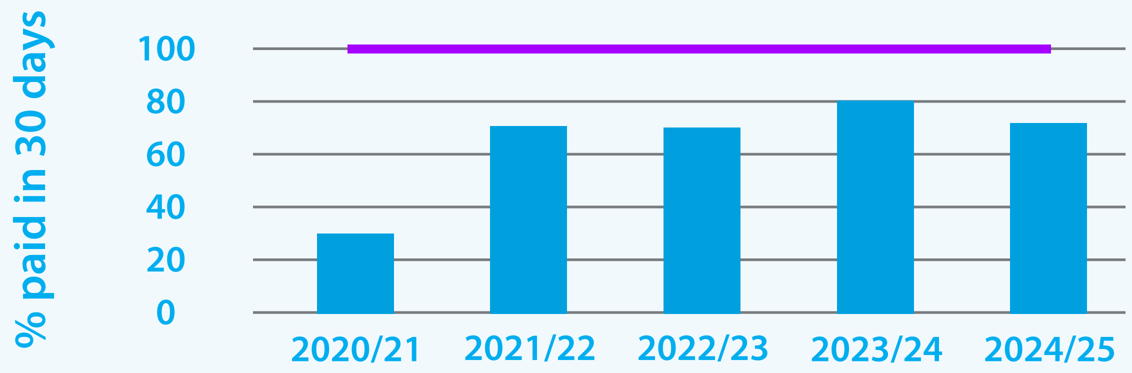
What we are measuring

Making sure we pay small businesses within 30 days as a signatory of the Prompt Payment Code.

Unit of measurement

Percentage of small businesses paid within 30 days.

How we have performed



We value the vital services many of our small suppliers provide to us. We also recognise that small suppliers often have a greater need for reliable cash flows and that they can be more affected by payment delays.

In our business plan for 2020 to 2025, we committed to improve the speed of payment transactions to our small suppliers, by aligning our payment periods to the 30 days required by the Prompt Payment Code. We also committed to signing up to the code.

During the current planning period, our performance in this area has been mixed. In the reporting year, we paid 71% of our small supplier invoices within 30 days – a dip on the previous year. We have been exploring ways to address this underperformance. For this reason, we have not yet become a signatory to the Prompt Payment Code.

Making sure our property records are up to date

Common or bespoke performance commitment: **Bespoke**

Target met: **Yes**

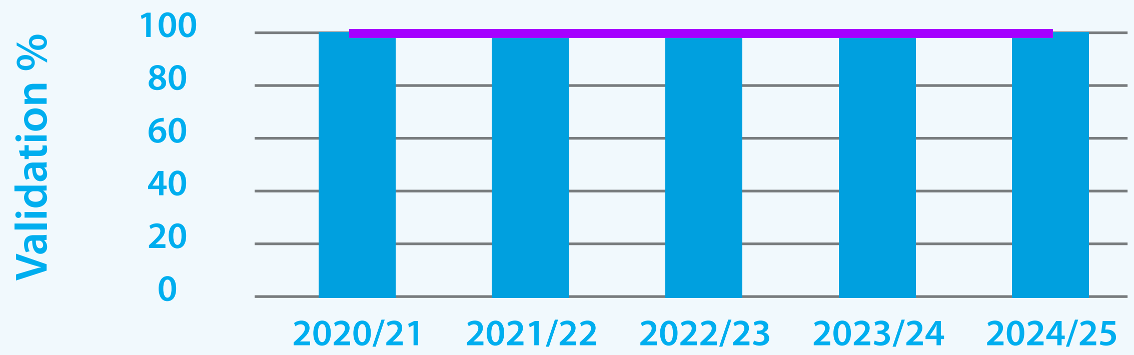
What we are measuring

The proportion of residential void properties we have validated and completion of gap site identification activity.

Unit of measurement

Percentage of properties validated.

How we have performed



It is important to us and our customers that everyone who should be paying a water bill is doing so. Void properties are those properties that are empty and are not charged. It is crucial these records are accurate, so that we can ensure bills are fair for all customers.

To do this, we validate all our void properties each year to check their status is still valid. Our target is to validate 100% of void properties (shown as a **purple** line). We have achieved this target every year during the current planning period.

We also look for 'gap sites', which are properties that do not appear on our records at all. During the reporting year, we did not find any gap sites.

Reducing our levels of bad debt

Common or bespoke performance commitment: **Bespoke**

Target met: **Yes**

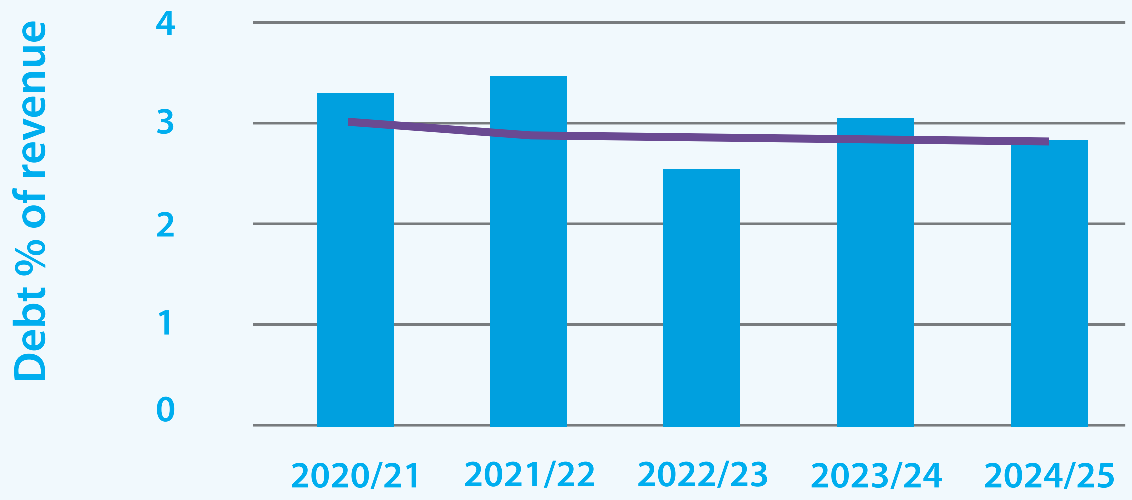
What we are measuring

The level of bad debt charge that we incur each year in the Annual Performance Review, expressed as a percentage of total revenue.

Unit of measurement

Bad debt as a percentage of revenue.

How we have performed



Controlling levels of bad debt is essential if we are to ensure fair charging for all our customers. So, it is vital that we collect all the revenues due to us to ensure we can run our operations and maintain our assets for the long term.

In our business plan for 2020 to 2025, we set ourselves a target for bad debt as a proportion of revenue from household customers. We are pleased to have met this target during the reporting year, having just missed it in the previous year.

We are working hard to improve our ability to collect the money we are owed from customers. This includes helping those in vulnerable circumstances with additional support options, including our new Assure Essential Saver tariff.

Making sure all our people love their jobs

Common or bespoke performance commitment: **Bespoke**

Target met: **No**

What we are measuring

Achievement of Investors in People (IIP) accreditation and an annual employee survey.

Unit of measurement

Net Promoter Score (NPS)/achieving IIP accreditation.

How we have performed

A key focus of our business plan for 2020 to 2025 was our desire to make working for South Staffordshire Water a rewarding experience for all our people. We think this is something to which every business should aspire. To demonstrate our commitment to this, we set ourselves a target to improve our NPS over the current planning period, based on our regular employee surveys, and also to achieve IIP accreditation.

The scope of this target has changed over the course of the five years to 2025. For example, having achieved IIP accreditation at the Standard level in 2020/21, we decided not to renew it during the reporting year.

Instead, we have worked with the wider Group to implement a range of different approaches to engaging our people. This includes implementing a new people strategy across the business, monthly vlogs from the Managing Director and the introduction of new networking groups. It also includes the introduction of an annual Group-wide engagement survey.

In addition, we have a People Forum, which operates across our Cambridge and South Staffs regions. This is a committee of volunteers who constructively engage with the business on behalf of our people, regardless of where they work.

As well as being a channel for communication, our People Forum provides confidential support and advice for colleagues who may be experiencing problems during their normal working activities.

We will continue to build on these employee engagement approaches going forward.

Delivering our core outcomes

Our core promise

"We will provide value for money and maintain our customers' trust in us".

Delivering services that are value for money

Common or bespoke performance commitment: **Bespoke**

Target met: **No**

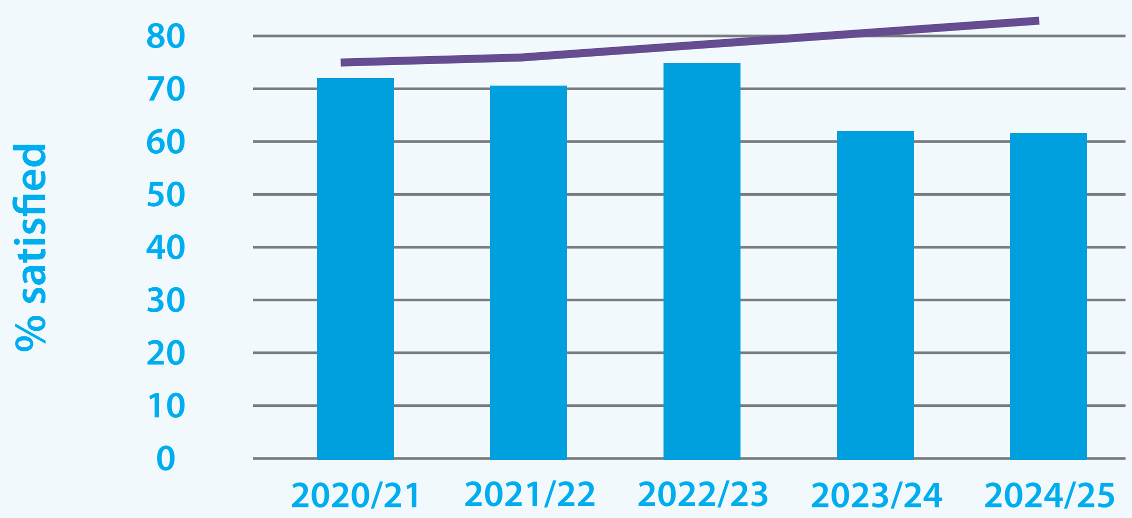
What we are measuring

Customers' satisfaction with our value for money, using a combination of our own tracker survey and a survey carried out by CCW, the consumer watchdog.

Unit of measurement

Percentage of satisfied customers.

How we have performed



In 2019, we set ourselves very challenging targets for customers' perception of the value for money of their water bills. We required more than 80% of our surveyed customers to be 'satisfied' or better with the level of service they receive from us.

We are disappointed that we have not managed to reach this target at all during the 2020 to 2025 period. We think there are a number of reasons for this – not least some of our own behaviours in our communications and customer-facing activities. We will continue to strive to provide services that represent good value for money for all our customers.

Making sure customers have a high level of trust in us

Common or bespoke performance commitment: **Bespoke**

Target met: **No**

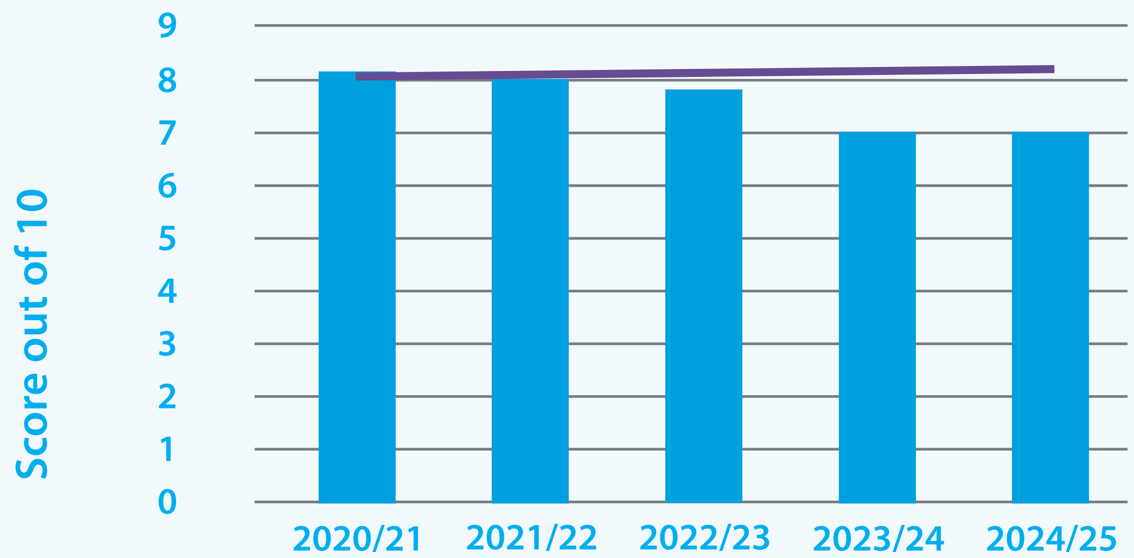
What we are measuring

The level of trust our customers have in us, using a combination of our own tracker survey and a survey carried out by CCW.

Unit of measurement

Score out of 10.

How we have performed



Similar to our value for money commitment, we set ourselves very challenging targets for customers' perceptions of trust for the five years to 2025.

Again, we are disappointed to see a deterioration in this metric in recent years. This is despite meeting our target in 2020/21.

As well as factors within our control, which we are continuing to address, our research suggests wider economic factors and continued negative perceptions of the water sector are helping to drive the decline in our trust scores. We are seeing this in our own surveys and those of CCW.

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Developing a culture of innovation

As one of the smaller companies in the water sector, we pride ourselves on being agile enough to seize innovative opportunities when they arise – turning good ideas into a reality for our customers, our communities and the environment.

Our approach to innovation

We also recognise that because of our small size and resource capacity, our overall approach to innovation has been that of a 'fast follower'. This has meant learning from research, actively participating in sector-wide and other collaborative forums and taking the lead in areas where we know we can drive the sector forward.

In addition, we think that being part of a larger Group is a benefit for us. This is because it enables us toleverage growth and partnership opportunities with other organisations outside of the water sector.

A key challenge for us moving forwards is to build a strong culture of innovation and partnership working within our business. During the reporting year, we reviewed our approach to innovation, building on the work we have carried out to date. This includes considering new ways of working.

Ofwat's Innovation Fund

In 2020, Ofwat launched a £200 million Innovation Fund to help grow the water sector's capacity to innovate over the five years to 2025

Since its launch, funding has been awarded to 109 projects involving almost 300 partners from within and outside the water sector.

Previous winners have included projects to deliver no-dig leak repair technology; citizen science initiatives; partnerships to help communities adapt to increased rainfall; and our own project exploring water efficiency in faith and diverse communities .

Ahead of the new five-year planning period to 2030, Ofwat has doubled the size of the Innovation Fund to £400 million.

This funding will be available through the annual Water Breakthrough Challenge, which focuses on innovative ideas from water company-led consortia, and the Discovery Challenge stream, which seeks groundbreaking ideas from companies outside the water sector.

Three new funding streams will also be launched to support the implementation and scaling of successful innovations.

Developing an innovation strategy

At the time of writing, we were laying the foundations for a more long-term innovation strategy for the business. This encompasses the following work programmes.

Carrying out an innovation maturity assessment

This is to help us to understand our current maturity, skills, capabilities and capacity. The aim is to ensure we always follow best practice in innovation management and implementation. It will also help us to determine where we are on the innovation 'curve' in comparison with other companies in the water sector. And it will help us to identify the key gaps and highlight recommendations for the business to carry forward.

Supporting the development of a long-term innovation strategy

We recognise the need to support the development of a 'fit for purpose', long-term innovation strategy to 2050. This will build on our maturity assessment and identify our key activities and areas of focus. As part of this, we will develop tangible targets to achieve over the medium to long term.

Peer reviewing innovation funding bids

With the growing funding opportunities emerging for the five years to 2030, we are looking to carry out an independent review of our innovation ideas and submissions. As part of this, we are exploring the need for a 'critical friend' to explore and challenge our thinking.

We will report on our progress against these work programmes in next year's annual report and financial statements.

Water efficiency in faith and diverse communities project

In May 2023, we were awarded £270,000 from Ofwat's Innovation Fund for a diversity-led water efficiency project. Our aim was to better understand how water is used and valued in different faiths and cultures within the communities we serve.

We discussed the launch of the project – and the associated water efficiency campaign in our Cambridge region – in more detail in last year's annual report and financial statements.

During the reporting year, we launched our second campaign for the project. This was aimed primarily at the South Asian communities in our South Staffs region.

For this campaign, we produced a series of videos to encourage customers to save water when washing rice. Rice is a staple food in many South Asian cultures, and it is common practice for families to wash rice between five and nine times before it is cooked. We estimate this practice can use around seven litres of water.

We identified that there was an opportunity to encourage customers to save around five litres of water by using less when washing rice. And that there were other opportunities to be gained by using the water left from washing rice to water plants or for beauty purposes – as a hair mask or facial spritz, for example.

As with our previous campaign, launched in partnership with Cambridge Central Mosque, we were very keen to work with a 'trusted' voice in the South Asian community to help deliver our central water efficiency message. We were able to bring 2014 MasterChef winner Ping Coombes on board to front the campaign, along with gardening and beauty experts Emma O'Neil and Sonia Haria. This enabled us to create content with a broad appeal, while recognising the cultural significance of washing rice among South Asian communities.

The campaign ran for five months during the reporting year. During that time, the videos we produced were viewed more than one million times. And we estimate that we saved around 55,000 litres of water as a direct result of the campaign.

As well as the videos, we also used 'word of mouth' marketing approaches. This included working with local influencers and existing community structures to help us spread our water efficiency messages and encourage positive behaviour change.

A key output of the project was the development of a practical toolkit. This has been designed to help other water companies and water practitioners to develop robust water-saving behavioural change campaigns.

The toolkit is structured as a detailed six-step process, serving as a model for others to develop their own behavioural change campaigns. As well as providing a framework of useful templates, the toolkit also includes real examples to show how we took certain considerations into account and implemented some processes during the course of our own water efficiency in faith and diverse communities project.

"As a fast follower within the water sector, a key challenge for us is to build a strong culture of innovation and partnership working within our business"

In developing the toolkit, accessibility was a key objective for us. This is to ensure that as wide an audience as possible can engage with the content. So it uses clear, straightforward language and an organised layout to support ease of understanding and navigation. It also features a glossary, which includes the respectful language we used during the two campaigns.

We have taken the learning from this project into other innovation bids during the reporting year.

Building on our success

In December 2024, with the approval of the Board, we shortlisted three bids for round five of the Water Breakthrough Challenge. Just after the end of the reporting year, we were delighted to learn that two of our bids had been successful. We are the lead partner for both of these projects, which we outline below.

Recovering energy from water

We have secured £1.44 million in funding for a project to design and test a groundbreaking solution that safely and reliably removes heat from the water held in large pipes and delivers it to buildings in the form of renewable energy.

Our partners for this project are:

- fellow Group company OnSite;
- the University of Cambridge;
- engineering consultants WSP;
- air conditioning and HVAC manufacturer Carrier;
- Affinity Water; and
- South West Water.

As part of the project, experts and academics will research solutions that use existing infrastructure. The aim is to deliver public value beyond just supplying water. We consider that any community building or amenity in close proximity to large water pipes could potentially benefit from this research. As a result, we think there are potential advantages from this project for customers, the environment and our commitment to net zero.

For this project, and the one below, our knowledge sharing partner is Spring Innovation, which brings together stakeholders to deliver sustainable outcomes for water customers and the environment.

We will be working closely with Spring for the duration of both projects to ensure we are sharing our learning and key findings in a timely way for the benefit of the wider water sector. We are also continuing our membership of Spring for another three years to help us build and support our open data strategy in line with the wider sector and Ofwat's expectations.

Space Eye: Quub satellites

We have secured £1.314 million in funding for a project that aims to transform the use of satellite technology and space science in the sector. This includes the design, launch and operation of micro satellites to provide updated imagery of the entire UK water pipe network every few hours.

This will enable water companies to identify and locate leaks quickly and track both water wastage and water quality. At the heart of the project will be innovative machine-learning algorithms combined with data science. This will give companies rich insights that will help to inform their decision-making.

Our partners for this project include:

- satellite data start up Quub;
- the University of Wolverhampton;
- SES Water;
- Northumbrian Water;
- Dŵr Cymru Welsh Water;
- South East Water;
- Scottish Water; and
- United Utilities.

Young Innovators' Panel: providing valuable insight for our water efficiency in faith and diverse communities project

We first launched our Young Innovators' Panel in our South Staffs region in 2018. Since then, we have invited groups of young people aged between 16 and 19 from across our Cambridge and South Staffs regions to join the panel and help us solve some real-world business challenges. The philosophy behind our Young Innovators' Panel model is to bring the views of future customers into the heart of our business.

The approach we took for this year's panel was slightly different from that taken previously, as it formed part of our water efficiency in faith and diverse communities project. We also had a specific objective for the panel to help us deepen our understanding of how South Asian cultures use water to grow, prepare and cook food, and then wash and clean up afterwards.

The panel comprised nine young people under the age of 22 from across our Cambridge region. A requirement this time was for panel members to have a connection to South Asian or Indian sub-continent culture, either through personal experience or an interest through friends or family, and to have a view of how culture and faith helps to shape water use in these communities.

As well as an initial online briefing seminar, panel members were given a number of pre-task activities before convening for a full-day workshop at our Cambridge office in July 2024. This included team exercises and a roundtable discussion with some of our people. For the team exercise, we asked panel members to devise a strategy to promote best practice for water use among South Asian communities.

The panel delivered a number of key findings and a range of valuable insight. This helped to inform our project as it gave us a deeper understanding of the cultural significance associated with traditional cooking methods, and the best way to engage with customers about this. We also learned more about the need to be respectful and inclusive when focusing on specific culture or faith-based behaviours – as well as the need to lead with best practice behaviours supported by motivation and reasoning.

We will continue to develop our Young Innovators' Panel approach, as the insight into the expectations of future customers is invaluable for our long-term business planning.

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Our people

Our people are at the heart of our business. We recognise the critical role they play, and we take our duties towards them seriously.

This means actively encouraging a fair and equitable working environment that enables them to perform to the best of their abilities at all times.

We also make sure we protect their health and wellbeing and do everything we can to minimise the risk of harm.

Our people promises

During the reporting year, we worked closely with other Group companies to develop a set of 'people promises'. These reflect what our people have told us is important to them, including in terms of:

- reward and recognition;
- fostering an inclusive and values-led culture across our business;
- ensuring effective communication and engagement; and
- providing growth and development opportunities for all.

We think our people promises help us to create a working environment where everyone can thrive and contribute to our success. This is especially important as we turn our attention to delivering our ambitious plans for our customers, our communities and the environment over the five years to 2030.

We inform, connect and engage through effective communication

We recognise and reward our people fairly

Ours is an inclusive and values led culture

We provide opportunities for growth and development

For each of these promises, we have made a number of commitments to our people. We outline these below.

Engaging through effective communication

- We will provide clarity on **strategy and how we are performing** through regular updates, so everyone understands how they contribute.
- We will help all our people managers to **build their communication skills** through training and communications tools, so all our people feel informed and engaged.
- We will tailor our approach to **better meet the communication needs** of our people who work remotely by expanding our communication channels.
- We will **foster a collaborative culture**, with cross-functional teams to work on projects and secondment opportunities.

An inclusive and values-led culture

- We will provide an **effective onboarding process** for people joining the business, giving them the necessary information and tools to ensure success.
- We will work with other Group companies to **launch and promote new employee networks** to support an inclusive culture.
- We will **embed our values** into performance discussions, so we drive the right behaviours.
- We will encourage everyone to **take ownership of health and safety** through the Group's 'Staying Safe Together' strategy.
- We will **support mental health in the workplace**, driving positive health and wellbeing among our people.

Recognising and rewarding our people fairly

- We will **provide a great range of benefits** that are understood and easily accessible.
- We will **recognise our team members** who take the lead in living our values through the Group's Value Recognition Scheme.
- We will **embed a culture of appreciation** – we believe a meaningful 'Thank you' goes a long way.
- We will **celebrate key milestones** (passing probation, length of service and promotions) by making sure these are recognised in writing by leaders.

Providing opportunities for growth and development

- We will **support our people** to grow in their current role and develop their future careers with us – for example, through career planning conversations, apprenticeships and professional development opportunities.
- We will integrate a new **behavioural framework based on our values** as a way of enhancing our leadership and management development programmes.
- We will **embed feedback and performance reviews** using training and a consistent approach. This is so all our people have the capability and confidence to deliver great outcomes for our customers, our communities and the environment.

Expectations of our leaders and our people

Our leaders across the business are the custodians of our people promises. So, we expect them to:

- communicate the promises clearly during their regular interactions with colleagues across the business;
- lead by example;
- listen to and support colleagues, acting as a proactive advocate for our wider teams; and
- share resources, directing colleagues to things like employee booklets, posters and policies.

For our people, our expectation is that, among other things, they will:

- embrace our values;
- pursue opportunities for growth and development;
- collaborate with and support each other;
- always prioritise health and safety; and
- champion inclusivity.

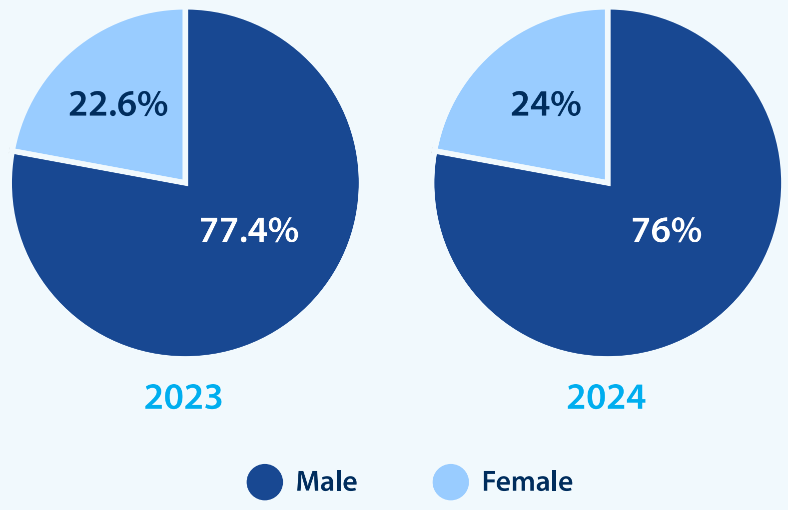
We will keep our people promises under review to ensure they are always reflective of our values and our commitment to being a purpose-led organisation.

Gender, equality and diversity

As an employer with more than 250 employees, we are legally required to publish gender pay gap data in accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017. These regulations require us to report on our gender pay gap each year – in this case, for the 'snapshot' date of 5 April 2024.

For the first time, we published this information at a Group level during the reporting year, alongside three other subsidiary companies. As one of the smaller water companies in the sector, we recognise the collective value of this approach. This is because it enables us to compare our results internally with other Group companies, but also with the national gender pay gap picture.

On our snapshot date, we employed 403 people across our Cambridge and South Staffs regions. This represents a slight increase on the previous year (397). Overall, our gender workforce split is 76% male and 24% female. This is a slight improvement on the previous year (77.4% male and 22.6% female, respectively).



Most of our people are employed in our wholesale function, including in the areas of water production and in our field-based operations.

Our gender pay gap

Our mean gender pay gap for the reporting year was 5.7%, a reduction from 6.7% the previous year. This means that, on average, our female employees earned 5.7% less than their male counterparts across the business. The narrowing of the pay gap indicates the continued progress we have made to reduce the disparity in average earnings between male and female employees over the reporting period. We are pleased that our mean gender pay gap is once again lower than the national average of 7%[1].

What is the gender pay gap?

This measures the difference, excluding overtime, between average hourly earnings of men and women as a proportion of men's average hourly earnings, expressed as a percentage of men's pay.

The gender pay gap is measured across all jobs in the UK. It does not measure the difference in pay between men and women for doing the same job.

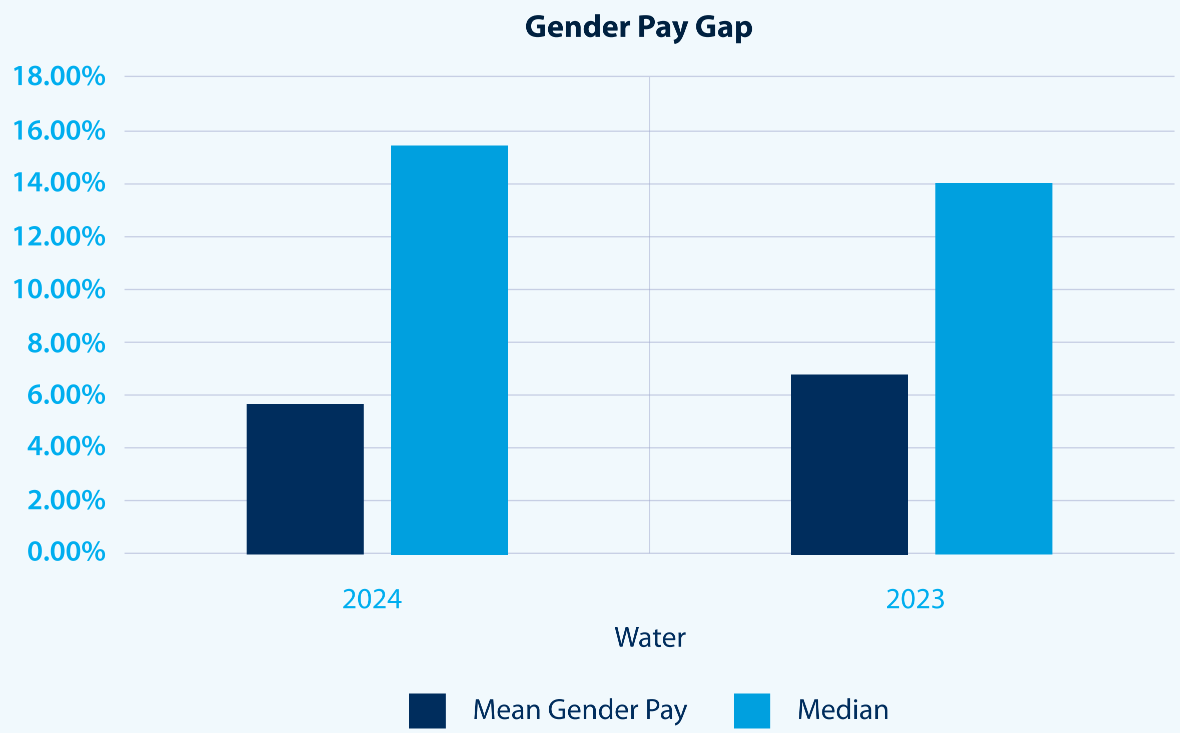
In the UK, the mean gender pay gap has been declining steadily over time. As of April 2024, it stood at 7%.

We use mean and median statistical values to measure our gender pay gap.

The mean value represents the difference between the average hourly pay for all men and women across the business. The median value represents the difference between the midpoints in the hourly pay ranges of all men and women across the business.

[1] 'Gender pay gap in the UK', Office for National Statistics, corrected 5 November 2024.

At the same time, our median pay gap rose to 15.7%, up from 14.2% the previous year. This marginal increase shows the impact that using different mathematical calculations can have. In practice, it highlights that the pay distribution range (from minimum to maximum) for our female employees was less in 2024. This demonstrates that we created less pay discrepancy among our female employees during the reporting year.



We remain committed to addressing the disparity in median earnings between male and female employees across our business. For example, we have more flexible working arrangements to support our people, accommodate diverse needs and actively promote a positive work/life balance.

We also remain committed to our ongoing efforts to further reduce the mean and median gender pay gaps – creating a workplace where all our people, regardless of gender or life stage, have equal opportunities and fair compensation.

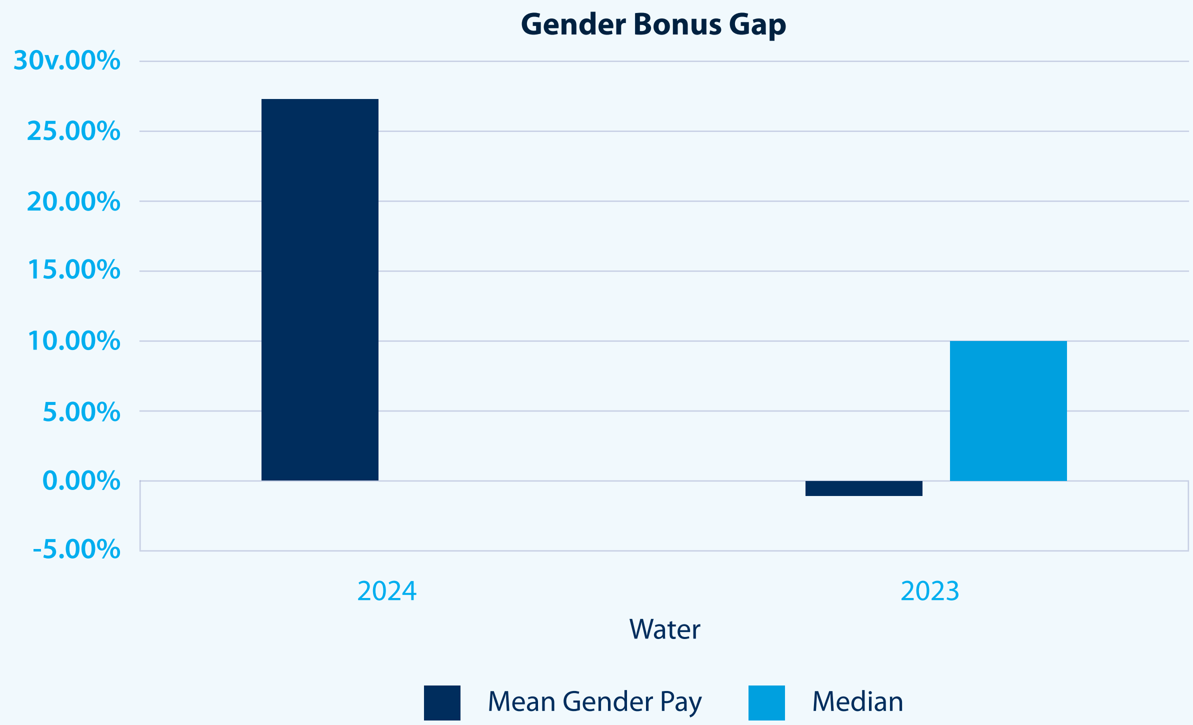
Our bonus pay gap

During the reporting year, our mean bonus pay gap was 28%, compared with -0.9% the previous year. This difference is because of a change in the number of people who received a bonus during the year. Across the business, 87.8% of men received a bonus compared with 74% of women.

What is the gender bonus gap?

This is the difference between the mean and median values of bonus pay for men and women across the business during the reporting year. It is expressed as a percentage of the bonuses paid to men.

Our median bonus pay gap has dropped back from 9.9% to 0%, which is where it stood in 2022.



We recognise the need to ensure bonuses are allocated fairly across our business. To that end, we link them to how we perform against our regulatory and other targets. This means they are measured objectively, irrespective of gender.

Looking to the future

Our focus for the year ahead is on enabling and empowering our people, making sure we have the skills we need to deliver our ambitious investment programme over the five years to 2030. This includes anticipating the skills we may need over the long term to reflect any changes in the way the water sector operates.

In addition, we will continue to work with the other Group companies to improve the data we capture, with particular reference to the diversity of our people. And we will continue to play an active role in our employee networks, supporting the launch of new groups to demonstrate our commitment to being an inclusive and values-led organisation.

Delivering impact with WOW

As a business that delivers an essential public service, we are always looking for ways to be more efficient and make our processes simpler and more effective. By doing this, we aim to deliver better value for our customers.

During the reporting year, we launched WOW – our Work-Out Workshops. This is a new initiative for us, which seeks to remove unproductive work from some of our business-as-usual processes. This means that any solutions are people led.

The main principle of the WOW method is to take work out of a process. This is set within the context of problem-solving workshops involving team members from across that process. It focuses on addressing operational and tactical issues to deliver quick, yet meaningful results. The approach enables those people who face business challenges every day to address them directly with decision-makers across the business.

We ran two WOW sessions during the year – one in October 2024 and one in January 2025. The first focused on our C-MeX performance, while the second focused on water production and maintenance. Following both sessions, we implemented some changes to our systems and processes.

These included changes that helped to reduce average customer hold times in our contact centre by around 13%. We have also trialled new technology to improve in-the-field connectivity for our Leakage team This has helped to reduce delays in some of our work processes. And we have uploaded household meter details to our GIS network, which has resulted in a quicker and more responsive service for our customers.

We are looking to hold more events like this in the future and will continue to adopt other approaches in the coming year – both from within and outside the water sector. This will ensure we deliver sustained improvements for our people, which also help to benefit our customers and wider society.

Engaging our people

Our people make our business. We recognise the part everyone plays to ensure we always deliver the services our customers expect and pay for. During the reporting year, we continued to make sure our people feel their voices have been heard and that their opinions are valued.

For example, we continued to expand the reach of our regular Executive updates, holding sessions not only at our offices but also at all key water production sites across both regions. These sessions are invaluable for us – they give our people the opportunity to hear from members of the Executive team directly and ask them questions in an informal setting.

We have found this to be an effective way for the Executive team to share updates and engage with the people involved in every part of the business.

One of the other ways we encourage engagement and foster a culture of community and wellbeing is through our People Forum. This is a committee of volunteers from across our Cambridge and South Staffs regions who constructively engage with the business on behalf of our people, regardless of where they work.

As well as being a channel for communication, our People Forum also provides confidential support and advice for colleagues who may be experiencing problems during their normal working activities.

In addition, it organises and hosts a number of activities and social events. One of the standouts for us in this respect was the 'Giving Tree' charity drive in December 2024. This initiative transformed the traditional Secret Santa in a meaningful way to support local children in need through the Salvation Army.

It also showcased the generosity of our people and underscored our commitment to making a positive impact in the communities we serve. The response from across the business was truly inspiring, with a large number of gifts collected for distribution.

As well as charitable endeavours such as this, the People Forum's regular coffee mornings with colleagues across our Cambridge and South Staffs regions have been a consistent highlight of the reporting year. These events provide an informal setting for people to connect, share ideas and support one another. In addition, they have served to enhance our office culture, helping to encourage collaboration and boost morale.

The People Forum also organised a number of social events during the reporting year. These have been varied – ranging from punting excursions, cricket games, a 'bake off' style event, and visits to Christmas markets and pantomimes. As a business, we recognise the significant role activities such as these play in creating a positive and inclusive work environment.

Looking ahead, the People Forum is planning two Family Fun Days – one each in our Cambridge and South Staffs regions. It is also developing a programme of social activities, including photography walks and skittles tournaments. We will share some of the highlights of these activities in next year's annual reports and financial statements.

Helping to keep our people safe

We recognise the importance of making sure our people are kept safe while carrying out their jobs each day. So, we have embedded health and safety in everything we do. During the reporting year, we worked with other Group companies to develop and implement the 'Staying Safe Together' strategy. This comprises three central pillars, encapsulating:

- our commitment to our people;
- our expectations of our people; and
- how we will share, learn and improve.

Each pillar is underpinned by a series of commitments or promises. These ensure our people have the tools, training and equipment they need to carry out their roles safely and effectively. The pillars also help our people to understand the impact they can have at a personal level in ensuring the highest standards for all the work they deliver. And they encourage a culture of engagement, learning and continuous improvement among our people.

Alongside our 'Staying Safe Together' strategy, we also implemented the EcoOnine incident reporting system across the business during the year. This platform collates all near misses, high-potential (HiPo) and other incidents in one place. It enables us to demonstrate to all our people that risk management is everyone's responsibility. We initially piloted EcoOnline with our field-based teams, which allowed us to spot trends in the types of events reported.

In addition, we have a small but dedicated Security and Resilience team that helps to ensure the safety of all the sites across our Cambridge and South Staffs regions – and, by extension, the people who work at those sites.

During the reporting year, the team focused on improving systems and processes in a number of business-critical areas. We outline a few of these below.

Site security

Following the theft, or attempted theft, of diesel at some of our water production sites, the team carried out risk assessments and identified solutions that were visible and could be monitored. This included installing mobile CCTV cameras, which are monitored continuously. When they are activated, the cameras provide an audible warning and then start recording. The equipment has proved to be a good deterrent, with no more attempted fuel thefts since it was installed. The team is continuing to work with our suppliers on other security assessments, including the use of covert cameras at some of our sites.

Business continuity plans

The team has worked with colleagues across our Cambridge and South Staffs regions to test their business continuity plans (BCPs). This is important as having effective BCPs in place allows us to maintain essential water supplies and services to our customers. A key BCP for the business relates to power loss at our Green Lane Head Office in the South Staffs region. The team successfully tested this in September 2024 to prove its effectiveness. Other BCPs will be tested during 2025/26; they will be amended and updated as appropriate.

Emergency planning

In addition, the team has further developed our incident response planning. This includes implementing an electronic incident tracker, which allows incidents, such as burst water mains, to be managed remotely across our Cambridge and South Staffs regions. This makes it easier for members of the incident team to record information and make it available for other colleagues, regardless of where they are located. The tracker has been used during incidents that have occurred since December 2024.

Building a positive culture of collaboration: Strategy and Regulation Directorate away day

Our Strategy and Regulation Directorate comprises a number of teams covering a range of key business operations and activities. These include:

- water quality and compliance;
- water strategy and the environment;
- regulatory compliance;
- innovation;
- customer insight and engagement; and
- corporate affairs.

During the reporting year, the Leakage team and the Security and Resilience team were also included as part of the directorate on an interim basis.

Given the breadth of knowledge and experience within the team, collaborative working is very important. To foster this spirit of collaboration, the directorate holds away days a couple of times a year, along with online catch ups, to give colleagues an opportunity to share ideas and learn more about the work of each other's teams.

The focus of the team's away day in October 2024 was readiness for the five years to 2030. There was a discussion about our PR24 draft determination and what it meant for the teams within the directorate. There was also an opportunity to understand the reasons for the representations we were planning to make to Ofwat in response to our draft determination.

Attendees were also given the opportunity to discuss the key deliverables for their teams. This includes our universal metering programme, our lead strategy and the work we are doing with our neighbours Anglian Water to deliver sustainable, long-term water resources to customers in our Cambridge region.

In addition, there was a review of the Group's annual engagement survey, with a discussion about the key headlines for the directorate. Following the survey, leaders from across the directorate committed to a number of actions. Key among these was the introduction of monthly 'lunch and learn' sessions as a way of sharing information about the work of different teams within the directorate.

At the time of writing, the directorate was planning its next away day.

South Staffs Water Cambridge Water

Engaging our customers and stakeholders

As the provider of an essential public service, it is crucial that we use a range of high-quality engagement methods to effectively capture the views of our customers and other stakeholders.

During the reporting year, we continued to evolve our approach to engagement, making use of a wide range of insights to inform our decision-making.

Engaging with our customers

We use insights from our customers to help us shape our plans. During the reporting year, we continued to put a greater focus on deliberative and behaviour-led studies. We have run these alongside our campaigns and the service propositions we offer, such as our new Assure Essential Saver tariff.

We also continued to focus on our golden threads. These are the themes that emerged from our PR24 customer engagement programme. Our work in this area has been about understanding if, and why, these threads are changing.

In the following pages, we set out some of the key engagement projects carried out during the year.

Understanding our golden threads

Since we submitted our PR24 business plan to Ofwat in October 2023, we have been reviewing our golden threads. We describe each of these, the principal drivers for them and how they have evolved, in more detail below.

Golden thread	Specific themes driving the thread	Strength of thread – 2024/25 update
Transparency and engagement to help customers understand the context and the impact of any proposed changes to their water services and the role they can plan in ensuring the best outcomes	Most customers want **regular and effective engagement**. This is to help them understand the need for our investment decisions – and how these impact on their water bills and any policy changes. Customers we engage consistently tell us that **effective engagement and education will be needed** if the wider customer base are to accept our plans. This includes things like our universal metering programme. As the challenges facing us become more widely known and customers become more informed, it **increases the need for engagement**. This will enable us to educate on, and provide support for, the actions we need to take.	This thread accelerated during the COVID-19 pandemic. The impact of climate change and the cost-of-living crisis has also contributed to the acceleration. It remained consistent throughout our PR24 research programme and into the reporting year. For example, a key finding in all the research we carried out was the need to engage regularly and more effectively on water efficiency. We will continue to engage with customers and other stakeholders. We will also engage with them about how we can help them get the most from their water services, while helping us to deliver our business objectives.
A focus on fairness and collective action to meet water sector challenges	Policies that are **seen to be 'fair' to all customers** are important – particularly for those in vulnerable circumstances. As customers become more informed, we see additional calls for **collective responsibility to tackle the scale of the challenges we face**. This includes when maintaining water supplies and tackling affordability issues.	This thread remained consistent throughout our research programme and into the reporting year. Customers consistently highlight the need for fair and clearly articulated policies. We will continue to engage to understand what 'fair' means to them and other stakeholders when making decisions.
Concern for the environment, specifically the water environment	This has been a consistent thread since 2018 and had grown in importance by 2021. This was partly because of the **growing awareness of the impacts of climate change on public services** – for example, more floods and prolonged periods of drought. This thread has also been driven by **negative media reports about the water sector**. In particular, there has been widespread criticism of sewage pollution and a perceived lack of improvement in leakage levels. There is a clear view that water companies need to **play a stronger role in restoring and protecting the water environment**. There is also a growing recognition of the value of the environment for positive mental health and wellbeing.	This thread has consistently been a high priority for our customers. But since 2022, it has become a more long-term priority. This is because of concerns about bill affordability resulting from the cost-of-living crisis. This view continued into the reporting year, with bill affordability mentioned more regularly than environmental concerns in our research. This was particularly evident in the behavioural research carried out as part of our water efficiency in faith and diverse communities project. However, environmental stakeholders and a minority of customers continue to push strongly for us to take action to prevent further damage to the water environment. We saw this evidenced strongly in the 'Your water, your say' session in our Cambridge region in 2024.

Golden thread	Specific themes driving the thread	Strength of thread – 2024/25 update
The need to protect vulnerable customers – financial and non-financial	This thread **emerged during the COVID-19 pandemic**. We saw spontaneous calls to protect customers in vulnerable circumstances – both financial and non-financial. This was something we had not seen widely previously. The evidence for this comes partly from the majority of our customers still **supporting the need for us to subsidise household customers who are struggling the pay their water bills**. Alongside this is the need to ensure accessible services for all customers. Our engagement has shown that **this thread has weakened slightly since early 2022**. This is because some customers have focused on their personal situations as bills become less affordable for all households.	The cost-of-living increases we have seen in recent years have kept this thread in customers' minds, albeit with a slight weakening since 2022. They recognise the need for us to support those struggling the most. They also recognise the need for us to be aware of those who might need financial support for the first time. Our research studies and business-as-usual customer satisfaction surveys during the reporting year continued to evidence this thread. At the heart of this sits the need for clear and timely communications. This thread is also ever-present among members of the H2Online customer communities in our Cambridge and South Staffs regions – particularly those with whom we have been developing support materials for customers on our PSR. We discuss our H2Online communities in more detail on page 106.
Affordability and cost-of-living increases impacting on customers	This thread emerged in early 2022 as **customer preferences started to become more influenced by the pressures on household bills**. This caused many customers to consider their own situation and the water service investments they want us to make. It has constrained the ability of many customers to **look beyond the immediate future** when assessing the affordability of our plans.	This thread remained consistent during the reporting year. We will continue to monitor it as inflation is forecast to increase again during the 2025/26 financial year. For many customers, water bills remain a lower concern in relation to their overall household financial situation. But between mid-February and mid-March 2025, 1.7% of dissatisfaction from our point of contact surveys mentioned the specific size of our bill increases over the five years to 2030. We expect this increase will further impact customers' disposable incomes – materially so for those already struggling. So, this thread will remain important, reinforcing the need for us to make sure we continue to have the right support in place.

Engaging customers about our new affordability tariff

In 2023, we worked with our research partner Qa Research, on workshops in our Cambridge and South Staffs regions, to explore the design of a new tariff, based on affordability. The tariff is designed to support customers with an annual household income of between £22,011 and £27,000, who do not qualify for our Assure tariff. The aim is to help these customers:

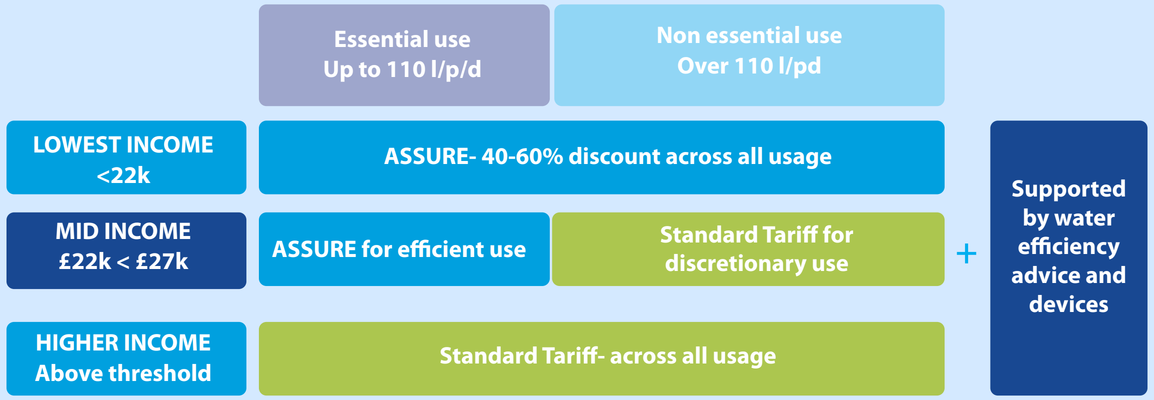
- save money on their water bills; and
- help them identify practical changes to how they use water in their homes every day.

Following this project, we worked with Qa Research during the reporting year to design a robust qualitative and quantitative research programme. This is to give us customer feedback to help evaluate the impact of the new tariff on customers. The research programme started in the autumn and will run for approximately 12 months.

Supporting our customers with a new affordability tariff

In 2022, Ofwat changed its charging rules to enable water companies to trial different tariffs based on consumption. We considered there would be more value in a tariff that primarily offered customers affordability support, with behavioural change as a secondary benefit. So, we developed an essential use discount for customers who are above the income threshold for our Assure tariff (£22,011), but who are still struggling to pay their water bills.

As illustrated below, our Assure Essential Saver tariff will offer a discount for household water use up to a bespoke consumption threshold. This is based on the number of occupants in a property. Standard charges will then apply for discretionary use above this level.



Ahead of launching the trial with 1,000 eligible customers early in the 2025/26 reporting year, we commissioned a robust programme of qualitative and quantitative customer research across our Cambridge and South Staffs regions.

Our aim was to inform the impact of the trial on households. This included measuring the impact on household finances and customers' mental health, among other things. We also engaged with our H2Online communities in both regions, with members providing feedback on the tariff design, name and communications strategy.
At the core of the research programme are 15 households of different sizes and compositions on the tariff. Over 12 months, these households have taken part in a series of interviews and daily activities, feeding back to us on a regular basis.

During 2025/26, we will run three phases of quantitative research to track the attitudes, experiences and behaviours of hundreds of households on the trial. At the end of the trial period, we will hold in-depth face-to-face discussions with several households about their experiences to draw out more of the learnings. We consider this rich insight source will help us to evaluate the overall success of the trial. We will also use the research findings to develop a behavioural change framework. We will use this when rolling our other tariffs in the future.

The insights from the research programme have already enabled us to identify a number of improvements we needed to make to how we communicate with customers about the tariff trial. This includes alterations to the welcome pack and monthly emails. We think this will drive uptake and engagement in the trial. It also highlights how working collaboratively with customers can lead to better outcomes in terms of communications and support.

A key learning from this insight is not to overwhelm customers with information. In this case, simple and manageable behavioural nudges are all that are needed. Households in the target income bracket often tell us they are time poor – mainly because of financial or life situations. They may also have vulnerabilities that limit their ability to make many behavioural changes – for example, needing to take a bath for medical reasons.

We will report on the outcome of our tariff trial in next year's annual report and financial statements.

Using ethnographic research to find out more about customers' water saving routines

As part of our water efficiency in faith and diverse communities project (see page 87), we worked with our research partner Explain during the reporting year to design a research programme. This was to help us:

- communicate more effectively with traditionally 'hard to engage' customers;
- establish a more inclusive water efficiency framework and support tools; and
- test new water saving practices and campaigns linked to faith and culture that can be adapted and scaled up across the country.

To do this, Explain developed a three-stage methodology that included:

- discussion groups with participants from Muslim, Hindu and Sikh communities;
- an ethnographic stage to further explore the findings and themes; and
- a second discussion phase to play back findings and validate the results of our research.

The ethnographic stage of the research was an important step forward for our engagement strategy. This is because it gave us a new way to capture 'in-the-moment' insights about the way customers use water in their daily lives and the reasons for this.

We have increasingly found that what customers say they do, or might do, in a structured research session when talking about their water use varies markedly with what they actually do at home. By combining different research approaches, we have been able to better understand how we can design interventions in a practical and sensitive way to help households use less water.

We learned a great deal from this study. We will use these learnings to inform future campaigns and the types of product interventions that will work when engaging customers from faith and diverse communities.

Engaging with our H2Online communities

We continued to engage with the H2Online communities in our Cambridge and South Staffs regions during the reporting year. We covered a wide range of topics related to their water service, focusing our content on surveys, polls and discussions. This enabled members to input into the decisions that informed the development of our policy and communication approaches.

Over the 12 months to November 2024, 410 members from both regions took part in the activities. We also continued with our 'You said, we did' approach, where we commit to updating customers who take part in our H2Online activities on the action we have taken as a result of their feedback.

In a new approach for us, we formed a group of H2Online members from our South Staffs community who are registered on our PSR. We call this group 'Priority Watch' and used a series of activities to engage with them. This was to help us improve our PSR support and ensure our communications are clear and helpful.

As a result of the feedback we received from these customers, we have made a number of changes to our PSR approach. These include:

- updating our PSR application form, making it easier to register for support;
- updating our bereavement policy, making the process of closing an account more straightforward; and
- starting work to develop a customer promise for our bereavement support to articulate clearly the help we will offer so that we can be held to account.

This highlights the importance of working collaboratively with customers to design services and communications.

Evaluating the impact of our 'Yes we Cam' campaign

Our 'Yes we Cam' campaign evolved out of our successful, award-winning 'Can for the Cam' campaign in 2023. Its aim was to further highlight the importance of water conservation across our Cambridge region. See the case study on page 69 for more information about the campaign.

To support the evaluation of the campaign's effectiveness, our research partner Explain Research carried out two surveys, with each wave reaching more than 500 customers. These helped to give us a baseline view of customers' knowledge of water efficiency and evaluate their awareness of the campaign.

In addition, we undertook surveys to assess whether the content was clear and engaging for customers. We also engaged with our H2Online communities on the campaign's messaging and website. We made several changes on the back of this, to improve engagement.

At the end of the campaign, we worked with our implementation partner Weir to evaluate its success. Analysis from this work suggests that customers saved around 1.36 million litres of water a day as a result of the campaign.

We are using the insights from this engagement to understand the type of messaging that has the biggest impact on water use behaviours. This will help to inform our future water conservation campaigns. A key learning for us is the need to keep water saving behaviours at the forefront of our customers' minds. This is important if we are not to lose the positive impact the campaign has had on those customers who signed up to take part.

Engaging directly with 'Your water, your say' sessions

A feature of our research programme during the reporting year has been the 'Your water, your say' sessions held in our Cambridge and South Staffs regions. These gave customers and other stakeholders the opportunity to engage directly with our leadership team and ask them questions about our recent performance.

We held separate online sessions in our Cambridge and South Staffs regions in October 2024. Both were chaired by Community Research, an independent research company. Each session comprised a 20-minute presentation by members of our leadership team, with customers and stakeholders given plenty of time to ask questions.

There were common themes across both regions. These included:

- perceived water quality issues, including water hardness and fluoridation;
- customer service;
- water conservation and smart metering; and
- future billing and tariff structures.

In our Cambridge region, customers were also interested in learning more about our plans to reduce household demand for water and to ensure the long-term sustainability of water supplies.

Moving forward, we will focus our attention on developing our new customer panels and will share more detail on this in next year's annual report and financial statements.

Tracking service delivery and brand experience

We have continued to track our customers' perceptions of our service delivery and brand experience. This is to ensure action plans focus on the areas that are most in need of improvement. This includes our campaigns to support customers and help them understand and get the most from their water services.

During the reporting year, more than 1,000 customers (household and non-household) took part to help us understand how effective our plans have been in improving the services and experiences we deliver.

Benchmarking our performance

We have continued to regularly benchmark our performance against best practice engagement within and outside the water sector. This is to ensure we identify the best ideas to improve the services we deliver for customers. These reviews include things like desktop searches, stakeholder meetings and industry events.

Engaging with our stakeholders

Across the business, our people engage with a wide range of stakeholders every day – gaining insight that enables us to improve the services we provide to customers. The relationships our people develop with stakeholders gives us a clear understanding of their needs. The insight gained from this engagement is valuable in helping us develop our approach in a way that is proportionate to our size as one of the smaller companies in the water sector. The outputs from this engagement also help to inform the section 172(1) statement, which follows this chapter.

During the reporting year, we continued to capture the insight from our stakeholder engagement more effectively. We do this each month, using the reporting processes already in place to minimise the administrative burden on our people. We have found this approach to be effective in helping to drive and inform our decision-making across the business.

In addition, we have continued to link our stakeholder engagement not just with our regulators, our communities and our partners, among others, but with the golden threads that we describe in more detail in the customer engagement section above. This has given us a more rounded view of the things that matter most to our customers and other stakeholders. Below, we provide a flavour of the engagement that has taken place during the year.

- As part of our **water efficiency in faith and diverse communities project**, we engaged extensively with representatives from Cambridge Central Mosque, Cambridge University's Faculty of Divinity and Smethwick Gurdwara. This gave us significant insight about engaging with faith communities.
- We continued our engagement with Anglian Water on the **Fens reservoir project**. This included collaborating on the second phase of public consultation, which ran during the summer of 2024.
- In addition, we worked with Addenbrooke's Hospital in our Cambridge region and the Whitbread hospitality chain in our South Staffs region on innovative approaches to **encourage more non-household water efficiency**.
- We also worked with UKWIR on a **carbon accounting workbook for regulatory submissions**.
- We shared our plans for the five years to 2030 with **Sandwell Council's Economy, Skills, Transport and Environment Board**. This resulted in follow-up engagement on our universal metering programme, with specific reference to customers in vulnerable circumstances, and our water efficiency in faith and diverse communities project.

We will continue to share information about our work with stakeholders across our Cambridge and South Staffs regions.

The Independent Challenge Group – combining insight and challenge

We have also continued to use the insight gathered from the Independent Challenge Group (ICG). This is a group of expert stakeholders that contributes to our external challenge process and provides oversight on how we tackle these challenges in our decision-making.

"By engaging proactively with the business, the ICG has helped it to build strong plans for the future, delivering better outcomes for customers and the environment" – Matt Cole, ICG Chair

We think it is important to bring external perspectives and challenge into our business planning and decision-making. This ensures we are always evolving, driving improvements that deliver better outcomes for customers and the environment.

The ICG is key to this, providing critical insight and crucial feedback on all aspects of our plans and proposals. Its members are passionate about supporting our work, using their external perspectives and expertise to help us refine our plans and advise us on how best to implement them.

The Chair of the ICG is Matt Cole. He is the CEO of a leading fuel poverty charity and works with the Government and the wider utilities sector to deliver incremental change that benefits customers and the environment. During the reporting year, he worked with us to refresh the ICG, bringing together a group of stakeholders with expertise across a range of disciplines. This includes in the areas of:

- driving environmental standards;
- meeting the needs of the most vulnerable in society;
- driving behavioural change;
- managing large, capital intensive delivery programmes;
- customer advocacy; and
- meeting the needs of complex, multi-site organisations.

The ICG has worked with us to develop a forward-looking work plan. This ensures that the areas that are scrutinised and challenged are those where the greatest impact can be achieved. This means our business plan priorities undergo regular external, independent challenge. It also gives us the opportunity to consider and review the ICG's priorities.

During the reporting year, the ICG examined our performance against our targets for the five years to 2025. It also considered our readiness for the next five-year planning period and the potential risks to the business associated with this. And it provided input into how to drive the behavioural changes needed to deliver the demand-side reductions needed to meet exacting environmental standards.

In addition, the ICG has been working closely with us on the development of our universal metering programme. This includes considering how to optimise the programme roll out while making sure customer messaging lands in the most informative and engaging way.

Alongside this, it has also provided insight, reflection and challenge around the development and evolution of our vulnerability strategy. This included helping us to refine our insight programme to:

- embed good practice found in other sectors;
- support the development of innovative service propositions that help to deliver meaningful benefits for customers; and
- making sure that alongside delivering services in a cost-effective way, we also focus our attention on delivering services for those who have the greatest need.

We will continue to work proactively with the ICG as we deliver our plans over the five years to 2030. We welcome Ofwat and CCW's increased focus on the importance of these groups. We have long recognised the value groups can bring as a result of their engagement and challenge. We have had such a group in place for a number of years now and will continue to maintain it going forward.

Section 172(1) statement

The Board, in line with its duties under section 172(1) of the Companies Act 2006, acts in a way it considers would be most likely to promote the company's success for the benefit of its employees, customers and other stakeholders.

In doing this, among other things, the Board has to have regard to the:

- likely consequences of any decisions in the long term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and the environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the company.

As a result of the open and transparent dialogue with different stakeholder groups, the Board has developed a clear understanding of their needs and monitors the impact their input has had on the company's strategic decision-making. The Board has also considered the potential impact of its decisions on relevant stakeholders, realising the interests of one group of stakeholders may not always be aligned with the interests of other groups.

The Board's approach to decision-making

The Board is responsible for making decisions that are informed by the section 172(1) factors outlined above. The minutes from Board meetings record the decisions made and the agreed actions that need to be taken in the context of these factors.

In terms of stakeholder engagement, the Board's role is as follows.

- To **identify and keep under review who the company's key stakeholders are and why they are important**. This includes customers, employees, suppliers and regulators.
- To **determine which stakeholders it needs to engage with directly**, including harnessing the expertise that is needed to help deliver successful business outcomes.
- To **ensure decision-making processes consider the interests of stakeholders**. This includes recognising these interests may change over time and that trade-offs may be required to balance the interests of different groups of stakeholders.
- To **help utilise the most effective mechanisms** for engaging with stakeholders.
- To **provide feedback to those stakeholders with whom it has engaged directly**, which should be tailored appropriately.

Key decisions taken by the Board

During the reporting year, we proactively sought stakeholders' views to enable the Board to make decisions across the following strategic business themes.

Delivering for customers

- Draft vulnerability strategy.
- Assure Essential Saver tariff.
- Universal metering programme.

Environmental protection

- Water resources management plans for the Cambridge and South Staffs regions.
- Climate change adaptation report.
- Balancing the Government's growth agenda with the needs of the environment and the need to secure sustainable, long-term water resources, particularly in our Cambridge region.

Governance focus

- Risk appetite and tolerance.
- Water (Special Measures) Act 2025.
- The response to the Independent Water Commission's call for evidence as part of its review into reforming the water sector.

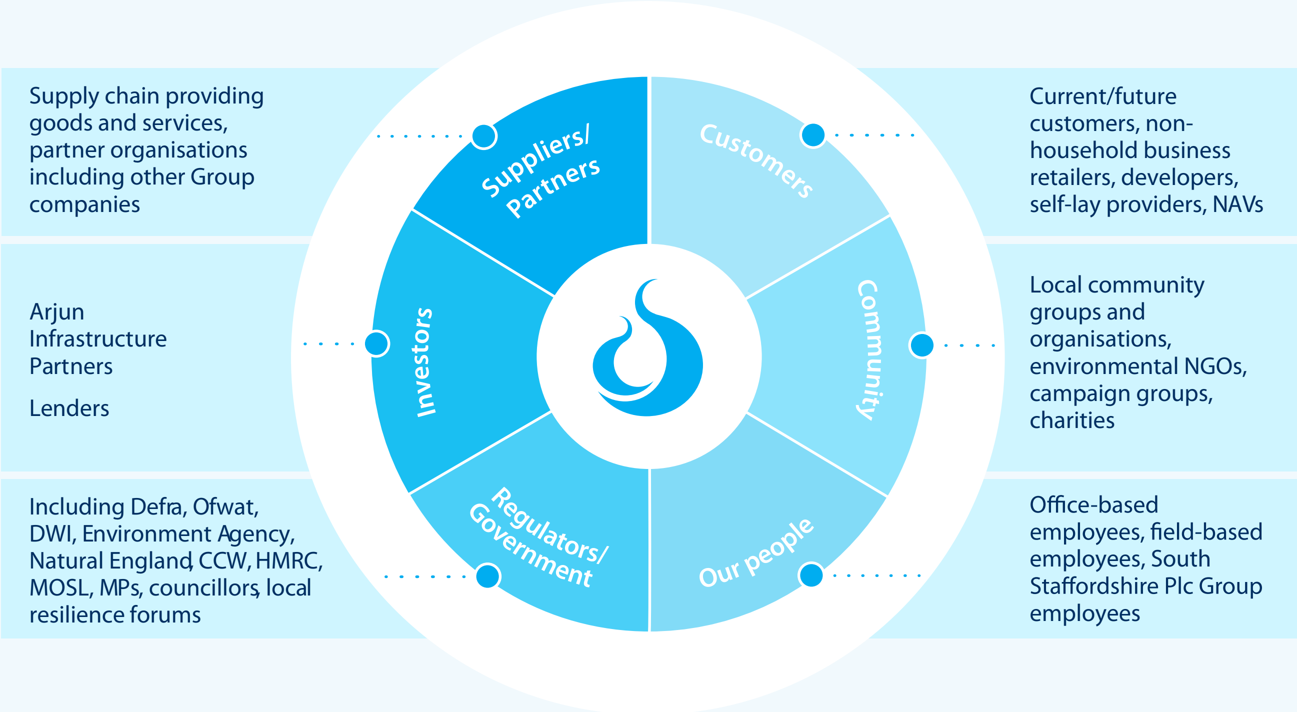
Ofwat's PR24 price review process

- Representations on Ofwat's draft and final determinations on our business plan for 2025 to 2030.
- PR24 delivery, with specific reference to Ofwat's new price control deliverables (PCDs).

Financial flow

- Budgets and forecasts.
- Dividend payments.
- Capital investment programme for the five years to 2025.
- Planned investment programme for the five years to 2030.
- Wholesale charges.
- Assure tariff customer contribution change.
- Draft assurance plan.

Our main stakeholder groups



How we have engaged with stakeholders

Customers

This stakeholder group comprises:

- current and future household and non-household customers;
- retailers;
- developers;
- self-lay providers; and
- new appointments and variations (NAVs).

We share information with the Board each month on how we have performed against our respective measures of customer, developer, and retailer experience (C-MeX, D-Mex and R-MeX). We also share other key metrics on customer satisfaction and on the number of written complaints, among other things.

Why engagement is important

As the provider of an essential public service, customers are at the heart of all our decision-making. So, it is essential that they trust us to always provide the high-quality and reliable services they expect and pay for. To help build and maintain that trust, we share information with them about our performance. We also use our comprehensive engagement programme to gather meaningful insight about the things that are important to them.

How we have engaged

We have continued to engage extensively with our household customers during the reporting year. As well as our business-as-usual engagement approaches, we have also put more focus on deliberative and behaviour-led studies. This includes using ethnographic research to give us a new way to capture 'in the moment' insight about the way different groups of customers use water each day and the reasons for this.

In addition, we have continued to focus on our golden threads. These are the themes that have emerged from our customer engagement programme over the five years to 2025. These golden threads cover:

- transparency and engagement;
- fairness and collective action;
- concern for the environment;
- the need to protect vulnerable customers; and
- affordability and cost-of-living increases.

There is more information on these golden threads on pages 102 to 103.

We have also engaged our customers about our new Assure Essential Saver tariff, which is based on affordability. The tariff aims to support customers who are not eligible to receive our Assure tariff, but who are still struggling to pay their water bills. We started trialling this tariff just outside the reporting year with 1,000 customers across our Cambridge and South Staffs regions. We will report on the outcome of our tariff trial and any learnings for us to take forward in next year's annual report and financial statements.

And we have continued to engage with:

- the **H2Online communities** in our Cambridge and South Staffs regions, discussing a range of topics related to their water service;
- customers and stakeholders through the **'Your water, your say'** sessions, which gave them the opportunity to engage directly with our leadership team; and
- the **Independent Challenge Group** (ICG), a panel of expert stakeholders that contributes to our external challenge process and provides oversight over how we tackle these challenges in our decision-making.

For our non-household customers, we have been working on a service recovery plan during the reporting year. This is because our performance has not been where we would like it to be in terms of the required parameters. Our recovery plan is on track to deliver the results we and our customers expect.

In addition, we have been preparing for the changes to the market performance framework (MPF), which came into effect just outside the reporting year in April 2025. As part of this, we have increased the size of our non-household team, bringing in additional resource to deal primarily with data quality and maintenance functions. We have also taken the decision to bring our Wholesale team back in house and have again recruited additional resource to enable us to provide a more responsive service in the face of increased demand from our non-household customers.

How the Board has engaged

The Board has helped to shape and challenge our thinking on our draft vulnerability strategy. It also provided insight that helped to inform our thinking as we developed the delivery strategies for our Assure Essential Saver tariff and universal metering programme.

Community

The focus of this stakeholder group is civil society. It comprises, among others:

- community groups and organisations;
- charities;
- environmental non-governmental organisations (NGOs); and
- campaign groups.

We have shared information with the Board on the key performance metrics associated with our community activities. This includes the number of customers on our Assure tariff, the number of customers on our PSR and the number of young people engaged through our education outreach programme.

Why engagement is important

We are committed to being embedded in the communities we serve. In recent years, we have established meaningful relationships with many community groups and other organisations, including environmental NGOs. As well as raising our profile in our communities, this engagement also helps to build trust among our stakeholders.

How we have engaged

We have continued to build on our established and extensive network of community relationships to support seldom heard and traditionally hard-to-reach customers.

We also focused our efforts during the reporting year to help young people leaving care to make the transition to independent living. As part of this, we work closely with local authorities to ensure no one falls through the gaps.

"By investing in initiatives that increase habitat diversity, we are safeguarding wildlife and helping to create more resilient, vibrant places for people to enjoy" – Dan Clark, Water Resources and Environment Manager

For example, we have implemented a 'passport' scheme for care leavers for our Assure tariff and have made it easier for them to complete their applications. We then automatically move them onto our Assure tariff for two years.

In addition, we give presentations to groups of up to ten care leavers at a time, identified through our engagement with local authorities. These cover a range of topics, including:

- what a water meter looks like and how to take a meter reading;
- an explanation of the different elements of a water bill; and
- payment plans and flexible payment options.

We also signpost care leavers to other sources of help, information and support, as well as to job vacancies across the Group.

With this localised approach, we aim to ensure care leavers are better prepared and supported to live independently – and that they can ultimately achieve financial stability. We think this will help them to develop positive bill paying habits for the future.

We have also continued to engage with community projects and organisations through our PEBBLE Fund. Each year, we make financial grants available to schools and local organisations, funding projects that support, restore or create habitats and that deliver benefits for the wider community.

Over the past ten years we have awarded more than £360,000 to 125 projects across our Cambridge and South Staffs regions. Overall, more than 100 hectares have been improved through a variety of initiatives, including hedgerow and wildflower planting, as well as removing non-native invasive species, which can destroy native habitats.

Projects that have recently received funding include the creation of a:

- common tern breeding platform at Milton Country Park in our Cambridge region; and
- native wildflower garden in the village of Kingstone in our South Staffs region.

We will continue to engage with local groups and organisations, delivering social and public value for all our communities.

How the Board has engaged

The Board has been supportive of our Ofwat Innovation Fund bids during the year. We were successful in securing funding for two of these. Both projects will drive the sector forward environmentally – driving a wider public benefit for customers and society.

Our people

This stakeholder group comprises:

- our office- and field-based employees; and
- the employees of other Group companies.

Why engagement is important

Our success as a business depends on the people we employ. Effective engagement with all our people is essential if we are to deliver our ambitious plans for resilient and affordable clean drinking water services now and in the future.

How we have engaged

We have continued to use the full range of communication tools and channels at our disposal to engage with all our people across the business. This includes the annual employee engagement survey and regular Executive team updates at our principal sites in the Cambridge and South Staffs regions.

In addition, our Managing Director shares a vlog update each month, and we receive regular Group communications, which focus on things like performance, budgets, health and safety, and shout outs for people living our values.

We also have an internal magazine called 'From the source', which is produced by our People Forum. The magazine is available in digital and hard copy formats, so it is easily accessible for all our people regardless of where they work. It features a range of content, including:

- updates from the People Forum;
- introductions to people who have joined the business;
- shout outs to highlight those people who have gone above and beyond for the business; and
- fun activities, recipes and book club recommendations.

The aim is to showcase our people and share positive stories from across the business.

We recognise the benefits being part of a larger Group can bring to our people. We actively participate in a number of Group initiatives This includes the annual Group Leadership Conference, where senior leaders from across the business join colleagues from other Group companies to share ideas and updates and reward success and a job well done.

In addition, our people have the opportunity to join Group-wide employee networks. During the reporting year, dedicated Women's and LGBTQ+ networks were established as a way of connecting people with shared interests from across the business. The role of the Women's network is to foster a supportive and empowering environment for women across the Group, while our Unity+ network focuses on sexual orientation, gender identity and gender expression. We will continue to be an active participant in other employee networks as they are introduced.

As with the previous reporting year, we continued to encourage our people to give shout outs about their colleagues. This could be someone from the same team or a colleagues from elsewhere across the business. The aim is to recognise the contribution everyone makes to our success.

"We recognise the benefits being part of a larger Group can bring our people – we actively participate in a number of Group initiatives"

Alongside this, we have continued to use our more inclusive internal communications calendar, marking more diversity and inclusion opportunities and wellbeing weeks. We think this is important as it demonstrates our commitment to supporting our people and creating a working environment that encourages everyone to always perform at their best.

How the Board has engaged

The Board supported our approach with the action plans we developed following our people engagement survey during the reporting year. This included challenging that we were making a meaningful and sustainable difference for our people. This was discussed regularly by our Board.

Regulators/Government

Our regulatory stakeholders include:

- Defra;
- Ofwat;
- the Environment Agency;
- the DWI;
- Natural England;
- the non-household retail market operator (MOSL);
- HMRC;
- the UK Health Security Agency (formerly Public Health England); and
- CCW, the consumer watchdog.

Government stakeholders include, among others:

- local and national elected officials;
- highways authorities;
- emergency services;
- the NHS;
- local resilience forums (LRFs); and
- local enterprise groups.

We share information with the Board each month on key touchpoints with our regulatory and government stakeholders. This includes announcements on matters of policy that relate to the functioning of the England and Wales water sector.

Why engagement is important

This is a critical group of stakeholders for us, as failure to comply with our legal or regulatory obligations could result in financial penalties or other enforcement action, leading to reputational harm and the loss of our customers' trust in us. Failure to engage with government at a local and national level could also cause lasting damage to our reputation.

How we have engaged

A key focus for our engagement with this key stakeholder group during the reporting year has been on finalising our plans for the five years to 2030 with the regulator Ofwat.

In July 2024, we received Ofwat's draft determination on our plans for the 2025 to 2030 period. While we were satisfied with Ofwat's decisions in principle, we considered there were a small number of critical areas where challenge and push back were necessary. We were pleased that Ofwat looked favourably towards the additional evidence we provided in our response to our draft determination, and that this was reflected in our final determination.

As well as finalising our plans to 2030, we have also engaged with the Independent Water Commission on the future shape of the water sector. Headed by Sir Jon Cunliffe, the Commission was launched by the Government in October with the aim of developing a set of recommendations to transform the sector and rebuild the public's trust in their water services.

As well as attending face-to-face meetings with Sir Jon Cunliffe, we also responded to the call for evidence, which launched at the end of February 2025. At the time of writing, we were awaiting the publication of the final report from the Independent Water Commission. We will report on this in more detail in next year's annual report and financial statements.

Following the General Election in July, we engaged with MPs across our Cambridge and South Staffs regions. We saw a significant shift in the political landscape across both regions following the election, with many more new Labour – and a couple of Liberal Democrat – MPs.

Since the election, we have worked on building meaningful relationships with our MPs, engaging with them on a range of topics, including our incident response processes and the support available through our PSR.

In last year's annual report and financial statements, we referenced the extensive engagement carried out with MPs and local authorities about the Fens reservoir. We are delivering this strategically significant project in partnership with Anglian Water, so having the input from local communities is very important for us.

Together, we launched the second public consultation for the project in May 2024. We were seeking feedback on our emerging design for the reservoir, as well as our early thinking for the areas around the main site. We also consulted on our initial thoughts about the infrastructure that will be needed to treat the water stored at the reservoir and supply it to customers.

The consultation closed in August 2024, with stakeholders asking us to think carefully about the effects of the reservoir on communities, roads and transport. At the time of writing, a third public consultation stage was being planned. We will continue to share updates through our annual reporting processes. After the end of the reporting year, in May 2025, the project was declared as Nationally Significant Infrastructure. This means the Secretary of State for Environment, Food and Rural Affairs will make the final decisions on the proposals.

We have continued to liaise with LRFs during the year as part of our business-as-usual incident management framework. LRFs are multi-agency partnerships, comprising representatives from local public services, including:

- the emergency services;
- local authorities;
- the NHS; and
- the Environment Agency.

"Following the General Election, we saw a significant shift in the political landscape. So, we have worked on building meaningful relationships with MPs across our Cambridge and South Staffs regions"

We work with the LRFs on the development of business continuity and emergency plans across a range of scenarios, including major incidents such as those experienced in our South Staffs region in early November 2024. Their input into our strategic, operational and tactical planning is very valuable.

How the Board has engaged

The Board was supportive of our approach for the representations on Ofwat's draft determination of our plans for the five years to 2030. This includes supporting our decision to focus on a small number of business-critical areas where we wanted to push back on Ofwat's initial thinking.

In addition, members of the Board also engaged actively with Sir Jon Cunliffe's Independent Water Commission, including advising on our response to the call for evidence and challenging some of our thinking.

The Board also actively engaged with us on the development of the latest water resources management plans for our Cambridge and South Staffs regions. These were approved for publication by the Secretary of State for Environment, Food and Rural Affairs during the reporting year. And it has engaged on our most recent climate change adaptation report, which was published during the year.

Investors and lenders

Why engagement is important

Our investors and lenders want to be assured that we run our business effectively and efficiently, and that we engage proactively with them on strategic decisions. Failure to engage effectively with these stakeholders would impact our ability to deliver an effective business strategy.

How we have engaged

Direct engagement with our investors during the reporting year was mainly through Board meetings. We have also engaged with our investors and lenders on a number of key issues affecting the business, including:

- financial performance;
- key business risks; and
- our compliance with environmental, social and governance (ESG) metrics and indicators.

In addition, in November 2024 we worked with our lenders to rearrange our revolving credit facility from a £30 million facility with NatWest to a £75 million facility with Lloyds and NatWest. This new arrangement has an interest rate of 1.05% plus SONIA (Sterling Over Night Index Average). To date, we have drawn £30 million of this facility, with headroom facilities of £45 million.

How the Board has engaged

Just outside the reporting year, the Board and our Executive team met with institutional and other lenders. At this meeting, information was shared about our PR24 regulatory settlement and the work we had carried out to de-risk the elements of our draft determination where we were providing challenge.

There was also a discussion on our universal metering programme – the single biggest element of our plans for the five years to 2030. The Board talked about the benefits the programme will bring for customers and the environment. It also referenced how it will provide us with an excellent opportunity to build trust among our customers.

Suppliers/partners

Why engagement is important

Our supply chain partners are essential in helping us deliver our day-to-day operations and capital investment programmes, while also helping us to support new and efficient ways of working. Failure to engage effectively with this group of stakeholders could affect our ability to provide high-quality and reliable water supplies to our customers.

How we have engaged

We have continued to work with colleagues across the business to ensure our supply chains are resilient and cost effective. This is especially important for us as we transition into delivering our ambitious five-year plan to 2030.

During the reporting year, we continued to demonstrate our commitment to supplier diversity. This includes continuing to provide ongoing procurement, supply chain and contract management to support the other water only companies in the sector (Affinity Water, Portsmouth Water and South East Water) under the Off-Shore Consortium Agreement to facilitate the supply of essential chemicals and infrastructure products.

In addition, we successfully completed several significant tender events. This has enabled us to award a number of new contracts in strategic business areas, including:

- infrastructure;
- chemicals; and
- water testing.

We have also developed an internal certificate database to align product certificate expiry dates with asset lifecycles. This helps to ensure compliance with the respective regulatory standards. And we have requested updated disaster recovery plans from critical supply chain partners to strengthen our operational resilience.

Looking ahead, we are implementing the Achilles Ethical Employment Audit for key critical supply chains. This is a proactive step we are taking towards responsible procurement and sourcing.

In addition, we have been looking at ways to leverage artificial intelligence (AI) as a business-as-usual tool for asset management over the course of next five years. During the reporting year, we worked on a pilot scheme with AI specialists Datatechnics and infrastructure provider Network Plus to implement the AI-led Foresight ecosystem platform.

This platform models potential failures within networks, making it easier for us to plan our asset replacement and upgrade programme. The outcome of this pilot scheme should enable us to evaluate the performance of AI models versus existing techniques. This will help us to determine whether we can deploy such tools as part of our business-as-usual activities, including in helping us to deliver against our regulatory performance targets.

Another area of focus for us has been the transition of our light vehicle fleet to hybrid or fully electric. This followed a commitment we made to our customers in our business plan for the five years to 2025.

As well as the fleet electrification element, this work programme, which launched in 2022, also included the purchase and installation of electric vehicle (EV) charging facilities at our offices and key operational sites across the Cambridge and South Staffs regions. These chargers are available to our people and for company car private mileage use, highlighting our commitment to sustainability.

Having followed a comprehensive tender process, we awarded the fleet electrification contract to Omega Red, which then worked with our Procurement team to secure the necessary EV charging stations. In addition, it oversaw the installation of this technology using third-party contractors. It also gave us access to its Virta Hub customer service platform to monitor the use of, and controlling access to, the chargers.

By the start of the reporting year, along with Fleet Services, which is part of the Group, we operated 61 hybrid or fully electric vehicles, including 15 Vauxhall e-Combo vans, which we procured to replace existing diesel engine fleet vehicles.

During the reporting year, data from the Virta Hub platform showed that the installed chargers were in use for more than 12,000 hours, drawing more than 20,000 kWh of energy. Since we source our energy through zero carbon contracts, this represents a significant reduction in carbon emissions compared with the diesel-powered fleet previously in use.

We completed the final stages of this project in December 2024, integrating a payment process app into the Virta Hub system. This enables our people with company cars and vans to download the Virta app and charge their vehicles for private use at our sites. It is important to note that none of these costs have been passed to our customers. This ensures fairness while providing our people with the convenience of workplace charging.

How the Board has engaged

During the reporting year, the Board has engaged on the contracts awarded for our investment programme over the five years to 2030. This includes specific contracts for our infrastructure programme and the provision of chemicals. It has also been actively involved in the decision-making for our fleet electrification contract. This was a specific commitment we made in our business plan for the five years to 2025.

This section 172(1) statement was approved at a meeting of Directors held on 15th July 2025 and duly signed on its behalf.

Elena Karpathakis
Managing Director

15 July 2025

Climate-related financial disclosures

We pride ourselves on our openness and transparency. We recognise the importance of making information about our climate-related risks and opportunities available for our customers and other stakeholders.

These disclosures help to drive our approach to sustainability and deliver our wider company purpose.

As the provider of an essential public service, we recognise the significant impact a changing climate will have on our ability to deliver high-quality clean drinking water supplies to our customers.

We also recognise the important role the wider water sector has to play in protecting and enhancing the natural environment and helping the Government to meet its net zero and growth ambitions. At the same time, we understand how it important it is for customers that we keep their water bills affordable while providing help and support to those who need it most.

Our approach to climate change

As a business that is committed to planning for the long term, we take a proactive approach to climate change. This includes building resilience into and future-proofing our assets to enable us to adapt to a range of different scenarios. It also helps us to mitigate the effect of things like more intense rainfall and more prolonged periods of drought.

In November 2021, we published our vision to 2050. This also formed one of the pillars in our long-term delivery strategy, which we submitted to Ofwat in October 2023 alongside our plans for the five years to 2030. Key among our long-term ambitions is our commitment to lead in adapting to climate change.

This means playing an active part to help deliver the water sector's ambitious net zero operational carbon emissions target. It also means not adding any extra carbon or other greenhouse gas emissions from our own operations in to the atmosphere by 2050. And it means running a safe, efficient and sustainable business that is agile and able to respond to the dual challenges of a changing climate and a growing population.

In addition, there are financial and other risks associated with the transition to a low-carbon economy. These centre on the switch to renewable energy and identifying the optimum way to address those emissions we cannot reduce.

"We recognise the important role we have to play in protecting and enhancing the environment – and in helping the Government to meet its net zero ambitions and growth agenda"

But a changing climate also presents opportunities to drive performance improvements and mitigation activities. This includes through things like our universal metering programme and our plans to build more resilience across the networks in our Cambridge and South Staffs regions.

Current and future climate change challenges

We know that climate change will affect both our capacity and our capability for service delivery and the environment that we strive to protect and enhance. In our latest climate change adaptation report, we outline the current and future impacts of climate change on our Cambridge and South Staffs regions. In addition, we detail our existing and proposed climate change adaptation measures, which are also outlined above.

The Environment Agency has declared both our Cambridge and South Staffs regions as seriously water stressed. In addition, in 2022, hot weather and high water demand put unusual stress on water resources across England. This impact was felt in both our supply regions, and we saw very high demand putting further pressure on water resources.

Population growth and an increase in levels of development is exacerbating these pressures, as is customer demand for water. We saw this spike during the COVID-19 pandemic – in our South Staffs region demand has remained higher than pre-pandemic levels.

In addition, significant future housing growth is planned for our Cambridge region as the Government presses ahead with its plans for economic growth. At the same time, we are mindful of the impact of our activities on the rivers and water courses across both regions and acknowledge that not all our existing abstractions are sustainable over the long term. For example, many of the water courses within our Cambridge region are rare chalk stream habitats that have been modified by human activity over the years. This increases their sensitivity to things like drought.

We have also seen an increase in severe weather-related incidents at our water production sites in recent years because of periods of intense rainfall. Between October 2024 and January 2025, the Met Office recorded five named storms, with storms Darragh and Éowyn having the most impact. Intense rainfall incidents can put pressure on our water treatment processes because of the increased levels of run-off from the land in our water catchments.

In the following sections, we describe how we are facing these challenges.

Our climate change strategy

We are familiar with the need to assess the risks and adaptation opportunities that climate change is creating – and to plan for this across our business.

Under the Water Industry Act 1991 (as amended), we are required to assess and explain how we will manage our water resources to meet the needs of a growing population. This is particularly true for our Cambridge region, which is located in one of the driest parts of the country. It also means assessing the impacts of climate change, such as increased temperatures or greater rainfall. And it means taking changes to regulatory policy and legislation into consideration.

Every five years we produce a business plan for the subsequent five-year period. This plan is set within the context of a 25-year long-term delivery strategy. Key to this is making sure it reflects a vision and ambition for our business that is shared by the Board and the Executive team.

We also produce and consult on 25-year water resources management plans at least every five years. We produce separate plans for our Cambridge and South Staffs regions, to account for the geographic and climate-related differences of these diverse water supply zones. Alongside these sit a number of other obligations that we are required to deliver, including our drought management plans and our plans under the WINEP.

Key climate change risks and opportunities

We have a dedicated working group within our Water Strategy and Environment team, which has carried out an in-depth climate risk assessment. This has determined our priority climate risks, which we have cross-referenced with the UK Third Climate Change Risk Assessment and fed into our corporate risk register. We describe our priority climate-related risks – and some of the opportunities to mitigate those risks – below.

Securing future water supplies

Both our Cambridge and South Staffs regions have been classified as areas of serious water stress. This means we have to focus our attention on ensuring long-term water supply sustainability across both regions in the face of a changing climate and population growth.

In the water resources management plans for each region, we outline our strategies for:

- demand management;
- abstraction reductions; and
- drought resilience.

In addition, our demand forecasts show that both regions face the risk of water scarcity over the long term because of increasing levels of consumption – particularly during prolonged periods of hot, dry weather – combined with the need to reduce the volume of water we take from our groundwater sources.

We think short-term demand management proposals, such as the introduction of water efficiency labelling on white goods, coupled with long-term targets to reduce leakage by 50% by 2050 should help to mitigate this risk. Our projections suggest these measures are likely to be sufficient in our South Staffs region. But in our Cambridge region, we are also exploring additional supply options, including the Fens reservoir, to ensure a long-term and sustainable water supply.

Delivering a resilient supply of good quality water

An assessment of climate change impacts on drinking water quality carried out for our long-term delivery strategy highlighted a number of future risks. These include an increase in low flow events affecting river abstraction and increases in the levels of some nutrients in our reservoirs.

To mitigate these risks, we have developed an adaptive planning pathway that identifies the potential investments in our treatment processes and raw water storage that we might need by 2050.

Over the five years to 2030, we are investing around £140 million to enhance our assets. This includes:

- adding more storage capacity; and
- addressing single points of failure within our water storage and distribution system.

This investment will also help to address water quality challenges arising from rising temperatures. In addition, our catchment work continues to improve raw water

Modelling water supply zone resilience

During the reporting year, we continued to evolve a model to help us assess the resilience of our water supply zones to a range of factors. These include climate change and the operating environment.

The model calculates a robust supply/demand position – that is, the hours of stored water we have available to put into supply. This is based on a wide range of operating scenarios, including hydraulic constraints and available water resources. The aim is to give us a consistent design approach for our water storage assets that will help to simplify our operations in terms of maintenance and refurbishment.

In developing the model, we have considered a number of inputs, as well as the logic behind these inputs. These support the development of policies that drive our decision-making around our short- and long-term investment proposals. The inputs include the supply/demand balance of our water supply zones and the current condition and performance of our water storage assets.

Underpinning the model are a number of key principles covering a range of factors. This includes increasing our ability to locate storage assets where there is space to expand to support population growth and match changes in water demand.

We think the model will help us to ensure we can always meet our customers' water needs in the face of a changing climate.

quality on a wider scale. We will continue this work to target pollution from nitrates. This will become an increasing risk as we experience more frequent and intense rainfall events, leading to more agricultural run-off and diffuse pollution.

Maintaining asset reliability and resilience

More intense weather events will place an additional stress on our water infrastructure. This includes our network of treatment works, pipes and pumping stations. As a business that looks to the long term, we continually invest in these assets. In addition, our new resilience models incorporate future climate predictions and deterioration forecasts to help us identify our long-term needs in an efficient way.

We have adopted holistic approaches to help us identify and manage all our interdependent risks. We are also collaborating proactively with our supply chain partners to support our long-term adaptation goals.

In terms of mitigation, we have an established incident response process, which should help to mitigate community impacts from extreme weather events. But we acknowledge there is more work for us to do to increase our understanding of future flood risks. We are continuing to build our knowledge in this area to increase our levels of flood resilience across all our operational sites.

Minimising the impact of our activities on the environment

As well as ensuring secure water supplies, we also prioritise the need to protect and enhance the environment. We work with a number of partners to make sure we have sustainable water supplies and flourishing local habitats that are resilient to the impacts of a changing climate.

Through a number of WINEP projects across both regions, we aim to:

- enhance biodiversity;
- remove invasive non-native species; and
- protect key habitats.

"We are working to make the network of treatment works, pipes and pumping stations across our Cambridge and South Staffs regions more resilient to intense weather events"

In addition, to ensure we do not cause deterioration to the environment, we are reducing the volume of water we take from the environment. This follows modelling work and discussions with the Environment Agency. We have already started to carry out investigations to determine any additional reductions that are needed to meet the Environment Agency's defined environmental destination.

To help limit the impacts of global warming on our customers, our business and the environment, we have also committed to reduce our carbon emissions. We discuss this in more detail on page 133 below.

Climate change scenario testing

In line with the requirements for climate-related financial disclosures, we have carried out qualitative testing under the following scenarios.

Scenario 1: the impact on the business if the world warms by more than 2°C

As part of the process for developing our long-term delivery strategy, we carried out climate change scenario testing under a high climate change assessment (RCP8.5) to understand the impact to our core pathway investment areas of the world warming by more than 2°C. The areas of operational resilience and water quality triggered the need for additional investment to ensure we can deliver our ambitions. We discuss each of these in more detail below.

It is well documented that a high climate scenario as per RCP8.5 would result in prolonged periods of dry weather, as well as more extreme heatwaves. The effect of this on our **operational resilience** and our ability to provide reliable water supplies is also well evidenced. The impact of this is that despite water consumption reducing overall, these hotter periods bring much higher demand coupled with reduced raw water availability.

In developing our long-term strategy, we used a supply zone resilience model to replicate these conditions. This allowed us to stress test the networks in our Cambridge and South Staffs regions and identify under what conditions and environmental factors customers would be at risk of losing their water supply. This enabled us to identify the water supply zones that would not meet our ambition under a high climate scenario.

We also developed a new model to predict bursts and identify mains renewal rates. This model also forecasts to 2050 and includes climate parameters that can have a material impact on the deterioration of our distribution mains. Results from the model have validated what we have observed during recent extreme weather events, with climate sensitive parameters such as air temperature and rainfall driving burst rates across our networks.

In addition, we worked with Atkins, our third party consultants, to understand how the impacts of climate change can affect **raw water quality**, and at what point our existing infrastructure is no longer fit for purpose. The analysis evaluated the potential risk to drinking water quality at our largest water treatment works in relation to climate change related impacts on river flows.

There were a number of key findings from this assessment, including the following.

- More frequent **low flow events** will increase the number of days when river abstraction is constrained.
- A modest increase in **algal populations in the River Severn** is projected because of an increase in low flow events.
- A moderate increase in **phosphorus and nitrates in Chelmarsh reservoir** could increase the incidences of algal blooms and other quality-related problems.

Our analysis suggests these changes are likely to occur in the medium term from 2040 onwards and increase in severity beyond this date. In addition, for the high climate scenario our analysis suggests that, by 2035, our existing infrastructure will no longer be able to meet our regulatory needs and that an alternative pathway for investment will be required from 2040 onwards.

More information on our climate change scenario testing can be found in our Long Term Delivery Strategy.

Scenario 2: the impact on the business if the world warms by 1.5°C or less

We also tested a second scenario based on the current situation in our latest water resources management plans. Much of this is driven by climate change and its impact on future water availability both for public water supply and to address environmental needs. As both regions are in areas of serious water stress this means that in the future, the household demand for water is likely to be a high proportion of the current effective rainfall.

So, within both plans, we have included an assessment of the impact of climate change on the availability of water supply. We used the latest climate change projections (UKCP18) within the scenarios to develop these assessments. We also used the approach to assessing climate change impacts as set out in the Environment Agency's water resources planning guideline.

Through our analysis, we have identified a number of key challenges across both regions within our latest water resources management plans. These include the following.

- An **increase in demand** driven by a growing population and the need to make sure we have enough water to meet this demand.
- The **need to reduce abstraction** to prevent environmental deterioration, particularly in our Cambridge region.
- **Changes in rainfall patterns**, leading to a higher risk of flooding and longer periods of drought.

"Building resilience to climate change and our ability to react to emerging challenges are key considerations for our plans"

Our analysis suggests these challenges are likely to become more pronounced over the medium term. In our business plan for the five years to 2030, we set out the investments we will make to mitigate these challenges over the short term, including:

- delivering leakage reductions of at least 15% across our Cambridge and South Staffs regions. This is on top of the leakage reductions we have delivered in the five years to 2025;
- developing alternative water sources, such as the bulk water transfer from Anglian Water's Grafham reservoir, into our Cambridge region;
- encouraging customers to be more water efficient, making more use of behavioural change campaigns like 'Can for the Cam' and 'Yes we Cam'; and
- delivering a universal metering programme across both regions over the ten years to 2035.

More information on our planned short-term investments to 2030 can be found in chapter 3 of our business plan (pages 33 to 67).

Our progress in 2024/25

Building resilience to a changing climate, and our ability to adapt quickly and flexibly to emerging challenges, are key considerations for us. Our focus during the reporting year has been on finalising the latest long-term water resources management plans for the Cambridge and South Staffs regions.

We also submitted our latest climate change adaptation report to Defra in the fourth round of reporting under ARP4. It will be used to inform the Government's understanding of climate change risks, alongside the reports from other water companies.

We engaged regularly with the Board to develop our water resources management plans and climate change adaptation report. It has provided us with constructive challenge and feedback at each step of the process.

In addition, we continued to deliver against our net zero strategy. Having previously focused our activities on reducing our Scope 1 and Scope 2 greenhouse gas (GHG) emissions, we turned our attention to our Scope 3 emissions during the reporting year. We have been working with third party carbon experts Future Leap to understand our Scope 3 emissions. At the time of writing, the project was still under way. But we are confident that it will deliver a more accurate picture of our emissions when it is complete. This will enable us to better focus on reduction.

We also completed our project to install electric car charging points at key sites across our Cambridge and South Staffs regions. See page 122 for more detail on this work.

Looking to the future

We will continue to drive our net zero ambitions over the medium term through a combination of activities, including:

- demand reduction;
- efficiency measures; and
- customer and stakeholder engagement.

In addition, we will consider the suitability of Corporate Power Purchase agreements (CPPAs) for our business. These are long-term contracts between the owner of a renewable energy plan and the corporate buyer to deliver 100% green electricity and the corresponding Energy Attribute Certificates. We will explore renewable energy production more generally to help reduce our reliance on fossil fuels.

We will also continue to deliver our pump efficiency programme (PEP), with funding allowed in our PR24 regulatory settlement to carry out testing and refurbishments at our pumping assets. The aim is to make sure our pumps are working effectively. This in turn will reduce the energy we need to move water around the network across both regions.

Governance

As the provider of an essential public service, we take the impact of climate change on our operations over the short, medium and long term seriously. The Board regularly considers climate-related risks and opportunities – and how they drive decision-making across the business. This includes, for example, during the regulatory business planning process and operational budget setting.

The Board has ultimate responsibility to ensure we address any climate-related risks and opportunities. This includes, for example, approving the:

- water resources management plans for the Cambridge and South Staffs regions;
- climate change adaptation programme; and
- capital investment programme for each five-year planning period.

Ensuring we are resilient to a changing climate and managing the risks and opportunities associated with this is a key consideration for the Board.

Supporting the Board at a strategic level is the ESG Committee. The Committee meets regularly during the year to discuss ESG matters, including those related to climate change, to provide direction to the business and to make recommendations to the Board. This means it has a role as a secondary approval body and reviewer.

Climate change is reflected in the focus on environmental factors in the terms of reference for both the Board and ESG Committee, and also in the skills and experience of relevant Board members (see pages 186 and 212, respectively).

“The Board regularly considers climate-related risks and opportunities – and how they drive decision-making across the business”

At an operational level, climate change is a common business consideration. Our risk management framework (see pages 144 to 156) ensures the Executive team is accountable for managing risk. The Board is accountable for overseeing risk management, as well as for setting our approved risk appetite and tolerance levels.

In line with this framework, we use a risk scoring matrix to ensure risks are evaluated consistently and the appropriate actions are prioritised as a result. The matrix considers the likelihood, financial impact and reputational impact of each key business risk. We assess each risk against its impact on the business and the probability of the risk occurring.

We determine the overall rating of each risk by taking the product of the impact and probability scores and weighting this for impact.

The compound scores lead us to focus on the most important risks affecting our business. Priority and greater management time is given to implementing controls over these risks.

We view climate change as a company specific corporate risk. The Audit and Risk Committee and ESG Committee are responsible for identifying and considering our climate-related risks and opportunities in addition to our other key corporate risks.

The Audit and Risk Committee reviews our key corporate risks regularly and examines the effectiveness of our existing risk management approach and the internal control framework. Emerging climate change risks are captured as appropriate, and we carry out additional investigations as required when further assurance is needed. See pages 205 to 210 for more information.

In addition, within our Strategy and Regulation Directorate, climate-related issues are embedded in our long-term delivery strategy, our water resources management plans, our five-yearly business plan and in our climate change adaptation report.

And within our Capital Delivery and Operational Directorate, climate change mitigation is considered as part of our carbon reduction initiatives, as we drive our net zero operational carbon ambitions, and the greater use of renewables across the business.

Finally, all large budgetary and policy-based climate-related decisions for the short, medium and long term are subject to rigorous business planning, such as with the regulatory price review process, and through Board and Committee oversight. Our commitment to ESG focuses on the extent to which we have demonstrated our progress and transparency, and which includes climate-related activities.

The day-to-day governance of climate change related issues rests collectively with our Water Strategy and Environment and Water Quality teams. Our people within these teams are responsible for:

- monitoring data and identifying trends;
- future forecasting, including identifying potential solutions;
- delivering against our WINEP obligations; and
- developing the overall strategy for our water resources management plans and WINEP.

We will continue to ensure that our people and teams have the skills and training they need to ensure we remain resilient to a changing climate over the short, medium and long term.

Our progress in 2024/25

During the reporting year, our focus was on reviewing our overall ESG compliance and the security of our supply chain as part of a Group initiative to implement the Risk Ledger management solution.

Our ESG compliance review has involved exploring better governance structures, to help drive decision-making across the business going forward. We are part of a Group-wide ESG working group, which enables us to make better use of the knowledge and expertise of other Group companies. In addition, having the Risk Ledger framework in place will enable us to meet the requirements of our supply chain more effectively.

We also worked with the wider Group to implement a new data management system called Position Green to enable us to capture key ESG metrics more efficiently. Position Green is also a carbon accounting system that, over time, will enable us to make more accurate calculations. This will help us to evidence our journey to net zero operational emissions.

Looking to the future

The ESG Committee will continue to provide holistic analysis of each aspect of our broader ESG compliance.

In addition, we will continue to collaborate with other Group companies on areas of climate change mitigation through the ESG working group and an ESG management group. The findings from these groups will input into Board decisions taken at both a water company and Group level.

We will also continue to work with the wider Group to review fully implement the Risk Ledger management system and drive improvements in the Position Green system as appropriate.

Risk management

We assess climate change risk as an integral part of our risk management processes. We consider the physical risks associated with drought and flooding – and the potential impact of these on our customers and operations – as part of our wider risk management framework. We also consider the transitional risks associated with changes to regulatory or environmental policy. We review these regularly in line with our risk management framework. There is more information on our approach to risk management on pages 144 to 156.

"We will continue to review best practice in the area of climate change disclosures and associated risks. This includes mitigating our operational risks to make sure we are resilient to changing circumstances"

Our progress in 2024/25

During the reporting year, we continued to monitor and review the principal risks associated with our business. For example, the Environment Agency now requires us to have climate resilience plans for all our key sites. This has led us to renew our focus in certain areas. All sites now have these plans in place, and we are mitigating the current regulatory risk related to climate change.

Looking to the future

We will continue to review best practice in the area of climate change disclosures and the associated risks. Current projections suggest that climate change impacts will worsen over the medium and long term. So, we will continue to mitigate our operational risks as appropriate to ensure we are resilient to changing circumstances.

Analysing the resilience of our climate change strategy

We test our water resources management plans against various scenarios, including a high and low climate change scenario, as outlined above.

In these, we identify the impact on raw water availability of the scenarios and review whether our plans still enable us to retain a positive supply/demand balance throughout the 25-year planning period, or whether they need to change to manage the impact. This change could come in the form of requiring additional demand reduction activities – for example, leakage reductions – or the need for new supply-side options.

For both our Cambridge and South Staffs regions, the low and high climate change scenarios do not require any change to our plans and can be managed within the existing proposed plans. Our water resources management plans have fed directly into our business plan and long-term delivery strategy. So, we are confident these plans are resilient to potential climate change scenarios.

Metrics and targets

Reporting methodology

The Board and our Executive team are responsible for the reporting methodology used to collect the information in our climate-related financial disclosures. The metrics used reflect our overarching strategic objectives and standard ESG requirements. They also reflect our investors' views.

Our investors, the Executive team and other internal stakeholders agreed the climate-related metrics we report against. We have followed the definitions that specify the type of measurements we must use according to regulation or law. This includes those definitions that have been agreed nationally or internationally – for example, the GHG Protocol Methodology for measuring carbon emissions.

There is guidance for the water sector within IFRS S2. We have added these metrics to the ones we consider to be climate related. But they do not have a confidence rating because they have not been collated in the same way as our metrics. In addition, we have not disaggregated GHG emissions because we do not consider this would provide any additional information.

During the reporting year, we continued to develop the maturity of our data collection approach. The Position Green management system outlined above is key to this.

Targets

Our key climate-related targets are associated with our net zero carbon ambitions. These are to achieve net zero for Scope 1 and 2 GHG emissions by 2030, and net zero for Scope 1, 2 and 3 GHG emissions by 2050 as part of a sector-wide approach. We report our Scope 1 and 2 emissions in more detail in the Directors' report on pages 188 to 189.

Metrics

The tables below include some of the key climate change-related metrics we report each year. For each metric, we apply an assurance grade, based on the reliability and accuracy of the data provided. This is an indicator of our maturity in this space and highlights the areas where we need to improve our data. Looking ahead, we will explore the possibility of introducing metrics and targets that link to our key climate change risks and opportunities as outlined on page 127 above and that measure our progress over time.

Emissions

Metric	Definition	Assurance grade 2024/25	2024/25	2023/24
CO2 direct emissions – Scope 1 (tCO2e)	Scope 1 includes direct emissions due to owned or controlled sources using the GHG Protocol Corporate Standard. Any calculations are done in line with annex 1 of the SFDR Delegated Protocol and the GHG Protocol Methodology.	A3	20,267	23,080
CO2 indirect emissions – Scope 2 (tCO2e)	Scope 2 includes direct emissions due to the purchase of electricity, heat or steam, etc, under the GHG Protocol Scope 2 Guidance. Any calculations are done in line with annex 1 of the SFDR Delegated Protocol and the GHG Protocol Methodology (location based).	A2	20,295	20,384
CO2 indirect emissions – Scope 3 (tCO2e)	Scope 3 includes all other indirect emissions accounted for under the GHG Protocol Corporate Value Chain (Scope 3). Any calculations are done in line with annex 1 of the SFDR Delegated Protocol and the GHG Protocol Methodology.	n/a	n/a	n/a
Biogenic emissions (tCO2e)	Direct CO2 emissions from the combustion of biomass. As per the GHG Protocol Methodology, this is being separated from Scope 1.	A1	0	0

Energy

Metric	Definition	Assurance grade 2024/25	2024/25	2023/24
Energy consumption (GWh)	Total energy directly consumed (eg, direct fuel usage, purchased electricity/heating, cooling/steam energy).	A2	224.92	247.79
Procured from non-renewable energy (%)	Energy consumption other than that defined under 'renewable energy consumption' below.	A2	56.39	60.25
Procured from renewable energy (%)	Renewable energy consumed from geothermal, solar, sustainably sourced biomass (inc. biogas), hydropower and wind energy sources. Where electricity is contracted under a 'renewable scheme', like the UK Renewable Energy Guarantees of Origin (REGO) certificate scheme, it is accounted as 'renewable'.	A2	43.61	39.75

Metric	Definition	Assurance grade 2024/25	2024/25	2023/24
Energy production (GWh)	Total energy directly produced.	A2	35.59	43.13
Energy produced which is non-renewable energy (%)	Energy produced other than that defined under 'renewable energy production' below.	A2	99.77	98.84
Energy produced which is renewable energy (%)	Renewable energy produced from geothermal, solar, sustainably sourced biomass (inc. biogas), hydropower and wind energy sources. Where the energy if consumed would be contracted under a 'renewable scheme', like the UK Renewable Energy Guarantees of Origin (REGO) certificate scheme, it is accounted as 'renewable' for production.	A2	0.23	0.16

Water conservation

Metric	Definition	Assurance grade 2024/25	2024/25	2023/24
Total water consumption (m3)	Total water consumed due to business activities or operations, including water delivered to customers and used in company offices.	A2	175,406,926	149,072,934

Waste

Metric	Definition	Assurance grade 2024/25	2024/25	2023/24
Total waste (tonnes)	Total waste directly resulting from business activities or operations. Waste is defined as any substance or object being discarded.	A2	264.00	283.79
Total waste recovered (%)	Total waste directly resulting from business activities or operations that have been repurposed for another process and not discarded.	A2	56.40	55.24
Total waste sent to landfill (%)	Total waste directly resulting from business activities or operations sent to a site to be buried.	A2	0	0
Total waste sent to waste energy facility (%)	Total waste directly resulting from business activities or operations converted into energy of any form.	D6	52.21	55.24

Metric	Definition	Assurance grade 2024/25	2024/25	2023/24
Total waste set for incineration (%)	Total waste directly resulting from business activities or operations burned.	A2	0	0
Hazardous waste (tonnes)	Waste directly resulting from business operations that is hazardous. Hazardous waste is defined in Article 3(2) of Directive 2008/98 EC of the European Parliament and of the Council.	A2	36.07	1.47
Radioactive waste (tonnes)	Waste directly resulting from business activities or operations that is radioactive. Radioactive waste is defined in Article 3(7) of Council Directive 2011/0/Euratom.	A2	0	0
Volume of raw materials that are renewable, recyclable and reusable (%)	Volume of raw materials procured, extracted, or created, directly from business activities or operations that is renewable, recyclable or reusable.	A2	47.07	47.07

Environmental compliance

Metric	Definition	Assurance grade 2024/25	2024/25	2023/24
Number of non-environmental compliances (no.)	Environmental compliance incidents based on local jurisdiction requirements. Specifically, those of material interest – namely Category 1 and 2 pollution incidents and abstraction licence breaches.	A1	2	9

Fossil fuel exposure

Metric	Definition	Assurance grade 2024/25	2024/25	2023/24
Percentage of revenue linked to companies active in the fossil fuel sector (%)	Amount of revenue directly or indirectly linked to operations within the fossil fuel sector. This includes fossil fuel extractors and any known fossil fuel service organisations. Fossil fuels include any substance that releases CO2 when combusted such as coal, natural gas, derived gas, crude oil and petroleum.	A1	0	0

Metrics confidence grades – reliability

Reliability band	Methodology and scope description
A	Sound textual records, procedures, investigations and analysis properly documented and recognised as the best method of assessment. All ready data point areas are covered.
B	As A, but with minor shortcomings. Examples include old assessments, some missing documentation, some reliance on unconfirmed reports, some use of extrapolation. Almost all data points are covered but those missed would not make a material difference.
C	Extrapolation from a limited sample for which grade A or B is available. Some data point areas that would make a material difference are not included.
D	Unconfirmed verbal reports, cursory inspections or analysis. Many data point areas that would make a material difference are not included.

Metrics confidence grades – accuracy

Accuracy band	Quantitative description	Qualitative description
1	Within 0-0.99% of the accurate figure in the collector's professional opinion based on available data.	A comprehensive detailed comment that covers everything.
2	Within 1-4.99% of the accurate figure in the collector's professional opinion based on available data.	A comprehensive detailed comment that covers everything, leaving insignificant details out.
3	Within 5-9.99% of the accurate figure in the collector's professional opinion based on available data.	A comprehensive and detailed comment that covers most areas.
4	Within 10-24.99% of the accurate figure in the collector's professional opinion based on available data.	A moderately detailed answer covering several of the relevant areas.
5	Within 25-49.99% of the accurate figure in the collector's professional opinion based on available data.	A moderately detailed answer on a few relevant areas.
6	Within 50-100% of the accurate figure in the collector's professional opinion based on available data.	A poor and incomplete answer providing the most basic of details on only a few relevant areas.
7	Accuracy is outside of the above, small numbers or otherwise incompatible.	Somehow incompatible.

Metrics compatible confidence grades

Accuracy band	A	B	C	D
1	A1			
2	A2	B2	C2	
3	A3	B3	C3	D3
4	A4	B4	C4	D4

Managing risk and uncertainty

We recognise that risks exist in all businesses. Our approach to risk reflects our status as a regulated and licensed water company providing an essential public service.

We accept that not all risks can be mitigated entirely; our aim is to ensure our risk management activities reduce the overall estimated impact of risks to a level that is acceptable and does not affect our long-term viability.

The Board is responsible for setting our strategic objectives. It also determines our risk appetite and tolerance levels. We identify, prioritise and document the principal risks to our business, allowing the Board to ensure an effective internal control and assurance framework is in place. This comprises regular reviews and additional deep dives when further assurance is required. Emerging risks are captured and fed through to the risk register as appropriate.

The Audit and Risk Committee reviews the effectiveness of our risk management and internal control framework – again through regular reviews of the principal risks.

The Group Risk, Control and Assurance function provides an independent review of the internal control framework. It performs independent assurance, reporting into the Audit and Risk Committee and the Executive team with the audit plan and the outcomes.

Key water sector business risks

In common with other companies in the water sector, we face a number of strategic business risks. We set out these sector-wide risks below.

Supply chain and resource risks

- **Dependency on suppliers.** We are reliant on external suppliers for chemicals, equipment and operational resources. This introduces risks to supply chain interruptions.
- **Skilled workforce.** Challenges in attracting and retaining skilled people across the business may impact our operational efficiency and our ability to respond to emergencies.

Water quality and treatment

- **Compliance with standards.** It is critically important to ensure we always comply with regulatory water quality standards and guidelines to avoid legal and reputational risks.
- **Contamination.** There is a risk around the potential for contaminants, both known and emerging, to enter the water supply and affect water quality – leading to CRI failures

Infrastructure integrity

- **An ageing infrastructure.** The deterioration of pipes, treatment works, and other infrastructure components can lead to bursts, leaks, water quality issues and service disruptions.
- **Asset management plan.** Inadequate asset management practices may result in inefficient operations, maintenance delays, and increased vulnerability to system failures.
- **Obtaining permits.** Delays or challenges in obtaining permits for infrastructure upgrades or new facilities may impact project timelines and costs.

Financial sustainability

- **Revenue stability.** Changes in water demand trends, changes in consumer behaviour and the volume of void properties can negatively impact revenue stability.
- **Cost base.** Macro-economic factors affecting price points in commodities such as energy and chemicals can add significant pressure on our business costs and impact the stability of our cost base.
- **Covenants pressure.** We must maintain key ratios to comply with covenants with our debt providers and the relevant credit rating agencies. Our licence requires us to maintain an investment grade credit rating. Our debt portfolio includes index-linked debt.
- **Customer billing, collections and affordability.** The economic climate has increased household bills – predominantly energy and fuel – and has also placed additional pressure on customers' ability to pay their water bills. We continue to embed our billing and collections system Aptumo, which delivers reliable and accurate bills, designed to suit our customers. The system offers access to data and customisations that can take personalised customer service to a new level, along with automated of collection journeys. We will continue to monitor our performance in this space through our dedicated management focus group, which we hold with our delivery partners to ensure we have collective accountability in improving our customer support and customer journeys. We continue to monitor our collections performance with respect to household debt and modify our recovery activity as required.

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Our approach to risk assessment

We acknowledge that for risk to exist there must be a degree of uncertainty. In addition, we recognise that there are opportunities and threats associated with our day-to-day business activities. So, we recognise the importance of striking the right balance between taking on too much risk or not taking on enough risk to achieve our strategic business objectives.

We are committed to making sure our approach to risk management is clear and straightforward. In this way, we can be confident that all our people recognise the important part they play in mitigating risk across the business.

We have a number of steering groups across our business that review the hazards associated with our day-to-day operations. For example, we regularly monitor the water resource position in our Cambridge and South Staffs regions, as factors like low rainfall or high consumption can be considered hazardous events. We then assess these hazards for their likelihood and impact score. This results in a business risk.

Having identified the risks to the business, we then consider any necessary control measures and determine any efficacy to be assessed. This in turn enables us to determine whether there has been any change to the likelihood and impact score, resulting in a residual business risk.

The Executive team's view on risk is then presented to the Board for discussion, with actions taken forward at a business, departmental and team level.

During the reporting year, we refined our risk assessment framework. This builds on work we carried out during the previous year. Our focus has been on our:

- **risk appetite,** which reflects our ambition in terms of where we want to be in terms of risk management; and
- **risk tolerance,** which is the maximum amount of risk we are prepared to accept, and which is validated by the Board.

We have also identified the need for action plans to be defined and delivered where risks score above our tolerance level to be mandated for immediate action. In addition, we have explored the need for plans that will help to define our overall risk appetite.

Within this framework, we are continuing to assess each business risk against two factors: the **impact** on the business and the **probability or likelihood of the risk occurring**. We determine the overall rating of each risk by taking the product of the impact and probability scores (impact x probability) and weighting this for impact. This compound score ensures our focus is placed on the most important risks. Priority and greater management time is given to implementing controls over these risks.

We illustrate our high-level risk management framework below.

Mission statement: statutory and regulatory commitments → **Risk appetite:** our ambition - where we want to be, measured against key deliverables → **Risk tolerance:** the level of risk we will accept for each of the key deliverables → **Our risk score today:** based on likelihood and consequence - when looking at how hazards impact our ability to deliver → **Our action plans and Board engagement strategy:** where our risk score does not meet our risk tolerance → **Our glide path:** to reach our risk appetite

The aims of our risk management framework

The principal aims of our risk management framework are to:

- ensure there is no harm to our people, our stakeholders and the environment;
- improve performance;
- encourage innovation; and
- support the delivery of our strategic business objectives.

We think it will also help us to integrate risk management across our teams, embedding it as part of our business culture. To help us achieve this aim, we will use our risk appetite and tolerance statement to enable us to make decisions that are consistent with it.

We want to ensure that risk management is a key element of our strategic, tactical and operational decision-making. This is so that whenever there are risks that could significantly impact our business objectives, we can make the necessary resources available to mitigate the risk.

A key objective for us is to ensure risks are managed at all levels of the business. This gives the owner of the risk the authority, responsibility and resources to take effective action to implement controls to limit the risk or to escalate where additional resource is required outside their delegated authority. Our aim is to have documented accountabilities for risk management across the business.

We intend to benchmark our risk management maturity against best practice and the relevant guidelines. We will also align our risk management framework with other companies in the water sector that have similar relevant risks. We will review our risk management framework and the associated risk management and tolerance statement each year.

Principal business risks

Risk	Link to outcomes	Risk profile
Health and safety	Delivering for our business	◀ ▶
Water resources – Cambridge region	Delivering for the environment	▲
Water resources – South Staffs region	Delivering for the environment	New risk[1]
Customer – billing and collections	Delivering for our customers	New risk[1]
Customer – affordability	Delivering for our customers	▼
Customer – experience	Delivering of our customers	New risk[1]
Water quality	Delivering a reliable service	▼
Policy and legal (reputational and regulatory)	Delivering for our business	◀ ▶
Financial resilience	Delivering for our business	◀ ▶
Cyber security and systems	Delivering for our business	New risk[2]
Climate change (planning and adaptation)	Delivering for the environment	▼
Environment	Delivering for the environment	◀ ▶
Asset health	Delivering a reliable service	▼
Metering	Delivering a reliable service	New risk
People	Delivering for our business	◀ ▶

Key:

▲ Risk profile is increasing.

▼ Risk profile is decreasing.

◀ ▶ Risk profile is stable/unchanged.

Notes:

1. We have separated these risks to give us a more granular perspective of the potential impact on our business.

2. Legacy systems and cyber security were listed as separate risks in the 2023/24 annual report and financial statements.

Health and safety

Risk profile: ◀ ▶

Risk causes and triggers

- **Non-compliance incident** from failing to meet our own health and safety standards.
- **Health and Safety Executive** (HSE) inquiry.
- **Gaps in our understanding** around managing construction regulations and the roles and responsibilities required.
- **Understanding of key risks** around working at height, in confined spaces and in explosive atmospheres.

How we are mitigating this risk

As a business, we remain committed to the safety of our people through the Group-wide 'Staying Safe Together' health and safety strategy. This strategy underpins the expectations of how we and the other Group companies approach safety. It also sets clear expectations on the safety behaviours we expect from all our people.

This strategy aligns with the 'Plan, do, check' continuous improvement framework and also with best regulatory practice. Alongside this, the health and safety policy ensures shared and aligned standards for the management of hazards across all Group companies.

We are focusing our attention on the most critical hazards affecting our business, ensuring robust controls are in place. We have put improved and clear governance frameworks in place to provide oversight at a Group Executive and Board level. We have also developed performance metrics that will measure and drive risk management maturity across the business.

In addition, we have implemented the EcoOnline incident reporting system and rolled it out across the business. EcoOnline collates all near misses, high-potential (HiPo) and other incidents. It enables us to demonstrate to all our people that risk management is everyone's responsibility.

We will continue to build on these initiatives to further mitigate this risk.

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Water resources – Cambridge region

Risk profile: ▲

Risk causes and triggers

- Potential for **significant household and non-household growth** in line with Government commitments.
- **Abstraction licence reductions** as determined by the Environment Agency, with large-scale reductions to be delivered by 2030.
- **Impact of prolonged dry weather** on our water supply/demand balance.
- The **need to ensure sustainable abstractions over the long term**, along with the need to align with other companies' water resource options that are outside of our control.
- **Impact of rising nitrate levels in raw water**, reducing water availability at some of our production sites.

How we are mitigating this risk

To mitigate this risk, we are continuing to work with Anglian Water to develop two key resource options – the Grafham reservoir bulk supply transfer and the Fens reservoir.

We have also published the latest water resources management plan for our Cambridge region. This sets out how we will manage the supply/demand balance over the long term to 2050. We will report each year on our progress in delivering against this plan.

In addition, we have a number of controls in place to mitigate the impact or reduce the probability of having insufficient water resources. This includes the collaborative regional engagement carried out through WRE. Other controls in place include the work we carry out to track leakage and PCC.

During the reporting year, we started updating our drought plan. This included reviewing our drought triggers to ensure we respond quickly to changes in weather conditions and minimise the risk to supply and potential environmental impacts. We also explored bringing our level of service in line with the rest of the East of England. This means we would take demand-saving measures such as temporary use bans earlier in the process, providing benefits to water supplies and the environment.

Water resources – South Staffs region

Risk profile: New risk

Risk causes and triggers

- **Borehole abstraction reductions of 18 Ml/d to be delivered by 2030**, as agreed with the Environment Agency.
- **Impact of prolonged dry weather** on our water supply/demand balance, along with underlying drivers such as climate change, population growth and the need to ensure environmentally sustainable abstractions.
- **Dry spring in 2025**, which has caused water levels in Blithfield reservoir to be at their lowest for the time of year for five years, along with associated water quality impacts.

How we are mitigating this risk

We have a number of controls in place to mitigate the impact or reduce the probability of having insufficient water resources. This includes the collaborative regional engagement carried out through WRW, as well as our water resources management plan. Other controls in place include the work we carry out to track leakage and PCC. In addition, our ongoing asset maintenance programme enables us to minimise the risk of short-term supply interruptions.

We also started work on our next drought plan. This included updating our drought triggers to enable us to focus more meaningfully on managing our impact on the environment. We are able to maintain our level of service, which is one of the highest in the water sector, with temporary use bans required at a 1 in 40 year interval.

In addition, over the five years to 2030, we will also deliver a number of water quality improvement schemes at production sites across our South Staffs regions and improve the resilience of our water sources.

Customer – billing and collections/affordability/experience

Risk profile:

Customer billing, collections and debt – **new risk**

Customer affordability – ▼

Customer experience – **new risk**

Risk causes and triggers

- **Impact of the cost-of-living crisis** on customers' ability to pay their water bills.

How we are mitigating this risk

We continue to progress our plans in line with CCW's affordability review. We have also designed a new 'Help when you need it' programme that places a strong emphasis on affordability.

We are also developing a new 'Pay in your own way' approach. This includes increasing the payment choices available, such as using QR codes or ApplePay. It also includes developing a 24/7 self-serve approach. This will enable customers to make payments and changes to their accounts at a time that best suits them.

In addition, we offer customers flexible options to spread their bill payments over a 12-month period to suit their personal circumstances. And we have implemented a debt matching scheme to support customers and encourage regular bill paying habits.

During the reporting year, we continued to embed our Aptumo billing and collections system within the business. This offers a level of customisation that is enabling us to develop more targeted and personalised services for our customers. It has also enabled us to automate collection journeys.

We also started work to develop our new Assure Essential Saver tariff. This is designed to help customers reduce their water bills while encouraging water saving behaviours. We have a debt steering group, which meets every month to monitor debt performance and agree strategy.

Water quality

Risk profile: ▼

Risk causes and triggers

- **Failure to provide resilient supplies of clean, safe drinking water**, assured using a risk-based drinking water safety plan approach.

How we are mitigating this risk

During the reporting year, we continued to drive internal improvement through working groups. We have also reinforced a 'water quality first' focus across our production sites. And we have continued to build a positive relationship with the DWI.

We have a water quality steering group, which manages actions arising from compliance failures and to tackle recommendations from the DWI.

In addition, we have reviewed the structure of the water quality team to ensure it always meets regulatory requirements in terms of protecting public health and the quality of customers' water supplies.

Alongside this, we have continued to review our drinking water safety plans to ensure capital investment relating to drinking water quality is made in the right way and at the right time. We have also carried out a review of our water quality related policies and procedures. And we have completed the upgrade of the treatment processes at our largest water treatment works.

Policy and legal (reputational and regulatory)

Risk profile: ◀ ▶

Risk causes and triggers

- Failure by Ofwat during the reporting year to **accept the arguments made in our PR24 draft determination representations** and the impact on our plans for the five years to 2030.
- **Negative impact of ongoing scrutiny of the water sector** by national and local elected officials

How we are mitigating this risk

After we received Ofwat's draft determination on our business plan for the five years to 2030, we engaged with the regulator on our representations. This included responding to Ofwat's queries within the required deadlines. We also supported Water UK's response to Ofwat on sector-wide concerns. See page 22 for more information on the outcome of the PR24 business planning process.

We are continuing to monitor the impact of changes to government and regulatory policy on our business going forward.

Financial resilience

Risk profile:

Risk causes and triggers

- **Ongoing funding requirements** for our operational costs, capital programme and our long-term debt – we require sufficient resources to run the business.
- The **need to maintain key financial ratios** to comply with covenants with our debt providers and relevant credit rating agencies.
- Requirement under our licence to **maintain an investment grade credit rating.** Failure to do so could result in cash lock-up, restricting our ability to pay dividends and increasing the risk of default.
- **Impact of inflationary pressures**, which has increased our index-linked Bond debt valuation (RPI linked) and added significant pressure to covenants and distributable reserves.
- **Impact of contingent liabilities** resulting from the criminal cyber-attack in 2022.
- **Impact of inflationary pressures**, with specific reference to energy costs.
- **Impact of cash collections being behind the rest of the water sector**, resulting in an increased overdue debt position during the reporting year.

How we are mitigating this risk

During the reporting year, we carried out a comprehensive budget setting and business planning process. This is to enable us to optimise the delivery of our business plan commitments. Alongside this, we performed and assessed various stress testing and downside scenarios to test our financial resilience.

We monitor our key financial metrics each month and consider options for improving our headroom. This is discussed at a Board and a Group level. We also discuss the profit and loss account, cash flow, RCV, AICR and net debt with the Board and Group, providing an explanation for any key variances to our budget and forecasts.

In November 2024, we successfully increased our revolving credit facility from £30 million to £75 million to support investment at the start of the five-year planning period to 2030. In addition, we review our covenants each month and expect the agreement to reduce our gearing levels will have a positive impact on our credit ratings.

Cyber security and systems

Risk profile: New risk

Risk causes and triggers

- Impact of a malicious cyber-attack or failure of cyber-security. This includes the release of sensitive data in breach of the Data Protection Act and the General Data Protection Regulations (GDPR).
- Efficacy of our disaster recovery capabilities and data integrity.

How we are mitigating this risk

We have information security policies in place, which we review regularly. We have also rolled out cyber awareness and operational technology across the business.

In addition, we carry out regular tests of the boundary between our information and operational technology systems to ensure we have the appropriate levels of security in place. We are implementing a process to strengthen this by carrying out comprehensive penetration testing across all boundary connections every year, sharing the results with the appropriate steering groups and with Board.

Environment

Risk profile:

Risk causes and triggers

- Impact of changing rainfall patterns, which could make it harder to meet demand and increase the risk of droughts occurring, which in turn could affect water supplies.
- Higher temperatures and less rainfall in the summer, which means there will be more stress on already scarce water resources when they are needed the most.
- More frequent heavy downpours and changes to the ecology of rivers, which may reduce the quality of the water we take from the environment, requiring more treatment.
- Impact of changes to environmental permitting frameworks, which mean consents may be tighter and monitored differently.

How we are mitigating this risk

We are mindful of the potential impact of our activities. For example, we have developed and implemented a new internal environmental incident reporting process and are self-reporting any incidents, including mains bursts, to the Environment Agency. And we are carrying out benchmarking across the water sector to improve our clean water pollution response and monitoring. In addition, we are working with the Environment Agency, Natural England and other stakeholders on the delivery of our WINEP obligations to ensure sustainable abstraction across our Cambridge and South Staffs regions.

Our Water Strategy, Operational Technology and Production teams work closely together to maintain our MCERTS compliance for selected discharge permits. Our most recent audit in September 2024 was our most successful to date. During the reporting year, we also carried out a review of our discharge permits. A key output of this is a detailed plan with actions to ensure ongoing compliance and any changes required.

Asset health

Risk profile: ▼

Risk causes and triggers

- **Failure to make risk-based decisions** on asset investment and the operational management of assets.
- **Failure to prioritise investment and manage our operational risks**, resulting in impacts to key business metrics, including customer service, water quality and financial metrics.

How we are mitigating this risk

We are aware that all our assets carry the risk of failure. To mitigate this, we make investment decisions at the right time, with the right solution and delivered in a way that creates value for customers. This ensures we have a resilient asset base that is maintained in a cost-effective way. But because it would be impossible to fully mitigate this risk across the whole asset base in an affordable way, we target investment at those assets that pose the greater risk to service, regulatory compliance and the environment.

In developing our business plan for the five years to 2030, we modelled an identification of needs and solutions to mitigate this risk. This includes carrying out proactive maintenance programmes and reducing network failure through our targeted mains rehabilitation programme. We have also aligned our asset management function to deliver proactive interventions based on the continuous monitoring of performance. In addition, we justify investment based on the inherent risk within the business. This ensures that resource and finances are prioritised effectively.

Climate Change (planning and adaptation)

Risk profile: ▼

Risk causes and triggers

- **Impact of changes to precipitation, abstraction, treatment, distribution and water use behaviours resulting from a changing climate**

How we are mitigating this risk

To enable us to adapt to a changing climate, we consider all the risks over the long term, taking action to deal with those that are significant. Our Cambridge and South Staffs water resources management plans give us a 25-year forward-looking planning approach to future challenges. In addition, our business plan submissions for 2020 to 2025 and 2025 to 2030 demonstrate how we invest in our networks, asset resilience schemes and our catchment management and investigation schemes. The increased resilience to external hazards associated with these also benefit our customers and the environment. In January 2025, we submitted our latest climate change adaptation report to Defra. This describes the long-term impact climate change could have on the water supplies, infrastructure and environment in our Cambridge and South Staffs regions.

Metering

Risk profile: New risk

Risk causes and triggers

- **Failure of operational field delivery, customer journey and communication impacts, and resource issues and technology/systems interface impacts** leading to a loss of customer trust and failure to deliver our regulatory contract.
- There is a wider risk relating to the **impact of non-delivery** on our long-term water resources management plans.

How we are mitigating this risk

We have an established steering group in place that meets regularly. In addition, we have set up a target operating model for our universal metering programme covering our contact centre, planning and installation.

There is a clear line of governance around all key decisions, and we have worked extensively with sector leading third parties to shape and challenge our meter delivery programme. We have also engaged with other water companies on lessons learned to ensure we build on the successes of those companies that are further ahead with their metering journeys.

We have commissioned external support to deliver an effective communication campaign to help drive customer awareness and support.

People

Risk profile: ◀ ▶

Risk causes and triggers

- **Lack of clear objectives**, leading to a disengaged work force. This includes a lack of succession planning and an inability to manage performance, leading to high levels of attrition and ineffective teams.

How we are mitigating this risk

The 'Our people' chapter (see pages 91 to 100) describes some of the things we have put in place during the reporting year to mitigate this risk and ensure we deliver our regulatory contract. This includes our people promises and our "Staying Safe Together" health and safety strategy.

In addition, we benefit from Group-wide initiatives, including our diversity, equality and inclusion (DEI) strategy, RISE development programme for future leaders in the business and our manager toolkit. We also have clear business objectives, supported by a robust monitoring framework.

South Staffs Water Cambridge Water

Ensuring our long-term viability

We have carried out an assessment of our long-term financial viability. We have performed modelling on base plans for the ten-year period to 2035 by selecting a plausible range of scenarios.

We have considered a severe and plausible downside scenario that has a 10% chance of occurring and what mitigations we could take to ensure we maintain an investment grade credit rating.

Stress testing

We have stress-tested our financial projections for the ten years from 2025 to 2035 by performing modelling against a number of plausible scenarios that could realistically impact our business. We have considered the key risks facing the business and the impact they could have on customers and other stakeholders. These are set out in the previous chapter and consider financial, operational and regulatory risks.

For the downside scenario that has a 10% chance of occurring, we have considered the actions we would take to mitigate the impact and maintain our target credit rating. We currently hold a credit rating with both Moody's and Standard & Poor's (S&P).

Although our current credit rating with Moody's is Baa2, consistent with the Board's objective of maintaining a strong investment grade, we are targeting a credit rating with Moody's of Baa1. We consider this maintains our current level of credit quality and provides some headroom to enable the company to remain financially resilient. Moody's uses the following two key metrics when assessing credit ratings.

- The **ratio of debt to the regulatory capital value** of the business (RCV gearing).
- An **Adjusted Interest Cover Ratio** (AICR).

Following Ofwat's PR24 price review process, Moody's has updated its latest view of the stability of the regulatory environment. This means a water company would need a stronger AICR to maintain the same credit rating. Moody's revised guidance credit ranges relating to smaller water companies are set out in the table below.

Moody's credit rating	RCV gearing	AICR
Baa1	60% - 68%	1.8x - 2.1x
Baa2	68% - 75%	1.6x – 1.8x

Moody's also takes specific sector factors into account – for example, more headroom as a result of the strong regulatory framework. Any breach of these ratios would also need to be "persistent" to trigger a possible downgrade. But in our assessment, an AICR of >1.8 is considered the standard to achieve the target credit rating, while maintaining covenant net debt to RCV below 68%.

Our target credit rating with S&P is BBB+. The key metric used in its assessment is the ratio of Funds from Operations (FFO) to net debt. S&P has also tightened the required metrics to maintain our current credit rating. We require a minimum FFO/net debt of 11% for the appointed business.

We have performed stress tests against our Board approved plan and included the most significant risks we have identified from our risk management framework.

Below we set out the specific scenarios we have modelled.

Scenario	Size of the impact	Explanation
Base expenditure (botex) over/underspend (AMP8 and AMP9)	+/- 5% of allowed botex	We could overspend our plans as a result of the cost of delivering schemes being more expensive than planned or further investment being required to meet our service targets. We could also underspend our botex through new innovative solutions or cost efficiencies.
Enhancement capex over/underspend (AMP8 and AMP9)	5% underspend/15% overspend	At PR24, Ofwat introduced price control deliverables (PCDs). This requires us to deliver specific outputs from our enhancement spend. There is a risk these schemes will cost more to deliver than we have been funded. There is also the potential for new or emerging risks that could require additional investment to maintain service. Equally, we could deliver all our required outputs more efficiently.

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Scenario	Size of the impact	Explanation
Early investment from the impact of climate change on water quality.	£28 million of spend brought forward to AMP9 from AMP10/11 plans	In our long-term delivery strategy, we included an alternative pathway resulting from the impact of climate change on raw water quality. There is a risk that the impact from climate change is accelerated. This could result in more frequent low flow events and an increasing the number of days on which abstraction from rivers is constrained. This may increase the need to abstract on other days when water quality is poor. As a result, it may be necessary to take action and invest in new treatment plant to manage the increased level of organic matter coming into our works. In addition, additional raw water storage at our treatment works would increase resilience and support the acceptability of water to customers. We have modelled a scenario where we enhance our largest water treatment works in AMP9 rather than AMP10, resulting in an overspend on our totex allowance.
Cash collection rates (2025 to 2035)	+/- 20% change in bad debt charge	Collection of outstanding debt could lower as a result of the impact of the ongoing cost-of-living crisis on the economy. It is also possible that new collection processes or systems could help to improve collections performance.
Inflation (2025 to 2030)	Average CPIH: +2%/-2%	Inflation has remained volatile over the past 12 months. So, we have run a scenario where inflation is at a persistently elevated level of 2% above the long-term historical rate of 2%. Within this scenario, we have assumed that costs only increase by 1%. This recognises that some of our costs are less affected by inflation, such as hedged energy costs (modelled below) and other fixed contracts currently in place. Equally, inflation could continue to fall but with a risk that it is not seen in relation to specific water sector costs. Our scenario assumes that inflation remains at 2% below the long-term rate. We have assumed that none of the lower inflation feeds into lower sector-specific costs, leading to real terms overspend in totex.
CPIH/RPI wedge (2027 to 2030)	CPIH/RPI wedge of 3%	Historically, RPI has been around 1% higher than CPIH. However, over the past couple of years, the wedge between the two indices has been as high as 4%. This has a specific impact on our business as a significant proportion of our debt is RPI-index linked. If the CPIH/RPI wedge continues to be higher than historic levels, this will put pressure on our key ratios, in particular FFO/net debt and gearing. We have assumed a downside scenario where the CPIH/RPI wedge is at 3% for the last three years of AMP8.
Energy costs (2025 to 2030)	+20% increase in wholesale electricity prices above AMP8 assumptions	Energy represents a significant proportion of our operating costs. Ofwat has introduced an end-of-period true-up for the market rate of electricity compared with that assumed at PR24. Although this protects companies in the longer term, there is still a risk that energy costs are significantly above our allowances for AMP8, impacting cash flows and metrics. We have run a scenario where energy costs are 20% higher than our base projections.
Cost of capital (2030 to 2035)	No company-specific uplift to the cost of debt: -35bps	In our final determination, Ofwat included an uplift of 35bps to our cost of debt allowance to recognise the specific challenge for smaller companies in raising new finance. There is a risk that this allowance is not included at PR29, so reducing our cost of capital from 2030.

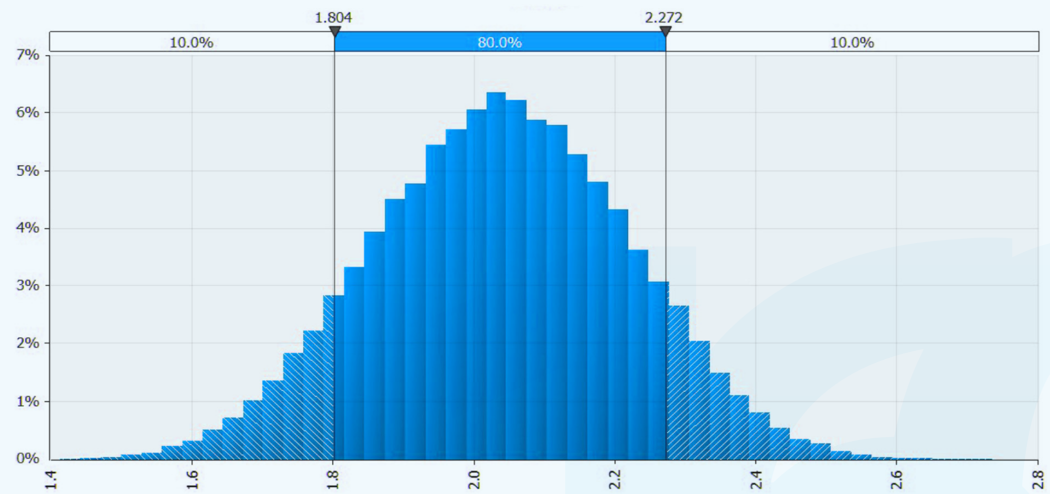
Scenario	Size of the impact	Explanation
Interest rates (2027 to 2032)	+/-2% increase in the cost of new debt	To deliver our investment plans, there will be a need to raise new finance and there is a risk that interest rates on this new debt could be higher or lower than that assumed in our base plans. We have modelled a scenario where the cost of new debt is 2% higher/lower for the five years from 2027 to 2032.
Outcome delivery incentives – ODIs (2025 to 2030, impacting revenues in the 2027 to 2032 period)	AMP8: +£2m/-£2m	Our final determination has stretching performance commitments. In the downside scenario, there is a risk that we fail to achieve our service targets, resulting in a penalty being incurred. We have assumed that this is £2 million each year from 2025 to 2030. The penalties are applied two years in arrears when we set charges and so the impact on our metrics would be from 2027 to 2032. We will continue to target outperformance and have assumed that in the upside scenario we achieve £2 million in rewards for five years from 2025 to 2030.

Monte Carlo modelling and outputs

To understand the range of possible impacts on our financial resilience, we have undertaken Monte Carlo simulation. This is a statistical modelling approach that predicts the probability of different events happening by performing random sampling thousands of times to construct a probability distribution. This shows the likelihood of each outcome occurring. We have undertaken this modelling on AICR, FFO/net debt and gearing as these impact our ability to maintain an investment grade credit rating. We have done this by considering the impact based on a 10% chance of the outcome occurring.

Below, we set out the modelling outputs for the ten-year period to 2035.

AICR



Our base AICR is 2.1 and the modelling output shows a 10 % chance that this is as high as 2.3 and a 10% chance that it is as low as 1.8. At this level, we would just remain at the threshold to maintain our target credit rating.

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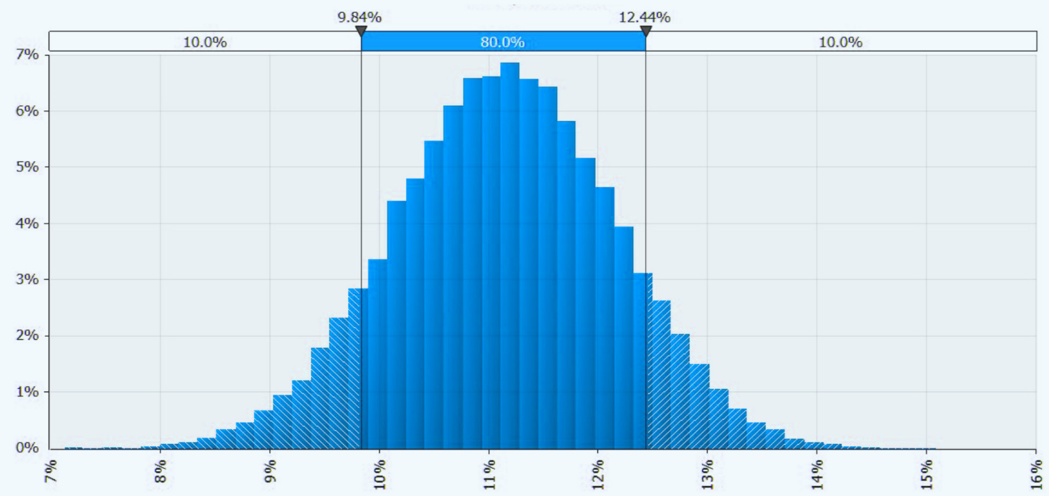
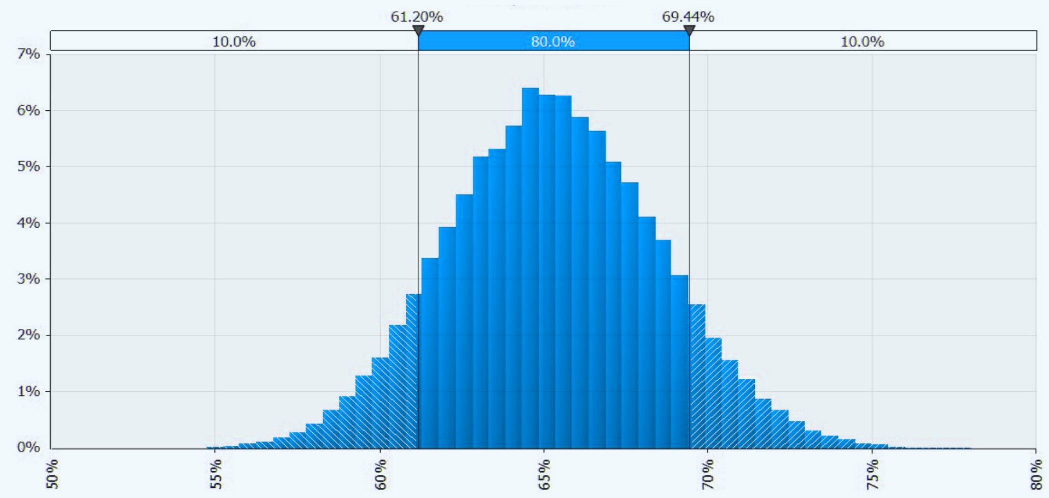
FFO/net debt



Our base FFO/net debt is 11%. The resulting modelling output shows a 10% chance that this metric is as high as 12.4% and a 10% chance that it is as low as 9.8%. This would be below the level required to maintain our target credit rating, although it is still within investment grade.

Gearing



Our base gearing is 65% and the modelling output shows that there is a 10% chance this is as low as 61% and a 10% chance that it is as high as 69%. This is above that required to maintain our target credit rating, although it would still be within investment grade and below the level required by our debt covenants.

Mitigations considered

We have considered the actions senior management could take to ensure we maintain our target credit rating at the 10% chance of occurrence where AICR is 1.8, FFO/net debt is 9.8% and gearing is 69%. We consider that one or a combination of them would restore the financial metrics to an acceptable range.

Mitigation	Explanation
Risk management	We have a risk management process in place to ensure we understand the key risks facing our business. We assess each identified risk against the impact it has on our business and the likelihood of the risk occurring. We determine the overall rating of each risk by multiplying the impact and likelihood scores. This enables us to focus on the most important risks and ensure appropriate controls are put in place to minimise them. But we recognise that it does not eliminate all risks and that some events can develop quickly – for example, weather events.
Totex outperformance	To ensure we maintain our credit rating, we could target a level of totex outperformance by, for example, using new, innovative solutions or changing the way we work. Alternatively, we could reprioritise our overall programme to ensure we could offset these costs while still delivering for customers in the medium term.
Lower dividends/ capital injection	We could restrict dividend payments further to save cash and maintain investment grade credit metrics. We have previously received £40 million of additional equity over the past three years with the early repayment of two intercompany loans, which has helped to strengthen our financial resilience.
Regulatory mechanisms	There are a number of regulatory mechanisms in place for water companies that protect them from significant shocks. These include: • totex sharing allowances that share the out- or underperformance of costs between customers and investors; • specific true-ups to cover energy prices, materials and labour costs; • a revenue true-up mechanism for wholesale over- or under-recovery; • an overall adjustment mechanism (OAM) to mitigate the risk of the water sector being in penalty from mis-calibrated performance commitment targets; • indexation of the cost of new debt mechanism to protect companies from changes in interest rates; • tax reconciliations to protect companies from changes in tax rates; and • uncertainty mechanisms. As part of the price review process, companies also have the ability to appeal Ofwat's decisions to the Competition and Markets Authority (CMA).

Where we would be below the targeted credit metric, we have set out the most appropriate mitigations we could use in the table below.

Scenario	Risk management	Totex out-performance	Lower dividend	Regulatory mechanism
Inflation	✓			✓
RPI/CPIH wedge	✓			✓
Botex and enhancement capex	✓	✓		✓
Early investment to address impact of climate change on water quality	✓	✓		✓
Cost of capital			✓	✓
Cash collections		✓	✓	✓
Interest rates	✓		✓	✓
ODIs	✓		✓	✓
Energy costs	✓	✓	✓	✓

Overall, we consider the mitigations outlined above would enable us to maintain our investment grade credit rating while still delivering on our commitments to customers.

Assurance

We have followed a two-stage process to assuring our long-term viability statement. We have used senior management to carry out a review of all the calculations of the stress testing outputs to ensure the change from the base position is consistent with what would be expected from the particular scenario. We have then carried out independent internal assurance to ensure our statement is consistent with these calculations and that it covers the requirements set out by Ofwat.

Board statement on long-term viability

Based on the financial projections, the stress tests performed and the mitigations available, the Board declares that, in its opinion, the company is viable for the ten years to 2035.

The ten-year period has been selected because:

- the five years to March 2030 are covered by the company's PR24 final determination;
- our PR24 business plan also considered financeability in the longer term by modelling the five years from 2030 to 2035; and
- the Board has confidence that the regulatory system under which the company is licensed will ensure that it will remain financeable in future periods provided the business operates efficiently and Ofwat continues to make proportionate decisions regarding the weighted average costs of capital (WACC), cost allowances, and performance commitment targets.

The Board also declares that **the company has carried out appropriate stress testing of its proposed performance** over the next ten years using Monte Carlo modelling, and that the results of these tests show the business to be financially resilient once the range of mitigations are considered.

Details of the tests are described on pages 158 to 160 above. These tests are considered to cover severe, plausible and reasonable scenarios for key variables relevant to the company. Appropriate multiple scenarios have been considered through Monte Carlo modelling.

The stress testing considers the need for and the availability of new funding and is based on the realistic assumptions that the company continues to have its existing access to capital markets to fund its required investment programme and provide sufficient liquidity. The stress testing considers the implications of key metrics utilised by rating agencies.

The Board also declares that it has received appropriate assurance that **the testing carried out is both appropriate and accurately performed.**

Testing has been performed internally by expert people within the company. The calculations used in the testing have been verified by senior management and assured by independent internal assurance. This assurance is in line with the company's assurance framework.

This strategic report was approved at a meeting of Directors held on 15th July 2025 and duly signed on its behalf.

Elena Karpathakis
Managing Director

15 July 2025

Governance

Chair's introduction

Sara Vaughan

It's been a very busy time for me since joining South Staffordshire Water – first as an Independent Non-executive Director in February 2025 and then succeeding Lord Smith as Independent Chair just after the end of the reporting year.

Whilst my previous experience sits outside the water sector, it has always been very much about customers and ensuring they are treated fairly. I'm passionate about customer service and one of the things that really drew me to this role was the work everyone across the business does every day to deliver for customers and the environment. So, this introduction is very much about new beginnings, working with a new team and the exciting challenges ahead as we look to deliver our ambitious plans for the five years to 2030.

I'm pleased to have the opportunity to thank my predecessor Lord Smith for his leadership of the Board during a time when the business completed the regulator Ofwat's comprehensive PR24 price review process. I'm very grateful for his experience and wisdom during the handover period. I'd also like to thank our retiring Independent Non-executive Director (INED), Catherine May, who chaired the Remuneration Committee and served as Senior INED during her tenure. I welcome Jim O'Sullivan, who joined the Board from 1 April 2025 as the new INED.

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Alongside this, I'd also like to extend my thanks to former Managing Director Andy Willicott for steering South Staffordshire Water to a final determination from Ofwat that recognises both the ambition of the business and the efficiency of its operating costs.

And while this annual report and financial statements looks back on a busy 12 months for the business, I also want to look forward and share some of my early thoughts on the areas where the Board will be focusing its attention in the coming months. This includes those areas where the business is looking to drive long-term improvements for customers and the environment.

Key to this is our universal metering programme. I understand this is the largest single investment area in our plans for the next five years and that it represents a material step change for the business in what it has done previously. I'm looking forward to getting more involved in the delivery of this programme. In particular, I'm keen to learn more about how we can use the data from customers' meters to help them to understand their own water use, more effectively target services to them and drive changes in behaviours to deliver meaningful and sustainable reductions in water use over time.

"I'm immensely proud to be the Board sponsor for our vulnerability strategy…. The work we're doing is truly inspiring, with a 'Help when you need it' approach to vulnerability"

Another area of focus for the Board is on driving operational improvements and investment across the business. I look here to the work that has already been completed to upgrade the two largest water treatment works in our South Staffs region. Investing in our assets is crucial if we're going to achieve our ambitions, so alongside the universal metering programme, I welcome that we're planning to deliver an extensive mains repair and renewal programme across both the Cambridge and the South Staffs regions. This will also help us achieve our ambitious leakage reduction targets, which are so important to us – especially in the context of a changing climate and weather patterns.

In addition, there's the work we're doing for customers in vulnerable circumstances. People across the business have already done a huge amount of work in this space, which is reflected in the strength of our community engagement and the number of customers we help with our financial and other support packages, for example.

I'm immensely proud to be the Board sponsor for our vulnerability strategy, the final version of which was submitted to Ofwat and published after the end of the reporting year in June 2025. The work we're doing here is truly inspiring, with a 'Help when you need it' approach to vulnerability and a commitment to providing a level of support that goes wider than water. I'll share more on some of the outcomes of this work in next year's annual report and financial statements.

Of course, it would be remiss of me not to mention the external factors that are currently playing their part in driving decision-making across the business. The Water (Special Measures) Act 2025, for example, places more responsibility on water company Boards to ensure good governance and probity. In addition, the Independent Water Commission's initial report on its review of the water sector has already made a significant number of recommendations to Government ministers on re-framing the way the water system in England and Wales operates.

As a Board, we'll need to consider carefully any potential impacts from these on the business going forward, as well as how we can take them into account while also finding the right balance between the needs of our customers and the environment. In addition, we'll have to consider how we balance the needs of our investors. At South Staffordshire Water, we're lucky to have investors who care for the future of the business in the long term. This brings us benefits in terms of continuity and a deep understanding of how we run our business. I look forward to working closely with our investors as we deliver on our commitments for the next five years.

I'd like to end by thanking our people. It's been a challenging year at times for everyone across the business. And yet, they have proved themselves to be resilient, rising to meet the challenges they faced and continuing to provide the clean drinking water our customers rely on every day. I'm planning on meeting as many of them as I can over the coming months and learning more about how they're all playing their part to secure the water future for our customers, our communities and the environment.

Sara Vaughan

Sara Vaughan
Chair

15 July 2025

Governance framework

We place good governance at the heart of our business. It is a commitment the Board and the Executive team takes very seriously.

We consider that good corporate governance is essential to enable us to deliver our purpose for all of our stakeholders and it remains a top priority for the Board. Our governance, controls and processes, dictate how the business operates and how our people are held accountable. It encompasses a range of elements, including:

- ethics;
- risk management;
- compliance; and
- administration.

Background

We are committed to the applicable provisions set out in the UK Corporate Governance Code 2018 (the code), which was updated in January 2024. This is available on the Financial Reporting Council (FRC) Website.

During the reporting year, the Board reviewed our governance framework and is in the process of updating and improving it. This is to ensure it aligns with the Code on a "comply or explain" basis, along with Ofwat's principles on Board leadership, transparency and governance guidelines 2019 (the Ofwat Principles), as updated in 2021. For the coming reporting year, this review will continue to provide detailed insight into creating an even more solid foundation for a more streamlined and effective Board and Committee framework aligned with best practice.

There is more information on this on pages 10 to 14 of the annual performance report published alongside this document.

Activities during 2024/25

During the reporting year, our focus has been on the following four elements of our governance framework. Each element has a number of work streams associated with it.

- Board functions.
- Board processes.
- Board effectiveness.
- Governance role – definitions.

At the time of writing, the tasks associated with these work streams were ongoing.

In addition, we delivered a number of key tasks related to our governance framework, including the following.

- **Reviewing and implementing** a new Board operating rhythm.
- Reviewing the previous **skills matrix of all Board members** and developing a revised 'at-a-glance' skills matrix (see page 187).
- Embedding the actions of the previous **Board effectiveness review** (see page 180).

We will review the governance framework each year to ensure ongoing compliance and continual improvement.

Key

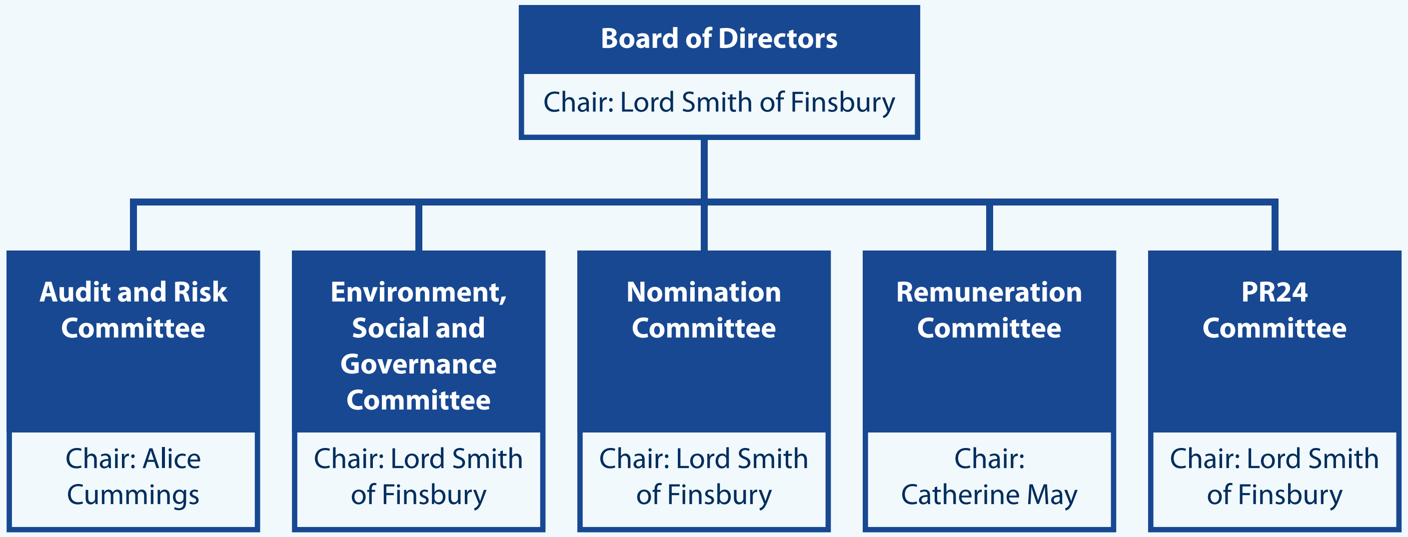
- Audit and Risk Committee
- Environmental, Social and Governance Committee
- Nomination Committee
- Remuneration Committee

Board of Directors

The Board comprises the Independent Chair, the Managing Director, the Group Chief Executive, and five Non-executive Directors.

Three of the Non-executive Directors are considered to be independent, in addition to the Independent Chair. The largest single group of Directors on the Board during the reporting year was that of Independent Non-executive Directors, including the Chair.

Board structure – as at 31 March 2025



At the start of the reporting year, a decision was taken to divide the Remuneration and Nomination Committee into two separate Committees: the Remuneration Committee, chaired by Catherine May; and the Nomination Committee, chaired by Lord Smith.

There were two meetings of the PR24 Committee held during the reporting year; the Committee was disbanded following acceptance of Ofwat's PR24 final determination. All key PR24 decisions were made by the Board.

After the close of the reporting year, the company saw the resignations of Lord Smith and Catherine May. The above diagram shows the Board Structure as at 31 March 2025, before Lord Smith and Catherine May left the Board as at 30 April 2025. It should be noted that:

- Sara Vaughan was appointed as Independent Non-executive Chair of the Board and Chair of the Nomination Committee from 1 May 2025;
- Jim O'Sullivan was appointed to the Board from 1 April 2025;
- Professor Ian Barker was appointed Chair of the ESG Committee and as the Senior Independent Non-executive Director from 1 May 2025; and
- Alice Cummings was appointed Chair of the Remuneration Committee from 1 May 2025 and remains Chair of the Audit and Risk Committee.

Subsequent changes to Committee membership are set out in the individual Committee reports on pages 205 to 208

Details of the terms of reference of all the Committees, their membership and activities during the reporting year are set out on pages 205 to 208.

The Rt Hon Lord Chris Smith of Finsbury, Independent Non-executive Chair (resigned 30 April 2025)

Committee membership

Chair, ESG Committee
Chair, Nomination Committee

Date appointed

Lord Smith was appointed as an Independent Non-executive Director in October 2018.

Skills and experience

Lord Smith has extensive senior leadership experience in both the political world and the public sector, having previously held the posts of Chair of the Environment Agency and Founding Chair of the UK Water Partnership. He is a Life Peer in the House of Lords. He is also a Cambridge Water customer.

External appointments

Since 2015, Lord Smith has been Master of Pembroke College, Cambridge, and is responsible for the strategy and planning for the college. He is also Chair of the Intellectual Property Regulation Board, Chair of the Art Fund, President of the Wordsworth Trust and a Non-executive Director of Phonographic Performance Ltd.

Sara Vaughan,
Independent Non-executive Chair (appointed as Chair 1 May 2025)

Committee membership

Date appointed

Sara was appointed as an Independent Non-executive Director in February 2025 and as Independent Non-executive Chair from 1 May 2025.

Skills and experience

Sara is an experienced Executive and Non-executive Director. She started her career as a competition and regulatory lawyer at Slaughter & May before moving into the energy industry to join what later became E.ON UK. After broadening her experience there, she joined the UK Board as Executive Director for Strategy and Regulation, and, latterly for Political and Regulatory Affairs.

Sara brings a deep understanding of commercial, government and regulatory affairs, compliance, policy and governance to her role, together with a passion for customers and colleagues.

External appointments

Sara currently holds positions as Chair of the Board at Elexon, Chair of the Balancing & Settlement Code Panel and Non-executive Director at the North Sea Transition Authority. She also works with Icebreaker One as co-Chair of its Open Energy Steering Group.

Andy Willicott,
Managing Director. South Staffordshire Water PLC (resigned from the Board 6 December 2024; employed as Managing Director until 31 December 2024)

Committee membership
n/a

Date appointed

Andy was appointed Managing Director in May 2020, having previously served as Transformation Director at Bristol Water.

Skills and experience

Andy's previous roles include Executive Director at Pennon Group and Chief Operating Officer at Sydney Water, with responsibility for all aspects of frontline water and wastewater treatment, network operations and customer delivery.

External appointments

Andy served as a Board member for Water Resources East.

Elena Karpathakis,
Managing Director, South Staffordshire Water PLC (appointed as Managing Director in March 2025 and as an Executive Director on 30 April 2025)

Committee membership
n/a

Date appointed

Elena was appointed Managing Director of South Staffordshire Water PLC in March 2025, and was appointed to the Board after the reporting year, on 30 April 2025.

Skills and experience

Prior to joining South Staffordshire Water, Elena was VP Field Services at British Gas, where she led one of the UK's largest engineering workforces. Earlier in her career, she held leadership positions at Openreach and BT Group.

Elena is an executive leader for scale national service, engineering and operations business units operating in highly regulated, engineering-led businesses. She has more than 20 years' experience, transforming all aspects of service, financial performance, systems and process, as well as mobilising complex stakeholder groups.

Her analytical and structured approach achieves step change improvements in customer experience, people engagement, safety and financial results.

Charley Maher,
Group Chief Executive Officer, South Staffordshire Plc

Committee membership

Date appointed

Charley was appointed as Group Chief Executive Officer of South Staffordshire Plc in September 2023.

Skills and experience

Charley has previously held senior leadership roles in the financial services and utilities sectors. Before joining South Staffordshire Plc, Charley worked for YTL UK, as Chief Commercial Officer at Wessex Water Group and as Managing Director at Pelican Business Services and water2business. Earlier in her career, she was with NatWest and the RBS Group.

Charley is passionate that essential services and infrastructure should always deliver for customers, clients and the planet. She has more than 20 years' experience, focused on driving business growth and delivering high standards of customer service and client delivery, engaging stakeholders in a variety of sectors. She is a passionate enabler of people and has achieved success as a leader developing cultures and connections focused on people thriving, supporting communities and creating social value.

Catherine May,
Senior Independent Non-executive Director (resigned 30 April 2025)

Committee membership

Chair, Remuneration Committee

Date appointed

Catherine was appointed as an Independent Non-executive Director in October 2018.

Skills and experience

Catherine has more than 13 years' experience as a Non-executive Director, Chair and Senior Independent Non-executive Director, and has served on audit, finance, remunerations, nominations and ESG committees as a member and Chair. Previously, she served on the Executive Committee of RELX plc, Centrica Plc and SAB Miller plc.

External appointments

Catherine is Chair of Shoreham Port and Senior Independent Non-executive Director and Chair of the Remuneration and Nomination Committee of the Pensions and Lifetime Savings Association (PLSA), and Chair of the English National Opera Trust. She is also founder and principal of Catherine May & Associates – an advisory practice providing leadership coaching and reputation management services.

Professor Ian Barker,
Senior Independent Non-executive Director (from 1 April 2025)

Committee membership

Chair, ESG Committee (from 1 May 2025)

Date appointed

Ian was appointed as an Independent Non-executive Director in April 2022. He was appointed Senior Independent Non-executive Director in May 2025.

Skills and experience

Ian spent much of his career in the UK water and environmental sectors, and brings extensive experience in water regulation, planning and management. He has advised governments, regulators and water companies and was the expert adviser to the Parliamentary Environmental Audit Committee for its inquiry into river water quality and sewage pollution. In 2021, he was given the World Water Summit's Global Water Excellence Award.

External appointments

Ian is a Chartered Environmentalist and an Honorary Fellow and Vice-Chair of the Society for the Environment, where he also serves as Chair of the Remuneration Committee; a Director and Fellow of the Institute of Water where he has the lead for professional standards; an Expert Adviser to the Organisation for Economic Co-operation and Development (OECD); and an honorary professor at the University of Exeter Centre for Water Systems. He was Managing Director of Water Policy International Ltd until 21 February 2023.

Alice Cummings,
Independent Non-executive Director

Committee membership

Chair, Audit and Risk Committee
Chair, Remuneration Committee (from 1 May 2025)

Date appointed

Alice was appointed as an Independent Non-executive Director in May 2020.

Skills and experience

Alice has extensive commercial, financial and governance experience in regulated service industries. She was previously Group CFO at the InHealth Group and Group CFO at the AEA Group. Alice's earlier career was with South West Water plc and Price Waterhouse. She has a BEng degree in Chemical Engineering from Imperial College, London and is a Fellow of the Institute of Chartered Accountants in England and Wales.

External appointments

Alice is a Non-executive Director at Idox Plc, where she serves as the Senior Independent Non-executive Director, Chair of the Audit Committee and as a member of the Remuneration Committee and the Nomination Committee. In addition, she is a Non-executive Director and Vice-Chair at Cottsway Housing Association. She is also a Non-executive Director and Chair of the Audit and Assurance Committee at Curo Housing Association.

Jim O'Sullivan,
Independent Non-executive Director (from 1 April 2025)

Committee membership

Date appointed

Jim was appointed as an Independent Non-executive Director on 1 April 2025.

Skills and experience

Jim is an engineer with extensive experience in transportation, utilities and aviation. A Chartered Engineer and Fellow of the Royal Academy of Engineering, he has held senior leadership roles across both the public and private sectors, focusing on infrastructure delivery, safety and engineering innovation.

External appointments

Jim is a Non-executive Director at the Major Projects Association.

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Keith Harris,
Non-executive Director & Arjun Infrastructure Partners Representative

Committee membership

Date appointed

Keith was appointed as an Independent Non-executive Director in April 2015. He became a Non-executive Director and Arjun Infrastructure Partners Representative on 25 October 2018, following the sale of the Group and the company.

Skills and experience

Keith is the owner of the advisory business Lorraine House and spent 20 years at Wessex Water, where he held various senior executive and Board positions, including CFO and deputy CEO. He brings strong financial and regulatory experience to the Board.

External appointments

Keith is an Independent Non-executive Director at Ervia, the parent company of Irish Water, Gas Networks Ireland and Aurora Telecom, serving as Chair of the Audit and Risk, and Finance and Investment Committees. He is also a Director of Northumbrian Water Group Limited. He is an Industry Partner with Arjun Infrastructure Partners and an Associate at OXERA.

Peter Antolik,
Non-executive Director & Arjun Infrastructure Partners Representative

Committee membership

Chair, ESG Committee (from 1 May 2025)

Date appointed

Peter was appointed as a Non-executive Director and Arjun Infrastructure Partners Representative on 25 October 2018.

Skills and experience

Peter is a Partner of Arjun Infrastructure Partners, and his background covers regulated companies, transport regulation and the management of infrastructure funds and investments. Peter joined Arjun Infrastructure Partners from the Office of Rail and Road where he led the Highways Directorate. He was previously an Executive Director at JP Morgan Asset Management, and Strategy and Regulation Director at Thames Water.

Key

Audit and risk committee

Environmental, social and governance committee

Nomination committee

Renumeration committee

Board effectiveness and evaluation

Through the annual reporting process, the company is required to demonstrate how it is meeting the Ofwat Principles.

The Board is committed to reviewing its effectiveness periodically and to evaluating the performance of individual Directors. The previous review was carried out in the last quarter of the 2023/24 financial year.

During the reporting year, the Board focused its attention on embedding the actions from the previous review. This included building on the work to align more clearly the skills of individual Board members with key themes that underpin the company's decision-making. This is reflected in the skills matrix on page 185.

Another focus for the Board has been on succession planning, with a new Chair and a new Board member being appointed. A new Senior Independent Director has also been appointed. Following these changes, a full review of the Board will be undertaken in the last quarter of the 2025/26 reporting year.

Looking ahead, the Board will be focusing its attention on how it will support the business in achieving its objective of driving long-term improvements for customers and the environment. It will also need to consider any potential impacts on the company from the Water (Special Measures) Act and the outcome of the Independent Water Commission's review of the water sector. An evaluation of the Board's performance in relation to these will be reflected in the review.

Executive team

The Executive team is responsible for setting the strategic direction of the business. It is also responsible for the day-to-day operations of the wholesale and retail functions across the Cambridge and South Staffs regions.

The Executive team oversees the implementation of policies and procedures that align with regulatory standards and environmental guidelines. Members of the Executive team work together closely to ensure financial stability through effective budgeting and cost control.

The Executive team engages with a wide range of stakeholders, including customers and communities, government bodies and investors to foster a spirit of trust and collaboration.

Overall, the leadership of the Executive team is key in ensuring the long-term success of the business and in enabling it to navigate the complex challenges of the England and Wales water sector.

During the reporting year, there were a number of changes to the Executive team. These are listed on the following page. At the time of writing, a process of recruitment to strengthen the Executive team was under way.

Graham Hubbold,
Interim Finance Director

Date appointed

Graham was appointed to the Executive team in 2025.

Skills and experience

Graham has more than 17 years' senior finance experience operating at a Finance Director or Head of Finance level across a broad range of industries, including within the England and Wales water sector.

His water experience includes roles at Severn Trent Services and Interserve Fire & Water. Most recently, he served as Chief Financial Officer at Marlowe Environmental Services, part of the Testing, Inspection and Certification division of Marlowe Plc.

Caroline Cooper,
Strategy and Regulation Director

Date appointed

Caroline was appointed to the Executive team in 2020.

Skills and experience

Caroline was previously responsible for our successful PR19 and PR24 regulatory submissions, developing plans that deliver for our customers, our communities and the environment. For PR24, this saw South Staffordshire Water secure more than £926 million of funding for the five years to 2030.

Caroline has spent all her career in the water sector, previously working for Severn Trent Water until she joined South Staffordshire Water in 2003 as an asset management analyst. She has progressed through several roles within the business, and has extensive knowledge of asset management, business planning and strategy development.

Robert Boswell,
Capital Delivery and Operations Director

Date appointed

Robert was appointed to the Executive team in 2023.

Skills and experience

Robert started his career with South Staffordshire Water nearly 30 years ago. He has been responsible for delivering operational experience throughout multiple front-line departments, specialising in energy, water production and civil engineering.

In this role, Robert oversees the delivery of projects and operational technologies. His focus is on managing one of our biggest costs – energy – and tackling how we become greener as a business, while developing smarter networks.

Departures from the Executive team during the reporting year

Abbie Poulton, Finance Director – resigned on 30 September 2024.

Joanna Smith, Finance Director – appointed in September 2024; promoted to Group CFO, but left the business before taking up the role.

Andrew Lobley, Operations Director – seconded to fellow Group company OnSite on 1 April 2024; appointed Managing Director of Group company Hydrosave and AES on 1 December 2024.

Tom Fewster, Asset Management and Investment Delivery Director – resigned on 30 September 2024.

Gary Kinsella, Interim Customer Delivery Director – completed his fixed-term contract on 28 February 2025.

Heidi Knapton, Director of Customer Delivery – moved to a significant new leadership role for the universal metering programme on 11 March 2025.

Sara McCann, Head of People – promoted to Group HR Director on 30 April 2024, retaining oversight of South Staffordshire Water during the reporting year.

Directors' report

The Directors are pleased to present their annual report and financial statements for the year ended 31 March 2025.

The Directors confirm they consider the annual report and financial statements to be fairly presented, balanced and understandable. It provides investors and other stakeholders with the necessary information to assess South Staffordshire Water's performance for the year ended 31 March 2025, its business model and its strategy.

Directors – as at 31 March 2025

The Directors who held office during the year and subsequently, along with the number of Board meetings attended by each Director, while holding office during the reporting year, are as shown on the table to the right.

During the reporting year, the Board held six scheduled meetings. Directors' attendance at scheduled Board meeting held during the year is set in the table. The remaining four additional unscheduled Board meetings were held when circumstances required the Board to meet at short notice. The Board also approved a number of matters during the year by written resolution.

Director	Director type	Date appointed to the Board	Date resigned	Meetings attended
The Rt Hon Lord Smith of Finsbury	Independent Non-executive Director and Chair from 27/03/2020	25/10/2018	30/04/2025	6/6
Charley Maher	Group Chief Executive – South Staffordshire Plc	29/09/2023		6/6
Andy Willicott	Managing Director	11/05/2020	31/12/2024	4/4
Catherine May	Senior Independent Non-executive Director	25/10/2018	30/04/2025	6/6
Alice Cummings	Independent Non-executive Director	14/05/2020		6/6
Professor Ian Barker	Independent Non-executive Director	12/04/2022		6/6
Keith Harris	Non-executive Director	30/04/2015		6/6
Peter Antolik	Non-executive Director	25/10/2018		6/6
Sara Vaughan	Independent Non-executive Director (appointed Chair from 01/05/2025)	10/02/2025		2/2

Note: Keith Harris was appointed as an Independent Non-executive Director from 2015 to 2018. In 2018, he was appointed as a Non-executive Director and Arjun Infrastructure Partners representative. Jim O'Sullivan was appointed to the Board from 1 April 2025, after the end of the reporting year.

Board composition at a glance - as at 31 March 2025

No Director had any material interest in any contract of significance with the company. The largest single group of Directors on the Board during the reporting year were Independent Non-executive Directors, including the Independent Chair.

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Skills matrix

	Lord Chris Smith	Catherine May	Alice Cummings	Professor Ian Barker	Keith Harris	Peter Antolik	Andy Willicott	Charley Maher	Sara Vaughan
Corporate governance	1	1	1	1	1	2	2	2	1
Regulatory and legal	2	2	1	1	1	1	1	2	1
Strategy	1	1	1	1	1	1	1	1	1
Health and safety	2	2	2	1	2	2	1	1	1
Environment / sustainability	1	1	2	1	1	2	1	2	1
Financial management / reporting / accounting	2	1	1	2	1	1	2	2	2
Audit and risk management	2	2	1	2	1	2	2	2	2
Corporate finance /Treasury	2	2	1	-	1	1	2	2	2
Employee performance management	2	1	1	1	1	2	1	1	1
DEI	1	1	1	2	2	2	2	1	1
Customer relationships / insight	1	2	2	1	1	2	2	1	1
Infrastructure/capital delivery	2	2	1	1	1	2	1	1	2
Technology systems – strategy / investment	2	2	1	2	2	2	1	2	2
Cyber and IT security	-	-	2	-	2	1	1	-	2
Comms / stakeholder relationships	1	1	1	2	1	1	1	1	1
Gov / political / regulatory experience	1	1	2	1	1	1	1	2	1

Note:

1. '1' denotes primary skill; '2' denotes secondary skill.
2. This skills matrix includes only the Directors who were in post at 31 March 2025

Financial results

The company's financial results are shown in the financial statements on page 235 onwards and are summarised in the strategic report on pages 35 to 41.

On 25 June 2025, a second interim dividend of £1.84 million was approved for the year ended 31 March 2025 after the end of the reporting year. In total, the Board has approved interim dividend payments of £6.84 million for the financial year 2024/25 (2024: £5.3 million).

A breakdown of the dividend payments for the year along with a comparison with the prior period is contained in the financial performance chapter on pages 35 to 41.

Payment of creditors and commercial arrangements

The company's policy is to pay suppliers in line with the terms of payment agreed with each of them, when contracting for their products or services. Trade creditors at 31 March 2024 represent 29 days (2024: 25 days) of purchases. The company is not reliant on any single commercial arrangement.

No political donations were made during the financial year (2024: nil).

Fostering effective relationships

During the reporting year, the Board has been actively involved in the governance of a number of key decisions affecting the business in the short, medium and long term. This includes, among other things:

- representations on Ofwat's draft and final determinations on the company's PR24 business plan;
- delivery of the company's plans for the five years to 2030;
- the draft vulnerability strategy, universal metering programme and Assure Essential Saver tariff;
- water resources management plans for the Cambridge and South Staffs regions; and
- balancing the Government's growth agenda with the needs of the environment and the need to secure sustainable, long-term water resources, particularly the Cambridge region.

The Board has continued to be actively involved in the company's customer engagement and insight programme.

For more information on how the Board's engagement has driven decision-making across the business, see the section 172(1) statement on page 111. Other information on customer and stakeholder engagement can be found on page 101.

Corporate social responsibility

The company regards the implementation of responsible social and ethical standards and the health, safety, wellbeing and fair treatment of all its people as fundamental to it. Compliance with relevant environmental laws is also integral.

The company places considerable value on the engagement of its people and has continued to keep them informed about matters affecting them as employees and on the various factors affecting its performance.

This is achieved through formal and informal meetings, and internal communication channels. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests through the People Forum.

The company considers its corporate social responsibility within the context of ESG compliance. The company has a Board ESG Committee and reports each year against key ESG metrics.

Recognising the activities it carries out as a business have a direct impact on society and the environment, the company has published a sustainability and social responsibility report. The report is aimed at customers and describes some of the work carried out during the reporting year. This includes the:

- 'Yes we Cam' water use behavioural change campaign in the Cambridge region;
- launch of the Group-wide Women's network and Unity+ network; and
- implementation of the Group-wide Position Green carbon accounting system.

The sustainability and social responsibility report is published on the company's website alongside this annual report and financial statements.

Energy use and carbon emissions

The UK water sector has committed to achieving net zero carbon emissions by 2030. This goal forms part of Water UK's Net Zero 2030 Routemap, which sets out a vision for what a net zero future might look like. At the heart of the routemap is a ten-point plan for cutting operational carbon emissions to zero, which reinforces the need to:

- protect customers;
- facilitate the creation of green jobs and skills;
- prioritise net zero innovation; and
- enable more nature-based solutions.

The company is required to publish the following information about its carbon emissions.

Methodology

The figures in the table below have been prepared broadly in compliance with the principles of the Greenhouse Gas Protocol (GHGP) as developed by the World Resources Institute and the World Business Council for Sustainable Development.

They have been collated and summarised using the UK Carbon Accounting Workbook (CAW), which is used as a standard process for carbon accounting within the water sector and audited by an external Ofwat appointed water auditor. Reporting boundaries are defined by financial control.

The company has also used the greenhouse gas reporting conversion factors published by the Department for Energy Security and Net Zero (DESNZ).

Scope 1 energy use and emissions

Scope 1 energy use and emissions are directly associated with the company's operations. They include the use of natural gas and fuel oils used in its on-site generator plant and fuel for transportation on direct company business, such as transport to and between sites. The company's Scope 1 energy use and carbon emissions for the reporting year are set out below.

Fuel – Scope 1	2024/25				2023/24		2022/23		2021/22	
	Litres	Conversion factor[1]	kWh	Tonnes CO_2e	kWh	Tonnes CO_2e	kWh	Tonnes CO_2e	kWh	Tonnes CO_2e
Natural gas	n/a	n/a	91,324,357	16,703	106,228,049	19,432	97,059,704	17,717	105,539,614	19,147
Gasoil (Class A2 – red diesel)	n/a	n/a	n/a	n/a	n/a	n/a	556,428	146	1,504,145	411
White diesel (operations/ generators)	2,000	9.92	19,845	5	696,040	186	1,279,515	327	Not recorded	Not recorded
Petrol (operations)	999	9.22	9,208	2	110,558	28	-	-	-	-
Kerosene (heating)	14,347	9.79	140,400	36	179,955	47	316,730	83	298,028	74
Hydrogenated vegetable oil (HVO)	0	9.53	0	0	0	0	405,659	34	202,393	4
Diesel BS EN 590 (transport)	708,931	9.89	7,007,785	1,782	2,791,516	709	6,453,752	1,564	5,904,148	1,398
Unleaded petrol (transport)	3,218	8.97	28,846	7	229,795	54	311,007	80	227,869	52
Process and fugitive emissions	-	-	-	1,732	-	-	-	-	-	-
Total	**-**	**-**	**98,530,441**	**20,267**	**110,235,913**	**20,456**	**106,382,795**	**19,951**	**113,676,197**	**21,086**

Note:

1. To enable the company to report greenhouse gas emissions associated with its activities, the carbon emissions need to be converted into 'activity data', such as distance travelled, litres of fuel used, and tonnes of waste disposed. The conversion factor provides the values to be used for such conversions, along with step-by-step guidance on how to use them. The Government produces a new set of conversion factors each year, along with a methodology explaining how they are derived and any major changes from the previous year.

Scope 2 energy use and emissions

Scope 2 energy emissions are those associated with the company's direct consumption of grid electricity for pumping and water treatment in addition to relatively small amounts used to operate its buildings. The company now reports its emissions resulting from grid electricity consumption using location-based emissions factors (UK grid emissions factors), which does not consider the procurement of low and zero carbon electrical energy tariffs. For consistency with previous annual reports, it has also included the market-based reporting in the table below.

Electricity – Scope 2	2024/25		2023/24		2022/23		2021/22	
	kWh	Tonnes CO_2e	kWh	Tonnes CO_2e	kWh	Tonnes CO_2e	kWh	Tonnes CO_2e
Location-based emissions	98,012,108	20,295	94,349,063	21,228	104,869,246	22,135	97,676,198	22,759
Market-based emissions	98,012,108	6	94,349,063	7	104,869,246	1	97,676,198	0

Scope 3 Total emissions

Scope 1 and 2 emissions are those directly associated with the company's business operations. They are summarised below, using both location-based and market-based factors for electricity (taking into consideration its certified clean renewable energy sources).

Total emissions – Scope 1 and 2	Location-based electricity factor					Market-based electricity factor				
	2024/25	2023/24	2022/23	2021/22	2020/21	2024/25	2023/24	2022/23	2021/22	2020/21
Emissions (tonnes CO2e)	40,562	44,422	43,348	43,845	43,450	20,273	24,889	21,213	21,086	19,256
Emissions (kg CO2e per Ml of treated water)	245	272	255	265	263	131	154	121	128	117

Note:
Ml = megalitre (one megalitre equals one million litres).

Corporate governance

The corporate governance report is set out on pages 191 to 218. The structure of the Group is shown in the chart on page 195.

Financial instruments

The company's financial risk management objectives and policies, and the exposure of the company to price risk, credit risk, liquidity risk and cash flow risk are set out on pages 143 to 156 of the strategic report. See also note 1t of the financial statements, which includes a section on financial risks.

Post-balance sheet events

On 25 June 2025, a second interim dividend of £1.84 million was approved for the year ended 31 March 2025 after the end of the reporting year. In total, the Board has approved interim dividend payments of £6.84 million for the financial year 2024/25 (2024: £5.3 million).

Equal opportunities

The company's policy in respect of its commitment to DEI is set out on page 201 of the corporate governance report.

Risk management

The company's practices in respect of risk management are set out on pages 143 to 156 of the strategic report.

Going concern

The company's statement on going concern and the basis for the going concern assumption are set out on page 203.

Independent Auditor

In accordance with the provisions of section 418 of the Companies Act 2006, the Directors confirm that, as far as they are aware, there is no relevant audit information of which the company's auditor is unaware. The Board has taken all reasonable steps to make itself aware of any relevant audit information and to establish that the company's auditor is aware of that information. Ernst & Young LLP will be reappointed at the Annual General Meeting for 2025/26.

This Directors' report was approved by the Board on 15th July 2025 and signed on its behalf by:

Elena Karpathakis
Managing Director

15th July 2025

Corporate governance report

The Board has always placed good governance at the core of the business. Board members are aware of their obligations to ensure effective leadership and appropriate governance arrangements are in place.

Although the company is not publicly listed, the Board recognises that, because of public interest in how the company performs, and the regulated environment in which it operates, it should act as if it were. This includes following, where appropriate and applicable, the Code on a "comply or explain" basis. In addition, the Board recognises the Ofwat Principles.

The company also chooses to apply the Walker Guidelines on a "comply or explain" basis. These guidelines aim to enhance transparency and disclosure in companies' annual reports and accounts.

Although the guidelines are aimed at private equity firms, the Board recognises their value to stakeholders and seeks to comply where possible. The company monitors corporate governance best practice and the appropriateness of developments to it. Any changes to the company's governance arrangements are implemented within agreed timescales.

Details of how the company preserves value over the long term, its business model and how it delivers this, and its strategy are set out in the business overview and strategic report.

During the reporting year, the company continued to improve its governance framework. More information about this is set out on page 172.

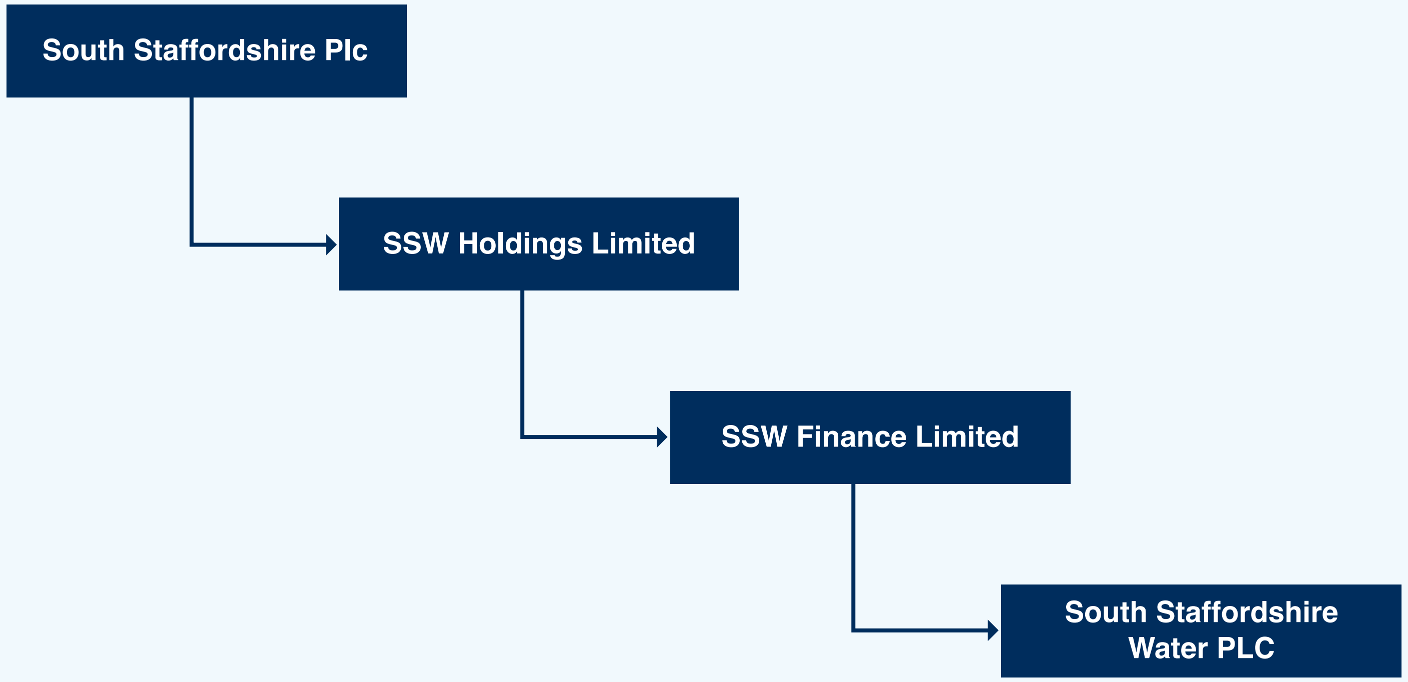
Compliance with the Corporate Governance Code

The company is committed to delivering effective corporate governance and thinks good corporate governance is essential to give customers confidence in its performance and to deliver its strategy. To this end, the company chooses to follow the Code on a "comply or explain" basis. A summary of the ways in which the company can demonstrate its compliance with the Code is set out in the table below. The Board carries out a detailed review of the company's compliance on an annual basis.

Corporate Governance Code requirement	How the company demonstrates compliance
Board leadership and company purpose	• Vision, purpose and values (page 7). • Section 172(1) statement (pages 111 to 124). • Corporate social responsibility/ESG compliance (page 187). See also the sustainability and social responsibility report published alongside this document. • Company direction and performance statement (see annual performance report, page 15).
Division of responsibilities	• Functions of the Board (pages 196 to 197). • Board Committees (pages 207 to 218). • Directors' responsibilities statement (page 233). • Statement of Directors' responsibilities for regulatory information (see annual performance report, page 53).
Composition, succession and evaluation	• Board structure (page 173). • Board effectiveness and evaluation (page 180). • Nomination Committee report (page 214).
Audit, risk and internal control	• Managing risk and uncertainty (pages 143 to 156). • Risk and compliance statement (see annual performance report, page 57). • Statement on the accuracy and completeness of data and information (see annual performance report, page 57). • Ensuring our long-term viability (pages 157 to 163). • Board statement on long-term viability (page 164).
Remuneration	• Remuneration report (pages 191 to 232).

Group structure

South Staffordshire Water PLC's immediate parent company is SSW Finance Limited. The ultimate controlling party is AIP Holdings Limited.



South Staffordshire Plc ensures, through its comprehensive knowledge of its subsidiaries and the water sector, that it understands the duties and obligations of a regulated company. This includes Condition P of South Staffordshire Water's licence and, although some Directors of South Staffordshire Water sit on the boards of South Staffordshire Plc, SSW Finance Limited and SSW Holdings Limited, South Staffordshire Water acts, with the support of the Group, as if it were a separate listed company.

South Staffordshire Plc provides management, professional and administrative support services to South Staffordshire Water and its other subsidiaries at cost. There were no direct transactions during the year between South Staffordshire Water and the Group's shareholders (the details of which are set out in the Group structure below).

Details of the company's borrowings are provided in the accompanying reported financial statements and the financial performance section of the strategic report. Similarly, details of the borrowings of South Staffordshire Plc are provided in its own annual report and accounts. Details of the Group structure are set out below.

The company's investors

100% of the Group is owned by pension funds and other institutional investors, which are advised and managed by Arjun Infrastructure Partners Limited (AIP). AIP is a UK-based independent infrastructure investment advisory business. The Group's two shareholders are IAE2 HoldCo 1 Limited and Arjun Infrastructure Partners VI Limited (the shareholders), with IAE2 HoldCo 1 Limited becoming the controlling shareholder following further investment in the Group in January 2025. Both entities are ultimately controlled by AIP Holdings Limited (see following page for complete Group structure).

Relations with investors and the immediate holding companies

During the reporting year, there were two UK registered intermediate holding companies above South Staffordshire Water and several UK registered intermediate holding companies above South Staffordshire Plc in the Group structure, headed by Hydriades IV Limited.

There are intermediate holding companies above Hydriades IV Limited, which are registered in Jersey, but which are resident in the UK for tax purposes, and one intermediate holding company, which is registered in Hong Kong. There are several UK registered entities above the companies registered in Jersey and the shareholders are registered in the UK.

IAE2 Holdco 1 Limited and AIP Holdings Limited (the controlling shareholder of Arjun Infrastructure VI Partners Limited and IAE2 Holdco 1 Limited) have signed Condition P undertakings in accordance with South Staffordshire Water's Instrument of Appointment (the licence). The companies giving the Condition P undertakings agree to:

i) provide the company with all information needed to comply with its obligations; and to procure that their subsidiaries will;

- a) refrain from taking any action which might cause the company to breach any of its obligations; and
- b) ensure that the Board of the company contains no less than three Independent Non-executive Directors, or such higher number to ensure that the Independent Non-executive Directors are the largest single group on the Board, who are persons of standing with relevant experience.

There is a regular dialogue between the Board and investors to ensure their objectives and priorities are carefully considered. This dialogue is achieved through Board meetings, with investors having representation on the Board and through other less formal communication. Investors also have representation on the four Board Committees.

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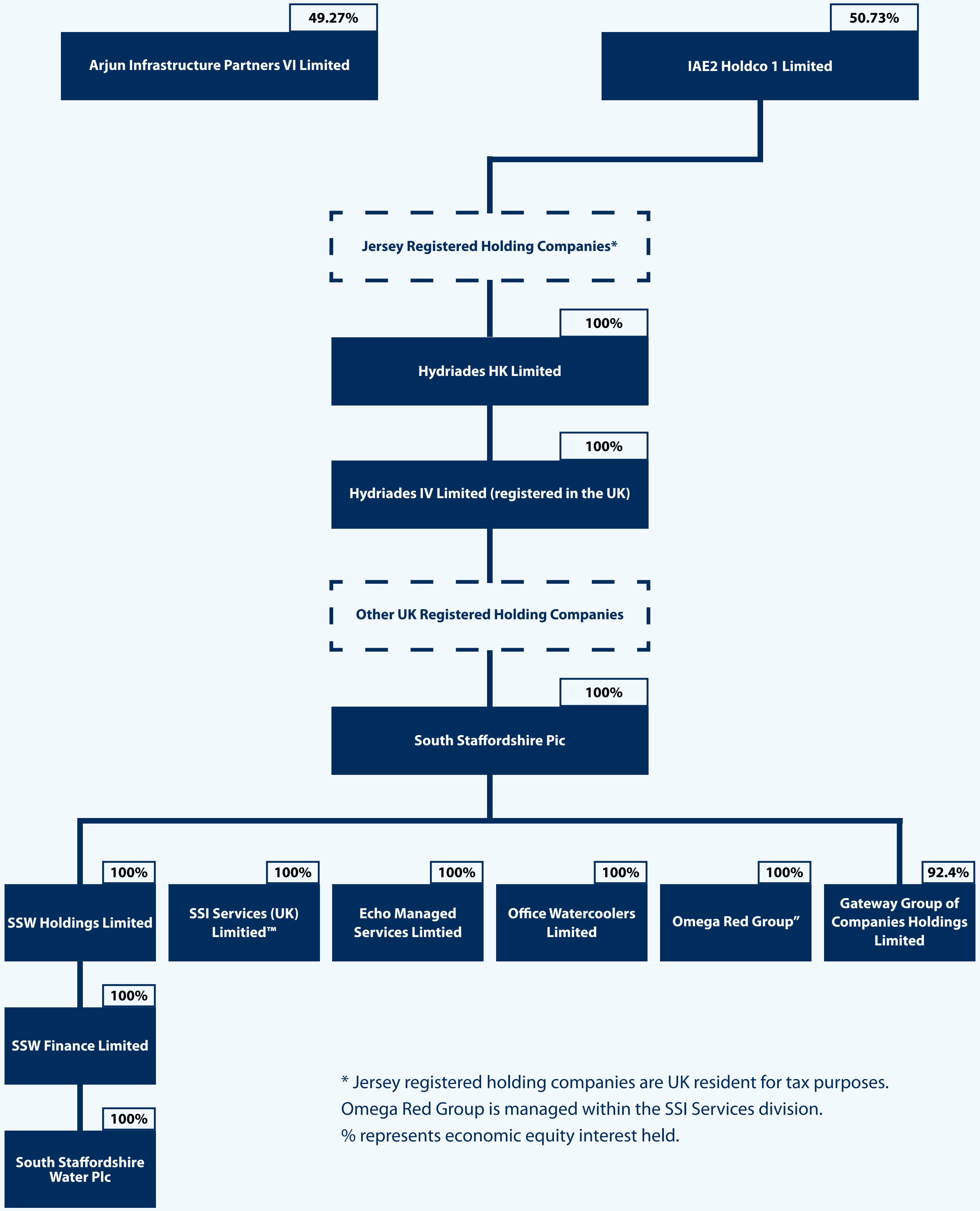

* Jersey registered holding companies are UK resident for tax purposes.
Omega Red Group is managed within the SSI Services division.
% represents economic equity interest held.

The Board of Directors

The Board is collectively responsible for the company's long-term success. Directors may be appointed by the company by ordinary resolution or by the Board, as set out in the company's Articles; a Director appointed by the Board will hold office until the next Annual General Meeting (AGM).

At each AGM, one-third of the Directors will retire by rotation and will submit themselves for re-election at least once every three years. At the AGM held on 18 July 2024, Andy Willicott, Charley Maher and Peter Antolik were reappointed by the Board.

All Directors are aware of the procedure to seek independent legal and other professional advice. The Board also has access to the advice and services of the Company Secretary, who is responsible for monitoring corporate governance matters.

A full list of Board members can be found on pages 173 to 180.

Functions of the Board

The Board's primary focus is to develop, implement and fulfil the strategy to deliver the service and performance to meet the needs of the following key stakeholder groups.

- Customers.
- Community (civil society).
- Employees.
- Regulators/Government.
- Investors.
- Suppliers/partners.

In accordance with section 172(1) of the Companies Act 2006, the Board acts in a way that it considers, in good faith, would be most likely to promote the success of the company for the benefit of its members. The Board is able to make well-informed, high-quality and sustainable decisions and which are consistent with its statutory and regulatory duties.

The Board sets standards of conduct to promote the company's success, provide leadership and review the company's internal controls and governance structure.

It approves major financial and investment decisions above senior management thresholds and evaluates the company's performance by monitoring reports received directly from the Executive team and senior management. The Non-executive Directors, led by the Independent Chair, are responsible for overseeing this work and scrutinising management performance. They constructively challenge and help develop proposals on strategy.

In conjunction with the Audit and Risk Committee, the Board is also responsible for the company's systems of internal control and for evaluating and managing significant risks. On joining the Board, Directors receive an induction appropriate to their needs and responsibilities. This may include, but is not limited to:

- information on the regulatory framework within which the company operates;
- operational activities;
- financing structure;
- strategic and financial plans; and
- the wider Group structure.

The Board and Executive team carry out site visits to maintain familiarity with the company's operations and to refresh their skills and knowledge.

The Board is supported by the Executive team and by other senior managers, who are responsible for assisting it in developing and achieving the company's strategy, and in reviewing its financial and operational performance. Along with the Board, the Executive team is responsible for monitoring policies, procedures and other matters that are not reserved for the Board. There are procedures providing a framework of authorisation levels for key decision-making. Details of the Executive team's skills and experience can be found in their biographies on page 181.

During the reporting year, the Board focused its attention on embedding the actions from the previous effectiveness review. This included building on the work to align more clearly the skills of individual Board members with key themes that underpin the company's decision-making. Succession planning has been another area of focus, with a new Chair and a new Board member being appointed. A new Senior Independent Non-executive Director has also been appointed. Following these changes, a full review of the Board will be undertaken in the last quarter of the 2025/26 reporting year.

The Board and its Committees consider potential conflicts of interest at the outset of every meeting. When reviewing conflict authorisations, the Chair considers any other appointments a Director has in place. Directors should not undertake any new external appointments without first receiving formal approval from the Chair and confirming that any new appointments undertaken do not exceed their overboarding limit. During the reporting year the Board approved a new Director Conflict of Interest Policy.

Matters reserved for the Board

A schedule of matters specifically reserved for the Board's decision has been adopted, based on the Chartered Governance Institute (CGI) best practice guidance. The terms include, but are not limited to, the following.

- Approval of the **annual report and financial statements**.
- Ensuring **observance of all matters** required by the company's licence.
- Approval of the **Directors' assurance statements to Ofwat**, including but not limited to:
  - the annual performance report;
  - the annual statement of business viability;
  - the setting of water tariffs; and
  - other regulatory assurance as required.
- **Material submissions** to Ofwat, the Competition and Markets Authority (CMA) and similar regulators, agencies or bodies.
- Reviewing and approving **capital and operating budgets**.
- Reviewing and approving the company's **strategy and performance**.
- Reviewing and approving any **significant changes** to the company's capital structure and borrowings.
- Reviewing and approving **financial reports**.
- **Contracts that are material**, either strategically or by reason of size, according to specified limits.
- **Appointment and removal** of any Director.
- **Appointment and removal** of the Company Secretary.
- **Prosecution, defence, or settlement of litigation above £1 million**, or being otherwise material.
- Material changes to the company's **pension arrangements**.
- Ensuring maintenance of a **sound system of internal control and risk management**.
- Considering the **balance of interests** between investors, employees, customers, and the community.
- Powers to **delegate authority**.

The Directors maintain a flexible approach to Board matters, with the delegation of power to an appropriate Committee where necessary, with precise terms of reference, being used for specific routine purposes. Both the terms of reference and composition of the Committees are reviewed regularly to ensure their ongoing effectiveness.

While South Staffordshire Water acts as though it were a separate public listed company, a limited number of matters in respect of this company also need the approval of the board of South Staffordshire Plc. These include the following.

- Material submissions to Ofwat, particularly in respect of price reviews and major structural reform.
- Contracts that are material, either strategically or by reason of size, according to specified limits.
- The appointment and removal of any Director, in its role as shareholder representative.
- Prosecution, defence or settlement of litigation above £1 million or being otherwise material.
- Material changes to pension arrangements, where operated on a Group basis.

Board meetings

The Board holds regular scheduled meetings throughout the year. During the year ended 31 March 2025, there were six planned Board meetings and four additional meetings of the Board via teleconferencing facilities. All Directors are provided with sufficient information in a timely manner before a Board meeting to allow appropriate. preparation to ensure they can properly discharge their duties. The attendance by individual Directors at scheduled meetings of the Board during the year, is shown in the table in the Directors' report on pages 174 to 179.

Executive Directors' remuneration policy

Remuneration packages and fees are designed to attract, retain and motivate high-calibre Executive Directors. The Remuneration Committee has overall responsibility for determining Executive Directors' remuneration packages. For the purposes of this section, the Managing Director is the only Executive Statutory Director registered at Companies House.

The total remuneration packages of the Managing Director and the Executive team include:

- basic salary;
- benefits; and
- annual and deferred bonuses, which are linked to business targets and personal performance-related objectives.

The performance-related objectives are designed to encourage and reward continuing improvement and behaviours in the company's performance over the longer term.

The strategic rationale for the Executive Director remuneration policies follows the regulated targets for performance, financial performance, and personal development and stretching objectives. This has been developed in part with the Group and with investors.

The Remuneration Committee recognises that transparency around the relationship between pay policy and outperformance will help customers see how performance-related pay (PRP) is earned in providing an essential service. Consistent with the FRC Guidance 2018 and the FRC Guidance on Board Effectiveness 2018, the Committee has established a formal, rigorous and transparent procedure for developing policy on executive remuneration, determining Executive Director remuneration, together with appointments.

The Committee acknowledges the need to make a statement in relation to remuneration that is linked to standards of performance.

For more information, see the remuneration report on page 119.

Board and Executive terms of engagement

Lord Smith and Catherine May stepped down from the Board on 30 April 2025.

Professor Ian Barker had his second three-year term approved by the Board from 12 April 2025. Professor Barker can be reappointed for up to a further period of three years, after which the Board may extend the terms of his appointment, subject to him retaining independence in his role. He was appointed as the Senior Independent Non-executive Director and Chair of the ESG Committee from 1 May 2025.

Independent Non-executive Directors are required to commit the appropriate time needed to sufficiently fulfil their duties within a regulated utility business.

The Managing Director and Executive team are employed on appropriate contracts of no fixed term, with notice periods of either six or three months. They are entitled to:

- basic pay;
- private medical insurance;
- a company car or car allowance;
- fuel allowance; and
- payments made to a Group money purchase pension scheme.

As noted, the Remuneration Committee recognises the need to attract and retain high-performing individuals. Base salary and allowances are set reflecting the market value of the role and with consideration of the respective individual's skills, experience and performance. The Committee considers it is important that, for Executive Directors, the wider Executive team and senior management, a proportion of the remuneration package should be performance related.

Insurance and indemnities

South Staffordshire Plc maintains Directors' and Officers' liability insurance for its subsidiaries in respect of legal action that might be brought against its Directors and Officers. As permitted by the company's Articles, and to the extent permitted by law, the company indemnifies each of its Directors and Officers against certain liabilities that may be incurred because of their positions with the company. The indemnity was in force throughout the tenure of the Directors and Officers during the last financial year and is currently in force.

Organisational structure

A defined organisational structure exists for the company, with clear lines of responsibility, accountability, and appropriate division of duties. The Board sets the overall strategy for the business. It has delegated the necessary authority to the Managing Director, the Executive team and business departments to deliver that strategy. This is communicated to employees through published policies and procedures, and regular management and employee briefings.

The company's extensive financial regulations specify authorisation limits for individual managers, with all material transactions being approved by a member of the Executive team, a Director or by the Board collectively.

Risk management

its status as a regulated and licensed water undertaker providing an essential public service. It balances the need to effectively manage exposure to risk, while aiming to deliver high standards of operational and financial performance. A strong risk management and control framework is in place to understand and manage identified risks.

The Board and the Audit and Risk Committee discuss and review the effectiveness of the company's risk management and internal control systems on a regular basis. The company's Executive team is required to monitor risk and its management, with any significant changes in business risk and any subsequent procedures or controls to mitigate the risk being reported to the Board and the Audit and Risk Committee.

Further information about risk management and the company's key risks are set out on pages 143 to 156 of the strategic report.

Employee engagement

The company uses a range of communication channels and activities to engage with its people. For more information about the engagement activities undertaken during the reporting year, see the 'Our people' chapter on page 91 and the section 172(1) statement on page 111.

Diversity, equality and inclusion

In line with other companies in the Group, the company considers that all people should have equal chances and opportunities. The company is an equal opportunity employer. This means that its policy is to ensure that no unlawful discrimination occurs, either directly or indirectly, against any employee on the grounds of:

- age;
- gender;
- gender reassignment;
- colour;
- sexual orientation;
- disability;
- marital status;
- race;
- religious beliefs; and
- ethnic or national origin.

The company is committed to creating and maintaining a diverse and inclusive workplace. It considers that a diverse and inclusive environment enhances its ability to attract and retain talented employees, leads to more creative and innovative thinking, and results in better services for its customers.

Through its equal opportunity, diversity, and inclusion policy, the company aims to:

- work to eliminate unlawful discrimination and harassment against individuals;
- make a commitment to treat employees with dignity and respect;
- promote equality and opportunity;
- promote positive attitudes and good relations with people;
- encourage participation by all;
- take steps to account for disabilities;
- promote different minority groups;
- support equal opportunities in employment and recruitment;
- provide and maintain adequate arrangements to enable employees to raise issues; and
- provide employees with equality and opportunities training as part of the induction process.

The company takes steps to ensure its recruitment and hiring practices are inclusive and fair. This includes actively seeking out and recruiting candidates from diverse backgrounds and making sure its recruitment and hiring practices do not discriminate against any group of individuals.

The company also takes steps to ensure the workplace is accessible to people with disabilities and has a duty to make reasonable adjustments to facilitate the employment of people with disabilities. Such reasonable adjustments may include:

- adjusting premises;
- re-allocating some or all of a disabled employee's duties;
- transferring a disabled employee to a more suitable office;
- giving a disabled employee time off work for medical treatment or rehabilitation;
- providing training or mentoring for a disabled employee;
- supplying or modifying equipment, instruction, and training manuals for disabled employees; or
- any other adjustments the company considers reasonable and necessary, provided such adjustments are within the financial means of the company.

If an employee has a disability and considers any such adjustments could be made by the company, they should contact the Managing Director.

All employees are encouraged to participate in the company's efforts to create a diverse and inclusive workplace. If there are any concerns about discrimination or harassment, these can be brought to the attention of the Managing Director.

The company is committed to nurturing a culture of diversity and inclusion and is working to create an environment where all employees feel valued and respected. It will review the policy on an ongoing basis to ensure it continues to meet its commitment to DEI.

For more information about the company's initiatives to promote a more inclusive working environment, see the 'Our people' chapter on page 91.

Regulatory reporting

South Staffordshire Water makes significant efforts to produce regulatory documentation and information that is reliable, robust and accurate, and that is supported by suitable systems and procedures. The Board, including the Independent Non-executive Directors, are involved in the approval process for key regulatory information. This process supports the:

- governance in place;
- review of information by Jacobs, the company's independent technical auditor;
- audit work; and
- certain agreed-upon procedures in respect of the extraction of specific information performed by Ernst & Young LLP.

Where identified as necessary by the company's assurance framework, the Group Risk, Control and Assurance function will review processes and data to provide appropriate assurance.

The company places great emphasis on regulatory reporting to ensure it continues to have sufficient processes and internal systems of control to fully meet its obligation for the provision of information to Ofwat, other regulators and stakeholders. It is important to the company that this information is robust, not just for its external credibility, but to also allow it to manage the performance of the business and make appropriate decisions with reference to this data.

The company's regulatory accounts are set out in the annual performance report from page 85 onwards.

Going concern and basis for assumption

The Directors consider it is appropriate to prepare the financial statements on a going concern basis. This view is based on a review of the company's budget for the year ending 31 March 2026 and financial forecasts to 31 July 2026. The going concern period is therefore to 31 July 2026.

In addition, the Directors are required to certify to Ofwat under Condition P of the company's licence that sufficient financial resources are available for at least the next 12 months from the date of submission of the ring-fencing certificate, a statement within the annual performance report that accompanies this document.

The company's business activities, its business model and strategy, together with the factors likely to affect its future development are set out in the strategic report on pages 15 to 166. The company's financial position, its liquidity position and available borrowing facilities are set out in the balance sheet on page 237 and in note 1 to the financial statements, which includes:

- its objectives for managing its financial risks;
- details of its financial instruments and hedging activities; and
- its exposure to interest, credit and liquidity risk.

The company has a large number of household customers, none of whom make up a significant proportion of turnover.

Amounts due from non-household retailers are secured by appropriate collateral agreements.

The going concern assertion is also based on the following.

- **The final determination for the five years to 2030**, which provides a high degree of confidence over the company's revenue over the whole going concern period.
- The **company's ability to index the 2025/26 customer** bills to annual CPIH inflation.
- The company's **budget and plan**, which set out a detailed forecast of costs, including a high degree of confidence over power costs given a fixed price agreement in place covering a six-month period to 31 October 2025; this is in line with Ofwat's real price effects (RPE) mechanism. A second six-month period will shortly be fixed in what is currently seen as a relatively flat market when compared with the volatility of the past three years.
- The **degree of confidence** about the approved capital expenditure and infrastructure renewal programme costs, with delivery through established contractor frameworks.
- The company **monitors and carefully manages its liquidity**. Cash flow forecasts are regularly updated and sensitivities run for different scenarios, including but not limited to more recent changes in energy and chemicals prices and inflation.
- The company is **confident it has sufficient access to capital markets**.
  In November 2024, the company agreed an increase of a further £45 million to the pre-existing revolving credit facility of £30 million; this additional funding remains undrawn as of the date of the approval of the financial statements.

The company has performed a base case cash forecast, taking into account the factors discussed above, and a range of stressed case scenarios, which includes downsides for:

- inflation;
- a deterioration in cash collections; and
- potential costs associated with the criminal cyber-attack that was identified in July 2022.

A key assumption in the forecast and severe but plausible downside scenario is the quantum and timing of legal and regulatory costs arising from the criminal cyber-attack and the mitigations thereof which the company can influence.

In notes 22 and 23 to the financial statements, the Directors set out that the quantum and value of civil claims the company may receive, and the costs of liabilities that may be incurred addressing those claims, and any regulatory penalties, involves significant judgment and uncertainty, and are therefore subject to change as the matters progress and the factual position becomes clearer.

In what the Directors consider to be a severe but plausible set of downside scenarios, the company has sufficient financial headroom for the going concern period, after allowing for mitigating actions such as deferring dividends, and complies with all covenants. The severe but plausible downside scenario assumes no incremental debt facilities.

Therefore, the Directors consider the company has sufficient financial resources to meet its obligations over the going concern period and conclude that preparing the accounts on a going concern basis remains appropriate.

Audit and Risk Committee

Membership for the year ended 31 March 2025

Director	Role	Meeting attendances
Alice Cummings	Member and Chair	4/4
Catherine May	Member	4/4
Keith Harris	Member	3/4
Professor Ian Barker	Member	4/4

Membership of the Audit and Risk Committee and meeting attendance for the year ended 31 March 2025 is shown in the table above.

The Committee primarily comprises Independent Non-executive Directors and is chaired by Alice Cummings. In accordance with the Code, the Board is satisfied that Alice Cummings has recent and relevant financial experience. Keith Harris is a Non-executive Director and Arjun Infrastructure Partners representative.

Jim O'Sullivan was appointed as a member of the Committee from 1 April 2025. Catherine May stepped down from the Board and the Committee on 30 April 2025.

Audit and Risk Committee meetings are regularly attended by:

- Ernst & Young LLP, the company's external financial independent auditor;
- the Chair of the Board;
- other Board members who wish to attend to cover specific relevant matters; the Managing Director;
- the Finance Director;
- the Company Secretary;
- the Company Secretary;
- Jacobs, the company's external technical independent auditor;
- the Group Chief Executive Officer;
- the Group Chief Financial Officer;
- the Group Head of Risk, Control and Assurance; and
- RSM LLP, the group's internal audit co-source provider.

Roles and responsibilities

The role of the Committee is to focus on the company's processes to manage business and financial risk through a comprehensive set of internal controls and for compliance with significant applicable legal, ethical and regulatory requirements, and on aspects of financial reporting. In undertaking this role, the Committee oversees:

- the integrity of the company's financial statements;
- external auditors' qualifications and independence;
- performance of the external auditors;
- design, planning and performance of the company's internal audit function;
- adequacy of the company's Risk Management and Internal Controls systems;
- compliance with the requirements of its regulators; and
- compliance with legal, ethical and other regulatory requirements.

Terms of reference

The Committee's terms of reference were reviewed in June 2025. During the reporting year, the Committee exercised its duties in accordance with its terms of reference. Its main duties are as follows.

- **Reviewing, monitoring and assessing** the company's performance against its regulatory compliance framework and to provide assurance to the Board that the company is complying with the requirements of its regulators.
- **Reviewing and appraising the work of the external financial auditor** by meeting with the auditor, reviewing the results of its work, discussing the quality of the audit with senior management, reviewing the level of non-audit fees and the nature of non-audit services provided, and reviewing the auditor's own assessment of its independence.
- **Reviewing and appraising the work of the external technical auditor** by meeting with the auditor, reviewing the results of its work, discussing the quality of the audit with senior management, reviewing the level of fees and the nature of the auditor's work
- **Monitoring, reviewing and challenging**, when necessary, the integrity of the company's financial statements, including its annual report and financial statements, unaudited interim accounts and any other formal announcement relating to its financial performance, and reviewing significant financial reporting issues and judgements which they contain.
- **Reviewing and challenging**, when necessary, key regulatory submissions and publications, including the annual performance report, annual report and financial statements and associated statements and disclosures.
- **Challenging the company's processes** for identifying, evaluating and managing significant risks and reviewing the evaluation of all primary business risks during the year.
- Working with Group, r**eviewing the effectiveness of the company's internal audit arrangements, internal controls and risk management policies and practices**. This includes making sure reasonable steps are taken to safeguard the company's assets and to prevent and detect fraud and other irregularities.
- **Reporting to the Board** on how the Committee has discharged its responsibilities.
- **Recommending to the Board the appointment, reappointment** and, if necessary, the removal of the external auditor, working with the Group Audit Committee as the external auditor is appointed by South Staffordshire Plc.

- **Monitoring the auditor's independence, performance and effectiveness** and approving the nature and scope of external audits.
- Standing item at each meeting to **review legal and regulatory issues**.
- Standing item at each meeting to review the probity **dashboard**, including, but not limited to, whistleblowing, modern slavery, anti-fraud and anti-bribery issues
- Following each Audit and Risk Committee meeting, the Chair of the Committee presents **a summary of the Committee discussions** to the next Board meeting.

Audit and Risk Committee activities 2024/25

During the reporting year, the Committee focused on the key business risks as set out on pages 143 to 156 of the strategic report. It also focused on the areas of significant judgement and estimate as identified by the external financial auditor. Primarily, these are:

- revenue recognition;
- key financial controls;
- going concern;
- fraud risk assessments;
- customer affordability; and
- criminal cyber-attack potential future liabilities and disclosures.

Individual departments across the business are responsible for identifying, quantifying, reporting and controlling risks relevant to their activities. Risk reports are produced and reviewed by the Committee twice a year. The risk associated with business planning reflects the risks associated with delivering the company's business plan commitments.

Other areas of focus for the Committee include:

- compliance and regulatory reporting;
- commercial fleet management;
- purchasing card compliance;
- performance commitments; and
- developer and wholesale charges.

In reviewing the significant financial reporting risks around revenue recognition, key financial controls, going concern, fraud risk assessments, customer affordability and the outcomes of the criminal cyber-attack in July 2022, the Committee worked with senior management to ensure these risks were mitigated and that the company's practices were aligned with applicable accounting regulations that satisfied the requirements of the external auditors.

Alongside this, the Committee reviews and challenges:

- papers and feedback from senior management;
- external auditors' reports;
- reports from the Group Risk, Control and Assurance function; and
- the company's risk register.

It also discusses areas of judgement and estimation, making comment and recommendations, where appropriate, and seeks further management clarification, where required.

Financial reporting and forecasting

The Board, supported by the Audit and Risk Committee, recognises the need to present a fair, balanced, understandable and clearly defined assessment of the company's operational and financial performance and position, including its future prospects. This is provided by a review of the company's operations and performance as set out in the strategic report.

Business plans, annual profit and loss budgets, cash flow budgets and forecasts, longer-term financial forecasts and investment proposals for the company are formally prepared, reviewed and approved by the Board, supported by the Audit and Risk Committee. Actual financial results and cash flows, including a comparison with budgets and forecasts, are reported regularly to the Board with variances being identified and used to initiate any action deemed appropriate.

Details of the company's actual and forecast future compliance with its borrowing covenants are also prepared on a regular basis, and forecasts of its level of undrawn and available borrowing facilities for liquidity purposes are also prepared and reported to the Board.

Governance

The Board, supported by the Audit and Risk Committee reviews the effectiveness of the company's financial and accounting policies and procedures. These include, but are not limited to:

- considering and approving the accounting policies and judgement used in the preparation of the financial statements;
- reviewing and considering internal financial policies including approving the Treasury Policy and Aged Debt Write Off Policy; and
- holding regular meetings with the external auditor and the Group Head of Risk, Control and Assurance without members of management being present.

The Committee also reviewed and recommended the Director Conflict of Interest Policy to the Board for approval.

Internal risk controls and risk management

The Board, supported by the Committee, attaches considerable importance to the company's system of internal control and reviews its effectiveness. This includes ensuring reasonable steps are taken to safeguard the company's assets, and to prevent and detect fraud and other irregularities. The internal control system also provides the following.

- Reviewing the **effectiveness of the company's risk management framework** and its integration into Board and Committee reporting.
- Reviewing the **company's risk appetite statement** prior to making a recommendation to the Board.

- Monitoring **fraud reporting and incidents of whistleblowing**, including a review of the company's whistleblowing processes and procedures and reporting to the Board on this.
- Reviewing the **company's risk register** as part of the annual reporting process and considering appropriate areas of focus and prioritisation for the internal audit work programme for the financial year.
- **Carrying out deep dives** at Committee meetings on principal risk areas.

The company has an established internal control framework that is continually reviewed and updated, taking into account the nature of its operations. The Board undertook a deep dive into the principal risks faced by the company with a view to improving and strengthening its risk management framework.

Regarding monitoring of the integrity of the financial statements, which is a key responsibility of the Committee as identified within the Code, the significant areas of judgement considered in relation to the financial statements for the year ended 31 March 2025 are set out in note 1 of the financial statements (Principal accounting judgements, estimates and assumptions).

A detailed review of the current assessment of these can be found on pages 143 to 156.

Internal audit

The company benefits from independent reviews of performance by an internal Risk, Control and Assurance function operated by South Staffordshire Plc. This service is dedicated to ensuring internal control activities remain a priority within the group and company.

The company has a published Assurance Framework, which the Committee reviews each year and takes on board comments as part of an annual consultation process with customers and regulators. The internal audit service also provides valuable support to the company in maintaining good systems of internal control, providing assurance over the quality of information (depending on the Assurance Framework categorisation) and helps ensure appropriate corporate governance.

An internal audit plan is presented to the Audit and Risk Committee each year; this is subject to challenge and approval. In addition, the Committee reviews the Internal Controls Manual and delegated authority levels annually.

The plan combines the need for regulatory and financial reporting assurance, risk management and control evaluation with the provision of independent resource to enhance the company's operations. The Committee monitors progress against the plan through the reporting of findings and recommendations at each meeting.

At least once during the year, the Committee meets with the Group Head of Risk, Control and Assurance without Executives present. This in-camera forum provides an opportunity for candid and confidential discussions on matters that might not have been specifically addressed during the formal cycle of meetings.

The internal audit arrangements in operation are appropriate to the company's size and complexity. RSM LLP, which was appointed last year, continues to provide external expertise to support the Board by undertaking internal audit activities throughout the year, pre-approved by the Audit and Risk Committee.

External independent technical auditor

The Board, supported by the Committee, reviews the external technical independent auditor's performance each year considering its effectiveness, independence and fees. In evaluating the external auditor, the Committee assesses the calibre of the audit firm, the audit scope and plan (which is agreed in advance with the Committee) and the level and nature of audit communications, including the reporting to the Committee of any significant issues. The external technical auditor is responsible for auditing the financially incentivised performance commitments and other areas of the company's work.

At least once a year the Committee meets with the external technical auditor without Executives present. This in-camera forum provides an opportunity for candid and confidential discussions on matters that might not have been specifically addressed during the formal cycle of meetings.

Jacobs UK Limited is the company's external technical auditor. Jacobs took up its appointment for the 2022/23 audit. This is therefore the third year for the current external technical auditor in this role. The company will invite tenders for the role of technical auditor in advance of the 2026/27 reporting cycle.

External independent financial auditor

The Board, supported by the Committee, reviews the external financial independent auditor's performance each year considering its effectiveness, independence and fees, including the level of non-audit services and related non-audit fees.

In evaluating the external auditor, the Committee assesses the calibre of the audit firm, the audit scope and plan (which is agreed in advance with the Committee through discussions with the Chair) and the level and nature of audit communications, including the reporting to the Committee of any significant issues.

The Committee acknowledges that the regulatory audit fee is a non-audit service provided by Ernst & Young LLP and has confirmed that this work is best undertaken by the company's financial audit firm and that this presents the best value for money for the company and does not jeopardise the firm's independence for its audit work.

At least once a year the Committee meets with the external financial auditor without Executives present. This in-camera forum provides an opportunity for candid and confidential discussions on matters that might not have been specifically addressed during the formal cycle of meetings.

The responsibilities of the independent external auditor in the area of financial reporting are set out in its report relating to each year's financial statements.

Ernst & Young LLP is the company's external financial auditor. Ernst & Young LLP took up its appointment for the 2022/23 audit. This is therefore the third year for the current external financial auditor in their role and the second year for the current audit partner.

Environmental, Social and Governance (ESG) Committee

Membership for the year ended 31 March 2025

Director	Role	Meeting attendances
The Rt Hon Lord Smith of Finsbury	Member and Chair	2/2
Catherine May	Member	2/2
Peter Antolik	Member	2/2
Professor Ian Barker	Member	2/2
Sara Vaughan	Member	n/a

Details of the ESG Committee's membership and meeting attendance are provided in the table above.

The Committee is primarily composed of Independent Non-executive Directors, reflecting the Board's commitment to strong governance and independent oversight. Lord Smith chaired the Committee until his departure from the Board on 30 April 2025. He was succeeded by Professor Ian Barker who assumed the role of Chair with effect from 1 May 2025. Sara Vaughan was appointed to the Committee on 10 February 2025. In addition, Catherine May stepped down from the Board and the Committee on 30 April 2025, with Jim O'Sullivan appointed to the Committee in her place. Alongside the Independent Non-executive Directors, the Committee also includes Peter Antolik, a Non-executive Director and Arjun Infrastructure Partners representative, ensuring a breadth of perspective in ESG oversight.

Roles and responsibilities

The Committee plays a critical role in supporting the Board's oversight of the company's sustainability strategy, ethical practices, and long-term value creation. It is responsible for monitoring and advising on key ESG risks and opportunities, ensuring alignment with regulatory expectations, stakeholder interests, and the company's corporate values

Terms of reference

The Committee's terms of reference were reviewed in June 2025. During the reporting year, the Committee has exercised its duties in accordance with its terms of reference. The Committee's main duties include the following.

- Ensuring the **ESG strategy** reflects the company's ambition, direction of travel and day-to-day operations.
- Overseeing the regular review and updating of **ESG related policies to ensure compliance with** applicable legislation and guidance.
- Holding Executive Directors and senior management accountable for effective implementation of the ESG strategy.
- **Monitoring the company's ESG performance** against previously agreed objectives and key performance indicators.
- **Reviewing and approving any projects** developed in response to the ESG strategy.
- **Approving all ESG related reporting,** including disclosures in the company's annual performance report and any associated codes of practice and policies.
- **Recommend to the Board** any proposals or actions the Committee deems appropriate within its remit, particularly where improvements or corrective measures are necessary.

ESG Committee activities 2024/25

During the reporting year, the ESG Committee undertook a range of activities aligned with its oversight responsibilities and the company's strategic priorities. These activities are summarised below.

Strategic ESG review

- Conducted a comprehensive review of the ESG pillars to evaluate performance over the past five years.
- Assessed whether the company's future direction remains aligned with its ESG ambitions during a period of significant investment to achieve its ambitions for the five years to 2030.

Governance enhancements

- **Reviewed governance practices** against the Code, the Ofwat Principles, and the company's Articles.
- Initiated a **gap analysis** to identify procedural shortcomings and developed a plan for continuous improvement in governance frameworks.
- Considered proposals to **enhance supply chain compliance through the adoption of the Risk Ledger platform**, supporting improved risk management and transparency.
- Reviewed management proposals for ESG data and metrics, including **the implementation of Position Green software** to improve performance tracking, data accuracy, and reporting efficiency.

Environmental stewardship

- Oversaw the **development and approval of the company's water resources management plans** for 2025 to 2050 for the Cambridge and South Staffs regions. These were subsequently approved by Defra.
- Supported the submission of the company's first **climate change adaptation report** since 2016, reinforcing its commitment to long-term environmental resilience.
- Received briefings on the **shadow Environmental Performance Assessment (EPA) for water only companies**. This includes reviewing key metrics such as the Supply/Demand Balance Index, abstraction compliance, discharge permit adherence and pollution incident reporting. The Committee notes that external publication of this report will start in 2025.

Social value and community engagement

Reviewed a range of initiatives aimed at enhancing employee wellbeing, leadership development and community engagement, including:

- establishing a **Mental Health First Aider community** across the wider Group to support employee wellbeing;
- piloting the **RISE Leadership Development Programme**, designed to develop leadership capabilities among participants, with plans for broader roll out; and
- delivering **water education workshops** to 6,692 students, promoting water efficiency and environmental awareness.

Supported the launch of the following Group-wide People Networks during National Inclusion week 2024 to promote diversity, inclusion and employee voice.

- **Women's Network,** fostering a supportive and empowering environment for women.
- **Unity+ Network**, focusing on sexual orientation, gender identity and expression.

These networks aim to raise awareness, lead campaigns, and advocate for under-represented groups through workshops and engagement initiatives.

Nomination Committee

Membership for the year ended 31 March 2025

Director	Role	Meeting attendances
The Rt Hon Lord Smith of Finsbury	Member and Chair	4/4
Catherine May	Member	4/4
Keith Harris	Member	3/4
Alice Cummings	Member	4/4
Charley Maher	Member	3/4
Sara Vaughan	Member	1/1

This report outlines the role and activities of the Nomination Committee for the year ended 31 March 2025.

During the reporting year, the Board approved the separation of the Remuneration and Nomination Committee into two distinct Committees. This decision was made to strengthen governance oversight and allow each Committee to focus more effectively on its respective responsibilities.

Details of the Nomination Committee's membership and meeting attendance are provided in the table above.

As set out on page 174, changes to the Board during the year provided the opportunity to update the membership of the Committee and continue to align the membership based on their relevant Board skills.

The Nomination Committee is primarily composed of Independent Non-executive Directors, in line with the Code. The Committee was chaired by Lord Chris Smith until 30 April 2025, with Sara Vaughan succeeding him as Chair from 1 May 2025. Professor Ian Barker was appointed to the Committee from 1 May 2025 to replace Catherine May, who stepped down on 30 April 2025.

In addition to the Independent Non-Executive Directors, the Committee includes:

- Keith Harris, a Non-executive Director and Arjun Infrastructure Partners representative; and
- Charley Maher, who serves as a shareholder representative, was appointed to the Committee from 18 June 2024.

The Nomination Committee also ensures that all members, including those appointed by shareholders, act in the best interests of the company and maintain the highest standards of independence and objectivity.

Roles and responsibilities

The Nomination Committee is responsible for ensuring that the company has the leadership capability required to deliver long-term strategic success and uphold high standards of corporate governance. Through its oversight of Board and Executive team appointments, succession planning, and leadership development, the Committee plays a critical role in supporting the long-term sustainability and effectiveness of the company.

Terms of reference

The Committee's terms of reference were updated in June 2024 to reflect a change to the terms of membership and have been reviewed in June 2025. During the reporting year, the Committee has exercised its duties in accordance with its terms of reference. The Committee's main duties are as follows.

- **Overseeing the appointment and selection** of Board members and members of the Executive team.
- **Supporting robust succession planning** to ensure continuity and stability in leadership.
- **Evaluating the balance of skills, experience, knowledge, and diversity** on the Board and senior leadership to ensure it remains aligned with the company's strategic needs.
- **Promoting diversity and inclusion** in line with the company's values and the expectations of the Code.
- **Ensuring appointments are made on merit**, based on objective criteria and free from bias or undue influence.
- Making sure any appointment to the Board **carefully considers the balance of the Board's composition and existing skills.**
- Making sure all **Board members have the necessary skills, experience, information and knowledge** to fulfil their duties.

Nomination Committee activities 2024/25

During the reporting year, the Committee undertook the following activities.

- Dedicated significant time to **overseeing the appointment of Board and Committee members**, as well as the recruitment of members of the Executive team, further details of which are set out on page 181.
- **Supported the Board in developing new role profiles** for Directors and members of the Executive team.
- The Board approved a new Director Conflict of Interest Policy during the reporting year. As part of its governance oversight role, **the Committee will support the Board in conducting annual reviews of individual Director conflicts**, as recorded in the Conflicts of Interest Register.
- **Monitored Board diversity,** including gender, ethnicity, and professional background, in line with the company's Diversity and Inclusion Policy and the recommendations of the Code.
- **Oversaw succession planning for key leadership roles,** ensuring a pipeline of talent is in place for both executive and non-executive positions.
- **Monitored the engagement with external search consultants** where appropriate.
- **Supported the Board's annual skills matrix review, and, after evaluating the experience** and skills of Board members, recommended that directors engage in cyber-security skills training.

The Committee remains committed to promoting high standards of corporate governance and ensuring that the Board and its Committees are equipped with the right balance of skills, experience, and diversity to support the long-term success of the company.

Remuneration Committee

Membership for the year ended 31 March 2025

Director	Role	Meeting attendances
Catherine May	Member and Chair	4/4
The Rt Hon Lord Smith of Finsbury	Member and Chair	4/4
Keith Harris	Member	3/4
Alice Cummings	Member	4/4
Charley Maher	Member	3/3
Sara Vaughan	Member	1/1

During the reporting year, the Board approved the separation of the Remuneration and Nomination Committee into two distinct Committees. This decision was made to strengthen governance oversight and to allow each Committee to focus more effectively on its respective responsibilities. The Board also reviewed the composition of the Remuneration Committee. As set out on page 174, the membership of the Committee continues to be aligned with members' relevant Board skills.

This report outlines the role and activities of the Remuneration Committee for the year ended 31 March 2025.

Details of the Remuneration Committee's membership during the year and meeting attendance are provided in the table above.

The Remuneration Committee is primarily composed of Independent Non-executive Directors, in line with the Code. The Committee was chaired by Lord Smith until 24 April 2024, when he was succeeded by Catherine May. Catherine May stepped down from the Board and Committee on 30 April 2025. She was succeeded by Alice Cummings with effect from 1 May 2025. Sara Vaughan was appointed to the Committee from 10 February 2025 and Jim O'Sullivan was appointed as a Committee member from 1 April 2025.

In addition to the Independent Non-executive Directors, the Committee includes:

- Keith Harris, a Non-executive Director and Arjun Infrastructure Partners representative; and
- Charley Maher, who by way of exception to the Code serves as a shareholder representative and was appointed to the Committee from 18 June 2024.

However, the majority Independent Non-executive Directors, led by an independent Chair (who holds the casting vote) ensure a formal and transparent procedure for developing policy on executive remuneration.

The Remuneration Committee also ensures that all members, including those appointed by shareholders, act in the best interests of the company and maintain the highest standards of independence and objectivity.

Roles and responsibilities

The Committee's role is to set and review the company's remuneration strategy including reward and other forms of compensation. Its objective is to ensure that compensation structures are aligned with the company's performance, strategic goals, and the long-term interests of stakeholders. The Committee also ensures that remuneration practices are competitive, fair, and compliant with relevant legal and regulatory requirements.

Terms of reference

The Committee's terms of reference were updated in June 2024 to reflect a change to the terms of membership, and an annual review was undertaken in June 2025. During the reporting year, the Committee has exercised its duties in accordance with its terms of reference. The Committee's main duties include the following, while a more detailed explanation is set out in the remuneration report on page 119.

- **Designing remuneration policies and practices** to support strategy and promote long-term sustainable success, with executive remuneration aligned to company purpose and values, clearly linked to the successful delivery of the company's long-term strategy.
- Annually **reviewing the ongoing appropriateness and relevance** of the remuneration policy.

- **Reviewing and recommending to the Board** the remuneration packages of the Executive Directors and the Executive team.
- **Reviewing workforce remuneration,** pension schemes and related policies and recommending changes.
- **Recommending to the Board** the policy for Executive Director remuneration.
- **Ensuring compliance** with relevant laws, regulations, corporate governance and Ofwat codes.
- **Monitoring trends and best practices** in executive compensation.

Remuneration Committee activities and governance oversight 2024/25

During the reporting year, the Committee dedicated substantial time to reviewing and benchmarking executive remuneration, evaluating executive performance objectives, and considering insights from the employee engagement survey. The Committee also played a key role in setting fees for Board and Committee roles, as well as for new appointments to the wider Executive team.

In addition, the Committee supported the Executive team in the annual negotiations related to the non-executive pay award, ensuring alignment with market practices and stakeholder expectations.

As part of its governance responsibilities, the Committee reviewed and recommended for Board approval both the remuneration policy and the pay award policy, reinforcing its commitment to transparency, fairness, and strategic alignment in compensation practices.

Regulatory development and Remuneration Committee response

In October 2024, Ofwat launched a consultation proposing new rules to prohibit performance-related executive pay (PRP) where company performance fails to meet defined standards. This was followed by the enactment of the Water (Special Measures) Act 2025 (the Act) on 24 February 2025, which introduced significant reforms to strengthen accountability and environmental protection in the water sector. Among its provisions, the Act granted Ofwat new powers to regulate remuneration and corporate governance.

In March 2025, Ofwat issued a statutory consultation proposing a specific rule to prohibit PRP under certain conditions. The Board and the Committee actively engaged in this consultation process and participated in subsequent discussions with Ofwat.

The PRP Prohibition Rule came into effect in June 2025. Under this rule, water companies must withhold PRP for any Director on the regulated company's Board from the financial year beginning 1 April 2024 if any of the following conditions are met.

- A **breach of a principal statutory duty has occurred**, and Ofwat has imposed a financial penalty, or the company has failed to comply with an associated enforcement order or undertaking.
- The **company received a 1-star rating from the Environment Agency** (EA) or Natural Resources Wales (NRW) in the Environmental Performance Assessment (EPA) for the calendar year ending in the PRP year.
- A **Category 1 pollution incident** was reported by environmental regulators in the EPA for the relevant year.
- The company **breached its licence requirement to maintain sufficient credit ratings** during the PRP year.
- The company **failed to comply with an enforcement order or undertaking** related to a licence breach.
- The company was **convicted of a criminal offence** during the PRP year, unless the court determined low culpability or harm.

Companies are required to comply with this rule for any PRP awarded in respect of the 2024/25 financial year onwards.

Company perspective and forward planning

The Committee recognises that executive remuneration remains a sensitive and closely scrutinised issue within the water sector. While restoring public trust is paramount, the Committee maintains that well-structured and performance-aligned pay frameworks are essential for attracting, retaining, and motivating high-calibre leadership. Such leadership is critical to delivering the company's ambitious objectives for the five years to 2030 and achieving long-term environmental and customer outcomes.

Although the Committee reviewed the company's Executive Pay Policy during the year, a further review will be undertaken in the forthcoming year to ensure full alignment with the new regulatory requirements.

Full details of executive remuneration for the year ended 31 March 2025 are provided in the remuneration report on pages 119 to 132.

This corporate governance report was approved by the Board on 15 July 2025 and signed on its behalf by:

Sara Vaughan

Sara Vaughan
Chair

15 July 2025

Remuneration report

On behalf of the Board, I am pleased to present the Directors' remuneration report for the year ended 31 March 2025.

This report sets out how the company's remuneration policy has been applied over the financial year and how it aligns with our strategic objectives, operational delivery, and commitments to customers, employees, and the environment. It also details the total remuneration paid to individuals within scope during the reporting period. For the purposes of this report, the scope includes the **Managing Director**, who is an Executive Statutory Director registered at Companies House. The remaining Directors are Non-Executive Directors, and the Group Chief Executive Officer (CEO) is appointed by South Staffordshire Plc. In this report "Directors" refers to Executive Directors and Non-executive Directors unless otherwise specified.

This report explains:

- the policy in detail;
- how it has been applied during the year; and
- the specific decisions made in relation to pay and performance.

This report has been prepared on a voluntary basis and, where appropriate and applicable, follows the principles of the Code on a "comply or explain" basis, in alignment with the Governance Report.

The Committee remains committed to continuous improvement and this year's report includes some elements of the disclosures for the Managing Director's pay ratios and year-on-year changes in board and colleague remuneration, although scenarios for illustrative pay-outs for the Managing Director under the remuneration policy are not included.

The Committee has reviewed the company's remuneration policies during the year and, in recognition of broader sector developments, will undertake a further review in the forthcoming year. As part of this process, the appropriateness of current disclosure will be further considered. Further detail will be provided in next year's report.

Remuneration Committee

The Board has reviewed the composition of the Remuneration Committee (the Committee) and is satisfied that it remains appropriate for the five years to 2030. It confirms that the majority of its members, including its Chair, are Independent Non-executive Directors.

The key responsibilities of the Committee are as follows.

- **Setting and overseeing the remuneration policy** for the Managing Director and wider Executive team, ensuring total remuneration packages (including base pay, incentives, and malus/clawback provisions) support long-term sustainable success and reflect the company's purpose, values, and strategic objectives.
- **Determining performance-related pay**, including annual performance bonus and deferred bonus awards, based on delivery against objectives of the balanced scorecard.
- **Setting forward-looking performance targets** that are stretching, aligned with Ofwat guidance, and support ambition for industry-leading performance in the financial year.
- **Ensuring incentive design reflects performance in the round**, taking account of wider outcomes for customers, the environment, and public trust.
- **Reviewing wider workforce pay and policies** to ensure remuneration remains aligned with internal culture and pay practices across the business.
- **Exercising discretion** where appropriate to adjust, moderate or withhold awards, particularly where outcomes do not reflect actual performance or stakeholder impact.

Remuneration policy

Purpose of the policy

Our remuneration policy applies to the Managing Director and members of the Executive team, and is designed to attract, retain, and motivate high-calibre senior

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leadership with the capability to deliver long-term sustainable success. It provides a balanced remuneration package where variable elements are explicitly linked to performance against targets aligned to a balanced scorecard.

The performance-related elements of remuneration are assessed annually and reflect both financial and non-financial performance, including measures independently audited and assured. Where serious failures occur – such as poor environmental performance, regulatory breaches, or customer harm – performance-related pay (PRP) may be reduced, withheld, or clawed back, in line with Ofwat's PRP Prohibition Rule and the Water (Special Measures) Act 2025.

While this report focuses on the Managing Director's remuneration for the financial year ended 31 March 2025, the Committee has considered Ofwat's final guidance on performance-related pay following its consultation during March and April 2025, including the need for:

- full transparency around remuneration decisions;
- a clear link between performance and customer/environmental outcomes; and
- Assurance that performance targets are stretching and aligned with long-term public and regulatory expectations.

Details of the individual components of the Managing Director's remuneration for the reporting year are set out in the tables that follow in this report.

Objectives of the policy

The remuneration policy is designed to support the long-term success of the company, while maintaining public trust and meeting regulatory expectations. The policy aims to:

- attract, retain, and motivate experienced and capable executive leaders who can deliver sustained performance across all areas of the business;
- align executive rewards with the company's purpose, values, and strategic priorities, including service delivery, environmental protection, and community impact;
- provide a fair, balanced, and transparent approach to setting remuneration, with clear links to performance and accountability; and
- ensure full compliance with applicable legal, regulatory and governance standards, the Ofwat Principles, the Code, and the Water (Special Measures) Act 2025.

As noted above, the policy applies to the Managing Director and members of the Executive team. It embeds a strong connection between remuneration and the achievement of outcomes that matter most to customers, the environment, reinforcing the company's commitment to ethical leadership, long-term value, and public confidence.

Terms of the policy

The Committee oversees the implementation of the remuneration policy and ensures that all decisions align with the company's long-term strategy, values, and regulatory obligations. Key terms of the policy include the following.

- **Balanced scorecard targets**. The Committee sets annual performance targets using a balanced scorecard, covering financial performance, growth and business strategy, customer, ESG, health and safety and people metrics. Targets are reviewed annually and throughout each five-year business planning period to ensure they remain stretching, proportionate, and aligned with strategic objectives.
- **Variable pay assessment and Governance.** The Committee determines any awards under the Annual Performance Bonus Scheme and Deferred Bonus Scheme following year-end. Decisions are made at the June meeting, once independently audited financial results and externally assured service performance data are received. The Managing Director is not present during discussions about their own remuneration.
- **Discretion and performance in the round.** The Committee retains full discretion to adjust, moderate or withhold variable pay outcomes, both upwards and downwards, based on a holistic assessment of performance. This includes consideration of service delivery, financial resilience, customer outcomes, and wider reputational or regulatory matters. Where there is evidence of serious underperformance, such as major health and safety incidents, environmental breaches, or failure to meet key customer commitments the Committee may reduce or cancel performance-related pay in full, even where formulaic targets have been met. This approach is consistent with Ofwat's PRP Prohibition Rule and associated guidance. All discretionary decisions are subject to independent assurance, fully documented, and transparently disclosed in the Annual Report.
- **Link to customer and environmental outcomes.** The structure of the performance-related element is designed to ensure that a significant proportion of any award is directly attributable to performance against customer, environmental, and community outcomes. No outperformance payments are made unless the company has achieved a net reward position under its service delivery commitments.
- **Malus and clawback provisions**. Malus and Clawback provisions apply in full to the Managing Director's variable pay. These may be activated in cases of misconduct, serious underperformance, reputational harm, or other circumstances that retrospectively call into question the validity of a previous award.
- **Workforce and internal pay context:** The Committee also considers broader pay and employment practices across the business when reviewing the Managing Director's remuneration. This ensures alignment with the company's overall reward philosophy and promotes internal equity and cultural consistency.
- **Transparency and accountability.** Any discretion exercised by the Committee and any material changes to performance targets or outcomes will be clearly explained in the annual report and financial statements to maintain transparency and trust.

Components of executive remuneration

Remuneration may include the following components.

- Base salary (fixed pay).
- Annual Performance Bonus Scheme (variable pay).
- Deferred Bonus Scheme (variable pay).
- Benefits (fixed pay).
- Relocation support (fixed pay).
- Retention or recruitment incentives (fixed pay).
- Pension (fixed pay).

Malus and clawback provision

The company is committed to maintaining the highest standards of integrity, transparency, and responsible leadership. To support this, malus and clawback provisions apply to the Managing Director's performance-related pay, including any awards made under the Annual Performance Bonus Scheme and the Deferred Bonus Scheme.

These provisions are designed to protect customer and environmental outcomes and ensure that executive reward remains aligned with long-term performance and public trust.

Malus

Malus allows the company to reduce or withhold any unpaid or unvested Annual Performance Bonus or Deferred Bonus awards if serious concerns arise during the applicable performance period. This may include:

- fraud or gross misconduct;
- serious breaches of company policy or ethics; or
- conduct that damages the company's reputation or undermines trust.

Clawback

Clawback allows the company to recover amounts already paid under the Annual Performance Bonus Scheme or Deferred Bonus Scheme if, after payment, it is determined that the Managing Director:

- caused a financial mis-statement;
- was responsible for a material regulatory breach; or
- engaged in misconduct that led to significant harm to the company, its customers, or the environment

Clawback may be enforced for a minimum of three years from the date of payment, in line with Ofwat's PRP Prohibition Rule. The Managing Director's employment contract explicitly authorises the company to recover such amounts from any sums due, including salary, bonus, holiday pay, or other entitlements.

The company also reserves the right to recover environmental performance-related payments if, after departure, the Managing Director is found to have been responsible for an environmental breach during their tenure.

The Committee keeps under review its malus and clawback rules to make sure that they are in line with Ofwat's expectations, regulatory requirements and market practice.

Governance and broader application

For the purposes of this report, these provisions relate specifically to the Managing Director. However, similar malus and clawback rules apply to the wider Executive team under the company's internal remuneration policy.

All decisions to apply malus or clawback are made by the Committee, subject to Board approval, and only after a full investigation and due process.

Base salary

Base salary forms the core fixed element of the Managing Director's remuneration. It reflects the size, complexity and responsibilities of the role, and is intended to attract and retain high-calibre leadership capable of delivering strong outcomes for customers, communities and the environment.

The Managing Director's salary is reviewed annually, typically with effect from 1 April. While there is a contractual entitlement to a review, this does not guarantee an increase. Any changes to salary are determined by the Committee, which considers a range of factors including:

- the scope and scale of the role;
- individual performance and leadership impact;
- external market benchmarking for similar roles in the sector and wider industry;
- internal pay relativity and workforce pay trends; and
- overall company performance and affordability.

Salary levels for the broader Executive team are reviewed independently of the wider workforce, although movements are considered in the context of overall employee pay. In some cases, adjustments may be made outside of general increases, particularly where:

- there has been a material change in role or responsibilities;
- the salary is significantly out of line with market norms;
- retention or progression requires alignment with peer benchmarks; or
- external conditions such as inflation or regulatory shifts justify it.

The Committee's aim is to ensure that salary levels remain appropriate, proportionate, and fully aligned with the company's long-term goals and public expectations.

Annual Performance Bonus Scheme

The Annual Performance Bonus Scheme is a discretionary annual bonus scheme designed to reward performance against stretching targets that support the company's strategic objectives and deliver measurable benefits for customers, communities, and the environment.

To be eligible for an annual performance bonus, the Managing Director must be actively employed at the time of payment and must not have given or received notice to terminate their employment.

Annual performance targets are set by the Board ahead of each financial year, based on recommendations from the Committee and subject to external assurance. These targets are drawn from a balanced scorecard framework, comprising of core areas that incorporate:

- financial performance;
- business and growth strategy;
- customer;
- ESG;
- health and safety; and
- people.

The weighting of these components is structured to ensure that a significant proportion of the bonus is directly linked to customer and environmental performance, in line with Ofwat expectations.

The outcome of performance against these measures is independently reviewed and considered in full by the Committee following completion of the externally audited year-end results. Final decisions on Annual Performance Bonus payments are taken at the Committee's June meeting.

The Committee retains full discretion to adjust or withhold payments in response to external events, regulatory findings, or broader reputational concerns. In line with Ofwat's PRP Prohibition Rule, no annual performance bonus payment will be made where statutory breaches or material failings have occurred.

The maximum bonus opportunity for the Managing Director is defined in their contract of employment. Further details of the measures and outcomes for the reporting year are set out on pages 42 to 84.

Deferred Bonus Scheme

The Deferred Bonus Scheme (the Scheme) is a discretionary, long-term incentive arrangement designed to support the sustainable success of the company by aligning executive reward with performance over time. It reinforces accountability to customers, regulators, and stakeholders by linking outcomes to key strategic, financial, and environmental objectives. The Scheme is operated by South Staffordshire Plc, in which the Managing Director of South Staffordshire Water participates.

Structure and assessment

Following the close of the financial year (1 April to 31 March), the Annual Bonus Award is determined based on performance against the company's balanced scorecard. An equivalent value, referred to as the Matching Award, is granted and deferred for two years.

The Matching Award remains subject to further performance assessment over a three-year period, beginning from the start of the financial year in which the Annual Bonus was earned (that is, the performance period is aligned with the bonus year and runs concurrently).

Two-thirds of the Matching Award is subject to a performance multiplier (ranging from 0x to 2x), based on the company's long-term financial performance, specifically cash available for distribution, over that full three-year period. The remaining one-third of the Matching Award is not subject to this multiplier and is payable following the two-year deferral, subject to continued employment.

Payout timing and conditions

The Annual Performance Bonus is typically paid in July following the end of the performance year.

The Matching Award becomes payable two years later, contingent on long-term performance and subject to any applicable malus or clawback provisions

Participation in the Scheme is by invitation only and is not a contractual entitlement. There is no automatic right to participate in future years or to receive an award of any specific value.

Good Leaver provisions

If the Managing Director leaves the company before the Matching Award becomes payable, awards may lapse unless the individual is deemed a Good Leaver. This includes circumstances such as death, ill health, redundancy, retirement, or at the discretion of the Committee. In such cases, awards may be pro-rated or paid in full, with the timing subject to Committee discretion.

Malus and clawback

Awards under the Scheme are subject to malus and clawback provisions as already outlined on page 223.

Governance and discretion

The Scheme is operated at the discretion of the Committee, which reserves the right to:

- adjust targets or outcomes in exceptional circumstances;
- suspend or withdraw the plan; or
- override formulaic outcomes if they do not reflect performance 'in the round'.

This structure ensures that reward is contingent on long-term value creation and responsible leadership. The Committee remains committed to transparency and alignment with Ofwat expectations and broader governance best practice.

Benefits

The provision of benefits forms part of a competitive total remuneration package designed to attract and retain a high-calibre leadership team capable of delivering long-term success for the company and its stakeholders.

Benefits are provided in line with market practice and tailored to the individual's role and circumstances. For the Managing Director, these currently include:

- a car allowance (a car would be provided should the Managing Director opt for this benefit) – taxable;
- private medical insurance – taxable;
- income protection insurance;
- life assurance; and
- annual leave entitlement above the statutory minimum.

Additional benefits, such as relocation support or travel allowances, may be offered where relevant to the role or individual needs. The Committee reviews the scope and value of benefits annually to ensure they remain appropriate, fair, and aligned with market benchmarks, while maintaining internal consistency and control.

Benefits are not pensionable and are not performance-related, but they contribute to the overall competitiveness of the remuneration package and support the well-being and stability of senior leadership.

Taxable benefits are not subject to a specific cap but represent only a small element of total remuneration. The costs associated with benefits provision are closely monitored and regularly reviewed and controlled.

Retention or recruitment incentives

In exceptional circumstances, the Committee may approve one-off payments or incentive arrangements to support the recruitment or retention of senior leadership where this is necessary to secure or retain individuals with the skills, experience and leadership capability required for the company's long-term success.

Such incentives may include:

- recruitment bonuses, to compensate for the forfeiture of variable pay or benefits from a previous employer; or
- retention payments, where continuity of leadership is critical to the delivery of key strategic or operational objectives.
- All such arrangements are discretionary, non-pensionable, and subject to appropriate conditions and governance. Where used, the Committee will ensure:
- any payment is proportionate and aligned with market practice;
- the rationale for the incentive is clearly documented and linked to the company's interests;
- any performance conditions or clawback provisions are clearly defined and enforceable; and
- transparency is maintained through appropriate disclosure in the relevant annual report.

The use of recruitment or retention incentives will be rare, subject to robust challenge, and always aligned with Ofwat's expectations for transparency, proportionality, and responsible pay practices in the water sector.

Pension

The company provides pension contributions as part of the Managing Director's remuneration package, in accordance with contractual terms. Contributions are typically made to a defined contribution scheme or alternatively paid as a cash allowance of equivalent value where a personal pension arrangement is in place.

Pension contributions for the Managing Director and the other members of the Executive team are defined in their individual contracts. The Managing Director receives a contribution of around 10% of base salary, while other Executive team members receive contributions generally ranging between 6% and 10%.

Pension is the only post-employment benefit provided to the Executive team. No additional retirement or exit-related benefits apply. The Committee reviews pension contribution levels periodically to ensure they remain fair, consistent with wider workforce arrangements, aligned with market practice.

Employment contracts and loss of office

The Managing Director is employed under an agreement designed to support recruitment and retention, while ensuring terms are fair, proportionate, and aligned with the company's performance culture.

The standard notice period for termination, by either the company or the Managing Director, is six months. This contractual term reflects a balance between providing stability and ensuring flexibility for the business.

Any payment on loss of office will be determined in line with contractual obligations and the Committee's discretion, taking into account the circumstances of departure and performance over the period of employment.

No compensation will be paid for loss of office in the event of gross misconduct or where the individual resigns without good reason.

Balanced scorecard objectives

The Managing Director's performance objectives are set annually and align with the company's balanced scorecard. These objectives reflect the company's vision, mission, and values, and are designed to drive performance across six core areas: financial performance; business strategy and growth; customer; ESG; health and safety; and people.

Each objective area is weighted to ensure a balanced and fair assessment of performance. Targets are stretching and require sustained improvement across the business. They are set with reference to:

- the company's medium-term business plans and financial forecasts;
- commitments to customers and communities;
- regulatory and statutory obligations; and
- expectations of shareholders and wider stakeholders.

Performance against the balanced scorecard is assessed using a combination of quantitative metrics and qualitative judgements. Key indicators include but are not limited to the following.

- **Financial performance.** Delivery of pre-financing cash flow targets, collections performance, and totex efficiency against targets for the five-year planning period.
- **Business strategy and growth.** Delivery of upper quartile performance across common water company outcome delivery incentives (ODIs), stakeholder engagement, and delivery of business and financial strategies.
- **Customer.** Progress on C-MeX performance, universal metering roll out, complaint reduction, and delivery of community impact initiatives.
- **ESG.** Achievement of net zero planning milestones, environmental compliance, and strong governance reporting.
- **Health and safety.** All Accident Frequency Rate, RIDDOR rates, safety leadership visibility, and proactive reporting culture.
- **People.** Leadership effectiveness, employee retention, sickness absence and engagement scores.

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Environmental performance is considered a critical component. In line with Ofwat expectations, any significant failings in this area such as Category 1 pollution events may result in the withholding of variable pay, regardless of performance in other areas. This reflects the company's commitment to sustainable leadership and regulatory compliance.

The Committee is responsible for ensuring that all targets are appropriately challenging and support the delivery of long-term, sustainable value for customers, regulators and shareholders.

Governance and decision-making

The Committee is responsible for setting and overseeing the implementation of the remuneration policy. All decisions are made in line with the company's financial position, performance against strategic objectives, regulatory obligations, and long-term commitments to customers, the environment, and stakeholders.

The Committee ensures that any performance-related pay is subject to robust governance, including independent assurance of results, alignment to stretching objectives, and a clear link between outcomes and public value. Environmental compliance, customer delivery, and sustainability performance are core considerations in any bonus determination.

Material changes to the policy require approval from the Board and are made transparently, in accordance with the Ofwat Principles.

Annual Performance Bonus and Deferred Bonus awards

During the reporting year, the Managing Director left the company and was therefore not awarded any Annual Performance Bonus for the year, and no amount was added to the Deferred Bonus Scheme. The payments made to the Managing Director are disclosed on page 231.

Executive pay ratio

The Board has disclosed the Managing Director pay ratio, which shows how the Managing Director's single total figure for remuneration compares with the equivalent figures for South Staffordshire Water employees and takes account of the full-time equivalent basis for the company's employees. The Managing Director pay ratio is likely to be volatile, primarily as a result of the higher proportion of incentive-based pay earned by the Managing Director, compared with other employees.

The figures show the relevant ratios, excluding deferred bonuses (not due to be paid out for five years). The company is committed to paying the National Living Wage to employees. Based on a 37-hour a week contract at £12.21 an hour (2024: £11.44) rate for outside London, this would give an annual salary of £22,751. Most employees are paid at or higher than the National Living wage.

In comparison with the Managing Director, the highest paid directly employed Board member, this gives a ratio of 13:1 against basic salary and 15:1 against total remuneration, excluding LTIP and 'Other' both of which sit within the 20:1 ratio.

Managing Director – change in-year

The former Managing Director, Andy Willicott, stepped down from the Board on 6 December 2024 and stepped down as Managing Director on leaving the company on 31 December 2024 according to agreed terms.

Andy continued to receive his contractual salary, pension and benefits up to 31 December 2024 when he ceased to be an employee of the company (these payments are included in the relevant columns for 2025 in the Directors' remuneration table below).

In addition, Andy received a contractual payment in lieu of notice of £121,275 for the balance of his contractual notice period of six months (consisting of salary). An additional £287,000 was paid in respect of loss of office (including loss of benefits). This amount is in recognition of Andy's leadership of the company through the challenging periods of both the COVID-19 pandemic, the criminal cyber-attack in 2022 and recent regulatory changes in the water sector.

The payment also takes into account that the Group-wide Long-term Incentive Plan operated by the intermediate parent company, South Staffordshire Plc, was closed during the reporting year, and Andy did not receive any payment under this plan.

On resignation, all in-flight variable award opportunities lapsed on cessation of employment.

Further details of the payments made to the former Managing Director are set out in the notes to the Directors' remuneration table below.

The new Managing Director, Elena Karpathakis, joined the company on 24 March 2025 as Managing Director and was appointed to the Board on 30 April 2025. All pay and benefits have been set in line with the current Remuneration Policyremuneration policy. Further information on Elena's pay and benefits will be included accordingly in next year's annual report and financial statements.

Non-executive Directors

Fees policy

The fees policy for Non-executive Directors is set by the Board on the recommendation of the Committee. Fees are reviewed annually and are appropriately benchmarked. Additional fees may be paid in relation to extra responsibilities undertaken, such as for chairing certain Board committees, or undertaking the role of Senior Independent Non-executive Director.

The company repays any reasonable expense that a Non-executive Director incurs in carrying out their duties as a director, such as travel expenses.

Details of the Non-executive Directors current fee levels are set out below.

Service contracts

Non-executive Directors are appointed under a contract for services, typically serving an initial term of three years. This term may be extended for up to two additional periods of three years each, subject to Board approval and the provisions outlined in the company's Articles.

The service contracts of Non-executive Directors may be terminated without compensation for the reasons specified in the service contract.

Directors' remuneration

Details of the Directors' remuneration are set out below.

Name	Board £'000																	
	Basic salary		Bonus[1]		Deferred bonus plan[2]		Other benefits and pay[3]		Other[4]		Fees		Total emoluments		Pension contributions[5]		Total remuneration	
	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024
The Rt Hon Lord Smith of Finsbury											75	71	75	71			75	71
Andy Willicott[4]	300	228		55			14	10	287				601	293	30	23	631	316
Charley Maher[7]																		
Catherine May[8]											65	41	65	41			65	41
Alice Cummings											45	43	45	43			45	43
Professor Ian Barker											43	43	43	43			43	43
Keith Harris[7]																		
Peter Antolik[7]																		
Sara Vaughan[6]											19		19				19	
Total	**300**	**228**		**55**			**14**	**10**	**287**		**247**	**198**	**848**	**491**	**30**	**23**	**878**	**514**

Notes:

1. For 2023/24 the bonus includes bonus approved and accrued, no bonus paid in 2024/25
2. The Deferred Bonus Scheme is remunerated by the intermediate parent company, South Staffordshire Plc, and cross charged.
3. 'Other benefits and payments' combines company car benefit in kind, car cash and benefit allowances, fuel allowances, the taxable value of private medical insurance provision and relocation expenses.
4. On leaving the company on 31 December 2024, Andy Willicott received the following.
    a. Payment for loss of office of £234,000.
    b. Disturbance allowance of £9,000.
    c. Employee pension contribution (compensation for loss of benefit at the termination date) of £12,000.
    d. Unutilised annual leave of £17,000.
    e. Company car allowance of £15,000.
5. Fees are pro rata from services commencing.
6. Pension contributions are payments by the company in respect of money purchase pension schemes.
7. These Directors were remunerated either by the intermediate parent company, South Staffordshire Plc, or received no remuneration for their services during the year.
8. Due to an administrative error, Catherine May's fees were underpaid in previous financial years. The error was identified and corrected during the reporting year. Her annual fee was adjusted to £46,750 and a one-off payment of £18,125 was made to reflect the underpayment for prior periods.
9. Basic salary includes pay in lieu of notice of £121,000

Fees are paid to Non-executive Directors and salary is paid to Managing Director; both these elements are fixed.

Bonus, deferred bonus, other benefits and pay and other are variable remuneration.

This remuneration report was approved by the Board on 15th July 2025 and signed on its behalf by:

Alice Cummings
Chair, Remuneration Committee

15 July 2025

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Directors' responsibilities statement

The following statement, which should be read in conjunction with the auditor's statement of its responsibilities, is made with a view to distinguishing for investors the respective responsibilities of the Directors and of the auditor in relation to the financial statements.

The Directors are required by company law and under Condition I of the licence by the Secretary of State for Environment, Food and Rural Affairs, as a water undertaker under the Water Industry Act 1991, to prepare an annual report and financial statements for each financial year, which give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss for the financial year.

Under company law, the Directors have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including FRS 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary; and
- keep proper accounting records, which comply with Condition I.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

The Directors can confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position, and profit and loss of the company;
- the strategic review includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face: and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

This Directors' responsibilities statement was approved by the Board on 15th July 2025 and signed on its behalf by:

Elena Karpathakis
Managing Director

15 July 2025

Financial Statements

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Profit and loss account

For the 12 months ended 31 March 2025

	Note	31 Mar 25 £'000	31 Mar 24 £'000
Turnover	2	153,400	151,602
Operating costs	3	(133,859)	(133,918)
Other operating income	6	10,664	9,626
Operating profit (before exceptional items)		**30,205**	**27,310**
Exceptional items	7	(525)	898
Operating profit (after exceptional items)		**29,680**	**28,208**
Finance income (receivable)	8	2,674	2,350
Finance cost (payable)	8	(25,480)	(35,189)
Profit/(loss) before taxation		6,874	(4,631)
Tax on profit/(loss)	9	(1,678)	1,452
Profit/(loss) for financial year attributable to the equity shareholders of the Company		5,196	(3,179)
Earnings/(loss) per share			
Basic	11	244.7p	(149.7p)
Diluted	**11**	**244.7p**	**(149.7p)**

The results above are derived from continuing operations. The accompanying notes are an integral part of these financial statements.

Balance sheet

As at 31 March 2025

	Note	31 Mar 25 £'000	31 Mar 24 £'000
Fixed Assets			
Intangible assets	12	28,666	17,362
Tangible assets	13	691,689	685,763
		720,355	703,125
Current Assets			
Stocks	16	4,346	4,084
Debtors- amounts recoverable within one year	17	51,019	56,056
Debtors- amounts recoverable in more than one year	17	2,734	3,439
Investments	18	2	2
Cash and cash equivalents	26	15,506	21,155
		73,607	84,736
Trade and other creditors- amounts falling due within one year	19	(67,898)	(76,149)
Net current assets		5,709	8,587
Total assets less current liabilities		726,064	711,712
Borrowings- amounts falling due after more than one year	20	(411,712)	(402,546)
Other creditors- amounts falling due after more than one year	20	(10,075)	(9,355)
Accruals and deferred income- falling due after more than one year	15	(195,098)	(191,012)
Provisions for liabilities- falling due after more than one year	22	(62,609)	(61,996)
Net Assets		46,570	46,803
Capital and reserves			
Called up share capital	24	2,123	2,123
Share premium account		495	495
Capital redemption reserve		4,450	4,450
Revaluation reserve		29,314	29,739
Profit and loss account		13,227	12,606
Hedging reserve		(3,039)	(2,610)
Shareholders' Funds		46,570	46,803

The accompanying notes are an integral part of these financial statements.

The financial statements of South Staffordshire Water PLC (company number 02662742) were approved by the Board of Directors and authorised for issue on 15 July 2025.

Elena Karpathakis
Managing Director
15 July 2025

Statement of comprehensive income

For the 12 months ended 31 March 2025

	31 Mar 25	31 Mar 24
	£'000	£'000
Profit/(loss) after taxation	5,196	(3,179)
Movement in hedging reserve (gross of deferred tax)	(572)	(215)
Deferred tax impact of movement in hedging reserve	143	54
Total comprehensive gain/(loss)	**4,767**	**(3,340)**

Statement of changes in equity

As at 31 March 2025

	Note	Called up Share Capital £'000	Share Premium Account £'000	Capital Redemption Reserve £'000	Revaluation Reserve £'000	Profit and Loss Account £'000	Hedging Reserve £'000	Total £'000
Balance at 1 April 2023		2,123	495	4,450	30,163	20,661	(2,449)	55,443
Loss for financial period		-	-	-	-	(3,179)	-	(3,179)
Change in value of hedging instruments- cash flow hedges (gross of deferred tax)		-	-	-	-	-	(384)	(384)
Deferred tax impact of change in value of hedging instruments		-	-	-	-	-	96	96
Amounts recycled to profit and loss (gross of deferred tax)		-	-	-	-	-	169	169
Deferred tax impact of amounts recycled to profit and loss		-	-	-	-	-	(42)	(42)
Other comprehensive income		-	-	-	-	-	(161)	(161)
Total comprehensive income/(loss)		**-**	**-**	**-**	**-**	**(3,179)**	**(161)**	**(3,340)**
Amounts transferred to profit and loss		-	-	-	(424)	424	-	-
Dividends	10	-	-	-	-	(5,300)	-	(5,300)
Balance at 31 March 2024		**2,123**	**495**	**4,450**	**29,739**	**12,606**	**(2,610)**	**46,803**

Statement of changes in equity – as at 31 March 2025 (continued)

	Note	Called up Share Capital	Share Premium Account	Capital Redemption Reserve	Revaluation Reserve	Profit and Loss Account	Hedging Reserve	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2024		2,123	495	4,450	29,739	12,606	(2,610)	46,803
Profit for financial period		-	-	-	-	5,196	-	5,196
Change in value of hedging instruments- cash flow hedges (gross of deferred tax)		-	-	-	-	-	(740)	(740)
Deferred tax impact of change in value of hedging instruments		-	-	-	-	-	185	185
Amounts recycled to profit and loss (gross of deferred tax)		-	-	-	-	-	168	168
Deferred tax impact of amounts recycled to profit and loss		-	-	-	-	-	(42)	(42)
Other comprehensive loss		-	-	-	-	-	(429)	(429)
Total comprehensive income		**-**	**-**	**-**	**-**	**5,196**	**(429)**	**4,767**
Amounts transferred to profit and loss		-	-	-	(425)	425	-	-
Dividends	10	-	-	-	-	(5,000)	-	(5,000)
Balance at 31 March 2025		2,123	495	4,450	29,314	13,227	(3,039)	46,570

Called up share capital: The equity reserve represents the equity component of the company.

Share premium account: The share premium reserve contains the premium arising on issue of equity shares, net of issue expenses.

Capital redemption reserve: On 1 July 2000, the company redeemed 1,200,000 redeemable preference shares of £1 each at par. On 15 July 2002, the company repurchased 3,250,000 (nominal value £1 each) of its shares from South Staffordshire Water Holdings Limited.

Revaluation reserve: The deemed cost of existing infrastructure assets determined as part of the transition to FRS 102 gave rise to a revaluation reserve of £36 million, net of deferred tax, which is being transferred to the profit and loss reserve as it becomes realised, over the estimated economic life of the related assets of 80 years.

Profit and loss account: The profit and loss reserve represents cumulative profits, net of dividends paid and other adjustments.

Hedging reserve: The company has entered into derivative financial instruments to hedge exposure to floating interest rates. Further information on the hedging policy is set out on page 250.

Cash flow statement

As at 31 March 2025

		31 Mar 25		31 Mar 24	
	Note	£'000	£'000	£'000	£'000
Cash inflow from operating activities			**58,747**		**56,943**
Corporation tax paid			-		(743)
Net cash inflow from operating activities	**(a)**		**58,747**		**56,200**
Cash flows from investing activities					
Purchase of intangible fixed assets		(11,099)		(8,493)	
Purchase of tangible fixed assets		(43,888)		(71,783)	
Proceeds from sale of tangible fixed assets		648		2,339	
Interest received		3,085		3,361	
Contributions and grants received		7,560		14,363	
Net cash outflow from investing activities			**(43,694)**		**(60,213)**
Cash flows from financing activities					
Interest paid		(15,302)		(13,099)	
Equity dividends paid		(5,000)		(5,300)	
Loan arrangement fees		(400)		-	
Additions to private placement loans (cash)		-		20,000	
Private placement loan issue costs paid		-		(4)	
Net cash (outflow)/inflow from financing activities			**(20,702)**		**1,597**
Decrease in cash	**(b)**		**(5,649)**		**(2,416)**
Cash and cash equivalents at the beginning of the period			**21,155**		**23,571**
Cash and cash equivalents at the end of the period			**15,506**		**21,155**

Purchase of intangible and tangible fixed assets relates to the cash paid out in the year in relation to fixed asset additions. The difference in what was paid, £54,987,000, and additions reported in the fixed asset notes 12 and 13 of £48,819,000 is due to the in-year movement of creditors relating to capital purchases of £6,168,000.

Notes to the cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	31 Mar 25 £'000	£'000	£'000	31 Mar 24 £'000
Total operating profit (after exceptional items)		**29,680**		**28,208**
Depreciation	30,174		29,301	
Amortisation	1,245		1,142	
Amortisation of capital contributions	(3,474)		(3,504)	
Profit on disposal of tangible fixed assets	(386)		(2,219)	
		27,559		24,720
(Increase) in stocks	(262)		(214)	
Decrease in debtors	5,002		9,171	
(Decrease) in creditors	(3,232)		(4,942)	
Cash inflow/(outflow) from operating activities		1,508		4,015
Corporation tax paid		-		(743)
Net cash inflow from operating activities		**58,747**		**56,200**

(b) Reconciliation of movement in net debt

	31 Mar 25 £'000	31 Mar 24 £'000
Decrease in cash	(5,649)	(2,416)
Accrual of bank term loan issue costs (non-cash)	-	150
Loan arrangement fees	400	-
Loan fees amortisation (non-cash)	(157)	(80)
Increase in private placement loan (cash)	-	(20,000)
Private placement issue cost (cash)	-	4
Private placement issue cost amortisation (non-cash)	(7)	-
Movement on index-linked debt (non-cash)	(9,402)	(21,557)
Movement in derivatives (non-cash)	(741)	(384)
(Increase) in net debt in period	(15,556)	(44,283)
Net debt brought forward	(380,166)	(335,883)
Net debt carried forward	**(395,722)**	**(380,166)**

Notes to the cash flow statement (continued)

	Balance at 31 March 2024 £'000	Cash Flow £'000	Non-Cash Movements £'000	Balance at 31 March 2025 £'000
Cash and cash equivalents	21,155	(5,649)	-	15,506
	21,155	(5,649)	-	15,506
Irredeemable debenture stock	(1,652)	67	(67)	(1,652)
Bank loans (net of issue costs)	(29,902)	3,144	(2,901)	(29,659)
Private placement loans (net of issue costs)	(79,919)	2,954	(2,961)	(79,926)
Index-linked debt (net of issue costs and including premium)	(291,072)	9,537	(18,940)	(300,475)
Derivatives	1,224	(886)	146	484
Net debt	**(380,166)**	**9,167**	**(24,723)**	**(395,722)**

Interest paid on the above borrowings have been shown in interest paid within the cash flow.

It is noted that the covenant net debt value as opposed to the book net debt value is used by stakeholders, including investors, lenders and rating agencies, to monitor key financial metrics such as the net debt/RCV as shown above and below.

	31 Mar 25 £'000	31 Mar 24 £'000
Book net debt (as reported above)	(395,722)	(380,166)
Derivatives	(483)	(1,224)
Exclude book premium on issue of index linked debt	11,295	11,682
Exclude unamortised issue costs	(1,834)	(1,645)
Exclude accrued interest	1,390	1,462
Net debt reported for borrowing covenants	**(385,354)**	**(369,891)**
Regulatory Capital Value	580,625	540,533
Covenant Net Debt/Regulatory Capital Value	66.4%	68.4%

Notes to the financial statements

1. Statement of accounting policies

South Staffordshire Water PLC is limited by shares, concentrating on regulated water supply and complementary specialist services business. The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year.

The financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS 102) and the Companies Act 2006.

The company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its related parties, financial instruments and remuneration of key management personnel. The company's registered address is Green Lane, Walsall, West Midlands, WS2 7PD.

These financial statements are prepared on a going concern basis, as set out below, under the historical cost convention, as modified by the revaluation of land and buildings.

Going concern

The Directors consider it is appropriate to prepare the financial statements on a going concern basis. This view is based on a review of the company's budget for the year ending 31 March 2026 and financial forecasts to 31 July 2026. The going concern period is therefore to 31 July 2026.

In addition, the Directors are required to certify to Ofwat under Condition P of the company's licence that sufficient financial resources are available for at least the next 12 months from the date of submission of the ring-fencing certificate, a statement within the annual performance report (APR).

The company's business activities, its business model and strategy, together with the factors likely to affect its future development are set out in the strategic report on pages 15 to 166. The company's financial position, its liquidity position and available borrowing facilities are set out in the balance sheet on page 237 and in note 1 to the financial statements, which includes:

- its objectives for managing its financial risks;
- details of its financial instruments and hedging activities; and
- its exposure to interest, credit and liquidity risk.

The company has a large number of household customers, none of whom make up a significant proportion of turnover.

Amounts due from non-household retailers are secured by appropriate collateral agreements.

The going concern assertion is also based on the following.

- The **final determination for the five years to 2030**, which provides a high degree of confidence over the company's revenue over the whole going concern period.
- The **company's ability to index the 2025/26 customer** bills to annual CPIH inflation.
- The company's **budget and plan**, which set out a detailed forecast of costs, including a high degree of confidence over power costs given a fixed price agreement in place covering a six-month period to 31 October 2025; this is in line with Ofwat's real price effects (RPE) mechanism. A second six-month period will shortly be fixed in what is currently seen as a relatively flat market when compared to the past three years' volatility.

- The **degree of confidence** about the approved capital expenditure and infrastructure renewal programme costs, with delivery through established contractor frameworks.
- The company **monitors and carefully manages its liquidity**. Cash flow forecasts are regularly updated and sensitivities run for different scenarios, including but not limited to more recent changes in energy and chemicals prices and inflation.
- The company is **confident it has sufficient access to capital markets**. In November 2024, an increase of a further £45 million to the pre-existing revolving credit facility of £30 million; this additional funding remains undrawn as of the date of the approval of the financial statements.

The company has performed a base case cash forecast, taking into account the factors discussed above, and a range of stressed case scenarios which includes downsides for:

- inflation;
- a deterioration in cash collections; and
- potential costs associated with the criminal cyber-attack that was identified in July 2022.

A key assumption in the forecast and severe but plausible downside scenario is the quantum and timing of legal and regulatory costs arising from the criminal cyber-attack and the mitigations thereof which the company can influence.

In notes 22 and 23 to the financial statements, the Directors set out that the quantum and value of civil claims the company may receive, and the costs of liabilities that may be incurred addressing those claims, and any regulatory penalties, involves significant judgement and uncertainty, and is therefore subject to change as the matters progress and the factual position becomes clearer.

In what the Directors consider to be a severe but plausible set of downside scenarios, the company has sufficient financial headroom for the going concern period, after allowing for mitigating actions such as deferring dividends, and complies with all covenants. The severe but plausible downside scenario assumes no incremental debt facilities.

Therefore, the Directors consider the company has sufficient financial resources to meet its obligations over the going concern period and conclude that preparing the accounts on a going concern basis remains appropriate.

The preparation of financial statements in conformity with FRS 102 required the use of certain accounting estimates. It also required management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed on page 252.

a) General information and basis of accounting

Although South Staffordshire Water is not publicly listed, its Board recognises that because of public interest in how the company performs and the regulated environment in which it operates, it should act as if it were. It is incorporated in the UK under the Companies Act 2006 and is registered in England and Wales. The address of the registered office is Green Lane, Walsall, West Midlands, WS2 7PD. The nature of the company's operations and its principal activities are set out in the strategic report on page 15 to 166.

b) Turnover

Turnover includes water revenue and commissions.

Turnover represents the fair value of consideration receivable, excluding value added tax, and trade discounts, in the ordinary course of business for goods and services provided. The company recognises revenue generally at the time of delivery and when collection of the resulting receivable has been deemed probable. Where the company considers that revenue should not be recognised, as collectability is not probable, revenue recognition is delayed until such a time as collectability is deemed probable. Where the company considers that the criteria for revenue recognition are not met for a transaction, revenue recognition is delayed until such time as collectability is deemed probable. In estimating the amount of revenue to recognise, the company has assessed that collectability is not probable where the customer has not paid their bills over multiple years. During the year, the company's estimate of the amounts billed to customers where collectability is not probable has reduced revenue by £3.7 million (2024: £3.5 million).

Water revenue is recognised when the service is provided and includes an estimate of the amount of mains water unbilled at the year end. The accrual is estimated using a defined methodology based upon a measure of unbilled water consumed by tariff, which is calculated from historical billing information.

Non-appointed turnover from non-appointed activities is as defined by the company's licence. They include the following.

- Aqua Direct spring water business.
- Commission income earned on amounts billed on behalf of other water companies for the sewerage services they provide to the company's customers. Commission is recognised when the bill is sent to the customer.

c) Other operating income

Other operating income includes:

- rental income in the profit and loss account over the term of the lease;
- profit or loss from the disposal of assets; and
- capital contributions and infrastructure contributions amortised to the profit and loss account.

Grants and contributions which are given in compensation for expenses incurred with no future related costs are recognised in other operating income in the period that they become receivable.

d) Finance costs (net)

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

Interest expense is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable.

e) Intangible fixed assets and depreciation

Intangible assets acquired are capitalised at cost. Following initial recognition, finite life intangible assets are amortised on a straight-line basis over their estimated useful economic lives as follows.

Asset type	Category	Life
Software	Intangible Assets	3–10 years

Amortisation charged on intangible assets is taken to the income statement through operating costs.

Development expenditure is capitalised as an intangible asset and written off over its expected useful economic life where the following criteria are met.

- It is technically feasible to create and make the asset available for use or sale.
- There are adequate resources available to complete the development and to use or sell the asset.
- There is the intention and ability to use or sell the asset.
- It is probable that the asset created will generate future economic benefits.
- The development costs can be measured reliably.

f) Tangible fixed assets and depreciation

Tangible fixed assets are held at cost less accumulated depreciation. Expenditure which results in enhancements to the operating capability of the infrastructure networks is capitalised.

Tangible fixed assets comprise:

- infrastructure assets (water mains, impounding and pumped raw water storage reservoirs and dams);
- operational structures (pumping stations, treatment stations, boreholes and service reservoirs);
- other assets; and
- assets under the course of construction or commissioning.

Infrastructure assets

Infrastructure assets comprise a network of systems, including two regional network assets that, as a whole, are intended to be maintained in perpetuity at a specified level of serviceability by the continuing replacement and refurbishment of their components. Expenditure on infrastructure assets relating to increases in capacity or enhancements of the networks is treated as additions, which are capitalised at cost.

The deemed cost of existing infrastructure assets determined as part of the transition to FRS 102 gave rise to a revaluation reserve of £36 million, net of deferred tax, which is being transferred to the profit and loss reserve over the estimated remaining economic life of 80 years.

Operational structures and other fixed assets

Operational structures and other fixed assets are stated at cost less accumulated depreciation and provisions for impairment. Depreciation is provided on a straight-line basis to write off the cost, less estimated residual value, over the estimated useful lives of the assets, with the exception of land, which is not depreciated. Assets in the course of construction are not depreciated until commissioned. The estimated useful lives of the assets are as follows.

Asset type	Category	Life
Boreholes	Specialised Operational Assets	100 years
Pumping stations, booster stations and treatment plant	Specialised Operational Assets	50–80 years
Mains, mains diversions	Infrastructure Assets	100 years
Impounding reservoirs and land	Infrastructure Assets	50–80 years
Boundary boxes	Other Tangible Assets	40 years
Fixed plant	Non-specialised Operational Assets	20–30 years
Meters	Other Tangible Assets	15 years
Mobile plant	Other Tangible Assets	5–7 years
Office equipment	Other Tangible Assets	5–7 years
Motor vehicles	Other Tangible Assets	3–7 years
Electric vehicles	Other Tangible Assets	3–7 years

Impairment of non-current assets

At each reporting date, the company assesses whether there is any indication that an asset may be impaired. Where there are indicators of impairment, the company performs impairment tests which involve comparing the carrying amount of the assets to their recoverable amount. Recoverable amount is the higher of fair value less costs to sell (FVLCS) and value in use (VIU). If it is not possible to estimate the recoverable amount of the individual asset, the company estimates the recoverable amount of the cash generating unit (CGU) to which the asset belongs. FVLCS is defined as the amount obtainable from the sale of an asset (or CGU) in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. VIU is based on a discounted cash flow model. The cash flows are derived from the budget for the next three years discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment in profit and loss unless the asset is carried at a revalued amount where the impairment loss of a revalued asset is a revaluation decrease.

g) Capital grants and contributions

Capital contributions received in respect of non-current assets, including certain charges made as a result of new connections to the water and sewerage networks, are treated as deferred income and released to other operating income over the useful economic life of those non-current assets. The release of this deferred income is recognised as other operating income under the heading 'Grants and contributions'.

Grants and contributions which are given in compensation for expenses incurred with no future related costs are recognised in operating costs in the period that they become receivable. This income is recognised as other operating income under the heading 'Infrastructure renewals contributions'.

h) Leased assets

Assets financed by leasing agreements, which transfer substantially all of the risks and rewards of ownership to the company are included within fixed assets, and the net obligation to pay future rentals is included in creditors. Rentals are apportioned between finance charges and a reduction of the outstanding liability for future rentals to produce a constant charge to the profit and loss account based upon the capital outstanding.

Assets rented by operating leasing agreements are expensed to the profit and loss account.

i) Infrastructure renewals expenditure (IRE)

Infrastructure renewals expenditure (IRE), being the annual expenditure required to maintain the operating capability of the network, is not capitalised within tangible fixed assets, but is expensed within operating costs for the year.

The costs of like-for-like replacement of infrastructure components are recognised in the income statement as they arise.

j) SaaS agreements

The company identifies software as a service (SaaS) and other cloud computing arrangements and assesses whether the arrangements transfer control of the underlying software to the company. Where it does not, the contract is accounted for as a service contract over the contract term.

Where the company does not control the underlying SaaS software, the accounting policy for implementation costs is as follows.

- If the costs incurred give rise to a separately identifiable asset from which the Group has the power to obtain economic benefits, the costs are capitalised as a separate software intangible and amortised straight-line over their useful life.
- If the costs relate to enhancement expenditure impacting other existing software which is controlled by the company (for example, costs incurred to integrate or make improvements to existing software as part of the implementation process, resulting in additional functionality), the costs are capitalised as subsequent expenditure on the existing company controlled system.
- Where the costs do not result in a separate identifiable intangible asset or the enhancement of existing controlled systems, the costs are expensed as the related implementation services are received. Such costs are included in the 'Other operating costs' line in the profit and loss account.

k) Provisions

Provisions are made where there is a present legal or constructive obligation as a result of a past event, and it is probable that there will be an outflow of economic benefits to settle this obligation, and a reliable estimate of this amount can be made. Where the effect of the time value of money is material, the current amount of a provision is the present value of the future expenditures expected to be required to settle obligations.

l) Contingent liabilities

The company is subject to litigation from time to time as a result of its activities. The company establishes provisions in connection with litigation where it has a present legal or constructive obligation as a result of past events, and where it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Where the company has a possible obligation arising from a past event, or a present obligation which does not meet the recognition criteria for a provision, this represents a contingent liability. Contingent liabilities are not recognised in the financial statements but are disclosed.

m) Stocks

Stocks and work in progress are valued at the lower of cost or net realisable value. Cost is determined on the 'first-in, first-out' (FIFO) method. Cost includes materials and an appropriate element of overheads. Provision is made for obsolete, slow-moving or defective items where appropriate.

n) Pensions

For the defined contribution schemes, the amount charged to the profit and loss account is the contributions payable in the year. Both sections of the defined benefit scheme (South Staffordshire and Cambridge) are closed to new entrants and have ceased future accruals.

In accordance with the agreed policy in the company and the Group, as the scheme is a multi-employer scheme with deferred members of the scheme also being employees of other Group companies, the company is not able to identify its share of the scheme's assets and liabilities on a reasonable and consistent basis.

Therefore, in accordance with the stated policy the amount charged to the company's profit and loss account is equivalent to the deficit contributions payable in the year by the company with the profit and loss items, actuarial gains and losses and assets and liabilities relating to the scheme being accounted for in the accounts of South Staffordshire Plc, an intermediate holding company.

o) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held on call with banks and other short-term highly liquid investments with original maturities of three months or less. Cash deposits with an original maturity in excess of three months are classified as 'other short-term investments'.

p) Taxation

Current tax is based on taxable profits or losses for the year based on legislation enacted or substantively enacted at the balance sheet date.

Deferred taxation is provided in respect of capital allowances in excess of depreciation and all other timing differences that have originated but not reversed at the balance sheet date using the future rate of tax anticipated at the time of reversal based on legislation enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that:

- provision is made for deferred tax that arises when income or expenses from subsidiaries, associates and joint ventures have been recognised in the financial statements and will be assessed to tax in a future period, except where the entity is able to control the reversal of the timing difference and it is probable that the timing difference will not reverse in the foreseeable future;
- where there are differences between the amounts that can be deducted for tax for assets (other than goodwill) and/or between amounts that will be assessed for tax in respect of liabilities compared with the amounts that are recognised for those assets and liabilities in a business combination, deferred tax liabilities/(assets) are recognised. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised; and

- unrelieved tax losses and other deferred tax assets are recognised only to the extent that the Directors consider that it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

q) Financial instruments

The company has chosen to account for its financial instruments in accordance with Sections 11 and 12 of FRS 102.

Financial assets

Financial assets comprise cash and cash equivalents, trade debtors, accrued income, loans receivable and derivative financial instruments.

Cash and cash equivalents, trade debtors and loans receivable are initially measured at the transaction price, adjusted for transaction costs and subsequently measured at amortised cost. Cash and cash equivalents comprise cash at bank and in hand and short-term deposits.

Derivative financial assets comprise interest rate swaps designated as hedging instruments in effective hedge relationships. See (r) below for further information.

Financial liabilities

Financial liabilities comprise trade and other creditors, borrowings and derivative financial instruments.

The company's trade and other creditors and borrowings are initially measured at transaction price adjusted for transaction costs and subsequently measured at amortised cost. For the company’s index-linked borrowings, the initial effective interest rate (EIR) is calculated based on expected cash flows at initial recognition. Thereafter, the company increases the borrowings to reflect the finance expense and reduces it for payments made. The company accrues the finance expense based on the prevailing interest and inflation rates with the finance cost comprising both the expense relating to coupon payments and the RPI accretion of the notional amount. In doing so, it takes into account actual cumulative inflation up until the reporting date. Any premium/discount and costs of issue are amortised over the life of the instrument, with the amortisation being included in the effective interest rate of the instrument that is included in finance charges in the profit and loss account.

The company has floating rate bank loans and related interest rate swaps. These previously linked to LIBOR as a benchmark, however, have since transitioned to using SONIA as part of the process of LIBOR reform with no material impacts on the financial statements.

Derivative financial liabilities comprise interest rate swaps designated as hedging instruments in effective hedge relationships. See (r) below for further information.

The company’s policy is to pay suppliers in line with the terms of payment agreed with each of them when contracting for their products or services. The company also follows the Prompt Payment Code.

r) Hedge accounting

The company has entered into derivative financial instruments to hedge exposure to floating interest rates. These derivative financial instruments are recorded on the balance sheet at fair value on inception and at each balance sheet date. Movements in fair value of derivative financial instruments are recorded in the profit and loss account except where the company has adopted hedge accounting.

At present, all derivatives held by the company have been designated as hedging instruments in effective cash flow hedges. At the inception of the hedge relationships, the company documents the relationships between the hedging instruments and the hedged items, along with the company’s risk management strategy and objectives in relation to each hedge. At the inception of the hedges, and on an ongoing basis, the company documents whether the hedging instruments are highly effective in offsetting changes in cash flows of hedged items.

The effective proportion of changes in fair value of hedging instruments that are designated and qualify as cash flow hedges are recognised in SOCI and accumulated in the cash flow hedge reserve in equity, net of deferred tax. The gain or loss relating to the ineffective proportion is recognised immediately in the profit and loss account. Hedge accounting is discontinued when:

- the company de-designates the hedging relationships;
- the hedging instruments expire, are terminated or are sold; or
- they no longer qualify for hedge accounting.

Amounts recognised in the hedging reserve are recycled to the profit and loss account in the periods when the hedged items are recognised in the profit and loss account. When forecast transactions are no longer expected to occur, the cumulative gains or losses are recognised immediately in the profit and loss account.

s) Dividends

Dividends are recognised if they have been paid or if they have been approved by the company's Board and investors before the period end.

t) Exceptional items

In the opinion of the Directors, the company separately presents certain items on the face of the profit and loss account as exceptional. Exceptional items are material items of income or expense that, because of their size or incidence, are presented separately to allow an understanding of the company's financial performance and comparison to the prior year. They are not expected to be incurred on a recurring basis.

Principal accounting judgements, estimates and assumptions

In the application of the accounting policies, which are described above, the Directors are required to make judgements, estimates and assumptions in respect of the carrying amounts of assets and liabilities recognised in the financial statements.

These are based on historical experience, future forecasts and other factors that are considered to be relevant. It is recognised that historical experience and forecasts change over time and these judgements, estimates and assumptions are therefore reviewed and amended where necessary on a regular basis. However, it is also recognised that the actual outcomes may still differ to the judgements, estimates and assumptions made.

Provided below are details of the principal accounting judgements, estimates and assumptions the Directors have made when applying the company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

The more significant judgements were as follows.

Tangible fixed assets – determining costs which are capital in nature

- **Operating expenditure (opex) v capital expenditure (capex).** Our business involves significant construction and engineering projects. Assessing the classification of costs incurred on such projects between capital expenditure and operating expenditure requires judgements to be made. The judgements are made based on objective criteria that the company has developed to facilitate the consistent application of its accounting policies. The costs of like-for-like replacement of infrastructure components are recognised in the income statement as they arise. Expenditure which results in quality or capacity enhancements to the operating capability of the infrastructure networks is capitalised.
- **Disclosure of contingent liability.** In July 2022, South Staffordshire Plc, the parent company of South Staffordshire Water PLC (including the South Staffs Water and Cambridge Water regions), experienced a criminal cyber-attack. The incident involved the theft of data from the Group's IT systems including personal data of a proportion of South Staffordshire Water's employees and customers. There is an ongoing investigation under Regulations 18 of the Network and Information Systems Regulations 2018 (as amended) by the DWI related to the cyber-attack. Based on currently available information, it is not possible to reliably estimate a provision for this matter. For further details, please refer to note 23.

- **Recognition of provisions.** During the year, the company did not change any specific provisions relating to potential regulatory penalties and other payments associated with the 2022 data breach and based on a recent ongoing investigation with another regulator. The regulators have not issued penalty notices; however, the company has estimated a potential penalty amount. Further in relation to the civil claims, there is significant judgment and uncertainty involved in relation to the quantum and value of civil claims we may receive, and the costs of liabilities that may be incurred addressing those claims. The assessment is therefore subject to change as the claims progress and the factual position becomes clearer.
- **Fens reservoir**. Fens reservoir is a proposed new reservoir being delivered in partnership with Anglian Water to serve the Cambridge Water and Anglian Water operating areas. The costs incurred to date primarily comprise of environmental works and design plans. Whilst the final structure arrangement is yet to be determined, the costs incurred will entitle the company to economic benefits through access to the completed reservoir. Having considered the recognition criteria, management has therefore concluded the costs meet the criteria for recognition as an intangible asset and as such, the cost has been capitalised as assets under construction within intangible assets.

Key accounting estimates

- **Bad and doubtful debt provision.** The recoverability of trade debtors, and therefore the amount of bad and doubtful debt provision held against trade debtors in the balance sheet at each year end, requires judgement. This judgement requires consideration of the historical and forecast debt collection rates in respect of different categories of customers and trade debt, usually calculated as a percentage of the total amount billed in each year. This information is used to estimate the level of debt outstanding at the end of the year, which is expected to be irrecoverable after following the processes of collection that the company adopts. This estimate represents the appointed regulated year end bad and doubtful debt provision, which was £40,063,000 as at 31 March 2025 (2024: £41,754,000). For each 1% increase in the whole life cycle collection rates the bad and doubtful debt provision will increase by approximately £1,172,000.
- **Accrued income.** Metered customers are billed for a fixed charge and a variable volume charge. An estimate of water consumption by metered customers since the date of the last water bill and an estimate of the corresponding income that remains unbilled at the end of the year (accrued income) is required to be made each year. This estimate uses a historical water consumption rate for each customer from the company's billing system and applies this consumption rate to the unbilled period and the related tariff to estimate unbilled income for that period. The accrued income for metered customers as at 31 March 2025 was £16,357,000 (2024: £16,050,000). A 1% movement in consumption equates to a £128,000 movement.
- **Amortised cost of index-linked borrowings.** In order to record the company's index-linked borrowings at amortised cost the actual or estimated forward looking inflation rate (RPI) per annum is assessed. The net book value of index-linked borrowings as at 31 March 2025 was £300,475,000 (2024: 291,073,000). Further detail can be found on page 265.
- **Tangible fixed assets – assessment of useful economic lives.** There is a requirement to estimate the useful economic lives of the company's tangible fixed assets in order to depreciate the cost or deemed cost of these assets and make an appropriate charge to the profit and loss account over that period for each asset. This estimate is based on a combination of engineering data, experience of similar assets and on the company's forecast replacement or rehabilitation cycle and its investment plan. Industry practice is also considered as part of the overall estimate of asset lives. The total net book value of tangible fixed assets as at 31 March 2025 was £691,689,000 (2024: £685,763,000). The average useful economic life for tangible fixed assets is 45 years and if this was to move by 5 years, the impact would be a change in the depreciation of approximately £1,537,000.
- **Climate change.** The company continues to develop its assessment of the impact that climate change may have on the amounts recognised in the financial statements. The natural environment in which the company operates is continually changing, and the expected impact on the company from climate change is set out within the strategic report on page 125. We have considered the impact of the climate change related risks to which the company is exposed in the preparation of these financial statements. The risks are long term in nature, and while they will provide a need for investment in the future, the company concludes that there is no material impact on the carrying amount of assets or liabilities recognised in the financial statements, nor do they lead to any additional key sources of estimation or judgement.

2. Analysis of turnover

The Directors consider that the company operates substantially in the UK in one class of business. Based on the information regularly reviewed by the Directors the company has a single operating segment.

An analysis of turnover from UK operations is provided below.

	31 Mar 25 £'000	31 Mar 24 £'000
Appointed turnover		
Household- measured	55,301	56,275
Household- unmeasured	58,702	56,471
Non-household- measured	27,301	26,482
Non-household- unmeasured	1,147	1,190
Third party services	2,814	2,915
	145,265	143,333
Non-appointed turnover		
Aqua Direct spring water business	3,932	4,563
Other Non Appointed	849	525
Commissions	3,354	3,181
	8,135	8,269
	153,400	**151,602**

Appointed turnover is that earned under South Staffordshire Water's licence to supply water. Non-appointed turnover relates to activities that do not require a water supply licence.

Commissions are earned on the collection of amounts billed for other water companies for sewerage services they provide to customers and also earned under its agreement to sell insurance policies on behalf of HomeServe.

3. Operating costs

	31 Mar 25 £'000	31 Mar 24 £'000
Operating costs were as follows:		
Raw materials and consumables	9,931	9,323
Staff costs (see note 4)	23,078	21,648
Own work capitalised	(8,934)	(9,290)
Amortisation : intangible assets	1,245	1,142
Depreciation : non-infrastructure assets	25,680	24,863
Depreciation : infrastructure assets	4,494	4,438
Infrastructure renewals expenditure	10,660	11,668
Power	16,508	18,149
Hired and contracted services	28,669	26,823
Rates	4,292	4,061
Abstraction charges	4,381	5,197
Commissions	2,587	2,445
Provision for doubtful debts	805	468
Other operating costs	10,463	12,983
	133,859	**133,918**

Commissions are paid for the collection of amounts billed for other water companies for sewerage services they provide to customers and earned under its agreement to sell insurance policies.

Auditor remuneration is analysed as follows.

	31 Mar 25 £'000	31 Mar 24 £'000
Audit of the Company's annual accounts	772	788
Total audit fees	**772**	**788**
Audit related assurance services	60	60
Total non-audit fees	**60**	**60**
	832	**848**

The year ended 31 March 2025 includes £100,000 of overrun costs from prior year.

There are £60,000 of non-audit services payable in the year (2024: £60,000). Non-audit services include agreed upon procedures work for the annual performance report sections 1 and 4

4. Staff costs

	31 Mar 25 £'000	31 Mar 24 £'000
Wages and salaries	19,239	18,441
Social security costs	2,022	1,880
Pension costs (see note 25)	1,817	1,327
	23,078	**21,648**

	31 Mar 25 Number	31 Mar 24 Number
Monthly average number of direct employees	350	346
Monthly average number of administration and support functions employees	60	61
Monthly average number of employees	**410**	**407**

The monthly average number of employees by activity, including Directors on a service contract, and are on a full-time equivalents' basis.

5. Directors' remuneration

	31 Mar 25 £'000	31 Mar 24 £'000
Emoluments	854	533
Pensions	30	23
	884	**556**

The highest paid directly employed Director received emoluments of £601,000 (2024: £293,000) and received a contribution of £30,000 (2024: £23,000) paid by the company in respect of defined contribution pension schemes during the year. The awards under the LTIP are accrued at £nil (2024: £49,000).

During the year and the prior year, specific Directors received no emoluments as Directors of the company or received no remuneration for their services. These Directors were remunerated by the intermediate parent company, South Staffordshire Plc. The total of their emoluments received during the year was £883,000 for two Directors (2024: £945,000 for three Directors). Contributions in respect of money purchase pension schemes for these Directors was £33,000 (2024: £30,000). A proportion of their emoluments was recharged to the company.

No Directors (2024: nil) who held office at the end of the year were accruing benefits due in the year under a defined benefit pension scheme and two Directors (2024: two) were contributing members under a money purchase scheme.

The remuneration report on page 219 gives further detail around the remuneration of the Directors and Executive team.

6. Other operating income

	Note	31 Mar 25 £'000	31 Mar 24 £'000
Profit on disposal of fixed assets		386	321
Rental income		131	151
Grants and contributions	15	3,474	3,504
Infrastructure renewals contributions		6,673	5,650
		10,664	**9,626**

Grants and contribution amounts received from developers for diversion activity is recognised when the service to divert the infrastructure has been completed and is amortised over its useful economic life.

Infrastructure renewals contributions are for mains diversionary works and are received from developers for diversion activity. They are recognised when the works have been completed.

During the year, the company sold one property that was no longer required for operational use, receiving proceeds of £615,000, with a net book value of £170,000, excluding fees. Fees incurred in disposals totalled £92,000. Other disposals included receiving proceeds for vehicles totalling £33,000.

7. Exceptional items

	31 Mar 25 £'000	31 Mar 24 £'000
Legal fees	525	-
Profit on disposal of fixed assets	-	(1,898)
Provisions	-	1,000
	525	(898)

In July 2022, South Staffordshire Plc, the parent company of South Staffordshire Water PLC (including the South Staffs Water and Cambridge Water operating areas), experienced a criminal cyber-attack. The incident involved the theft of data from the Group's IT systems including personal data of a proportion of South Staffordshire Water's employees and customers.

The company classified the legal costs incurred during the year associated with this incident as exceptional in accordance with the company's accounting policy.

In the prior year the company sold one piece of land that was no longer required for operational use, resulting in a gain on disposal of £1,898,000. While the company typically records gains and losses on the tangible assets within 'Other operating income', due to the size and non-recurring nature of this disposal, the gain has been separately identified as exceptional in line with the company's accounting policy. The profit on disposal gives rise to a capital gain for corporation tax purposes at 25%. No current tax arises on the gain due to tax losses arising in the year being available for offset.

8. Finance costs (net)

	31 Mar 25 £'000	31 Mar 24 £'000
Interest payable and similar charges:		
Index-linked debt (cash)	9,546	9,179
Index-linked debt (non-cash)	9,393	21,697
Bank loan and other interest	3,354	2,024
Private placement interest	2,954	2,061
Debenture interest	65	59
	25,312	35,020
Interest receivable and similar income:		
Bank loan and other interest	(2,674)	(2,350)
	(2,674)	(2,350)
Other finance charges:		
Amounts recycled from hedging reserve	168	169
	22,806	**32,839**

9. Tax on profits

	31 Mar 25 £'000	31 Mar 24 £'000
Current tax:		
UK corporation tax at 25% (2024: 25%)	-	(922)
Adjustments in respect of prior periods	922	923
Total current tax charge/(credit)	922	1
Deferred tax:		
Origination and reversal of timing differences	1,781	178
Adjustments in respect of prior periods	(1,025)	(1,631)
Total deferred tax charge/(credit)	756	(1,453)
Total tax charge/(credit)	**1,678**	**(1,452)**

Tax included in statement of comprehensive income.

Deferred tax:		
Movement in hedging reserve	(143)	(54)
Total tax (credit)/charge	**(143)**	**(54)**

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 25% (2024: 25%). The differences are reconciled below.

	31 Mar 25 £'000	31 Mar 24 £'000
Profit/(loss) on ordinary activities before tax	6,874	(4,631)
Profit on ordinary activities multiplied by standard UK corporation tax rate of 25% (2024: 25%)	1,718	(1,158)
Expenses not deductible for tax purposes (net)	63	414
Adjustments in respect of prior years	(103)	(708)
Total tax charge/(credit)	**1,678**	**(1,452)**

10. Dividends paid

	31 Mar 25	31 Mar 24

	£'000	£'000
Equity Interests		
Ordinary Dividends paid of 235.49p (2024: 249.62p) per share	5,000	5,300

In 2025, the dividend comprised:

- £4,125,000 from the appointed business (2024: £4,622,000); and
- £875,000 from the non-appointed business (2024: £678,000).

On 25 June 2025, a second interim dividend of £1.84 million was approved for the financial year ending 31 March 2025 after the end of the reporting year. In total, the Board has approved interim dividend payments of £6.84 million for the financial year 2025 (2024: £5.3 million).

Further details of the dividend paid in the year are provided on page 39 of the strategic report.

11. Earnings/(loss) per share

	31 Mar 25 £'000	31 Mar 24 £'000
Profit/(loss) on ordinary activities after taxation and profit/(loss) for earnings per share	5,196	(3,179)
	31 Mar 25 Number of Shares	**31 Mar 24 Number of Shares**
Weighted average number of shares for basic and diluted earnings profit/(loss) per share	2,123,210	2,123,210

The calculation of profit/(loss) per share is based on the earnings/(loss) on ordinary activities after taxation divided by the weighted average number of shares in issue during the year. The calculations of earnings/(loss) per share are based on the above profit/(loss) and number of shares.

12.Intangible fixed assets

	Software	Other Intangible Assets under the course of Construction	Total
	£'000	£'000	£'000
Cost			
At 1 April 2024	14,105	11,424	25,529
Additions	-	11,099	11,099
Transfers to intangible assets	1,450	-	1,450
At 31 March 2025	**15,555**	**22,523**	**38,078**
Amortisation			
At 1 April 2024	8,167	-	8,167
Charge for the year	1,245	-	1,245
Transfer between classes	-	-	-
At 31 March 2025	**9,412**	**-**	**9,412**
Net Book Value			
At 31 March 2025			
Owned	6,143	22,523	28,666
At 31 March 2025	**6,143**	**22,523**	**28,666**
Net Book Value			
At 31 March 2024			
Owned	5,938	11,424	17,362
At 31 March 2024	**5,938**	**11,424**	**17,362**

Software intangible assets include the company's customer billing system, works management system and financial reporting system. In the current year £1,450,000 of software assets under the course of construction has been transferred from tangible to intangible.

Other intangible assets under the course of construction relates to the Fens reservoir. The Fens reservoir is a proposed new reservoir being delivered in partnership with Anglian Water to serve the Cambridge Water and Anglian Water operating areas. The costs incurred to date primarily comprise of environmental works and design plans. Whilst the final structure arrangement is yet to be determined, the costs incurred will entitle the company to economic benefits through access to the completed reservoir. Having considered the recognition criteria, management has therefore concluded the costs meet the criteria for recognition as an intangible asset and as such, the cost has been capitalised as assets under construction within intangible assets.

13. Tangible fixed assets

	Specialised Operational Assets	Non Specialised Operational Assets	Infrastructure Assets	Other Tangible Assets	Assets under the course of Construction	Assets held for sale	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
At 1 April 2024	301,813	24,958	531,420	268,359	100,668	270	**1,227,488**
Additions	-	-	-	-	37,720	-	**37,720**
Capitalisation of completed assets	85,424	-	19,790	13,781	(118,995)	-	**-**
Transfers to intangible assets	-	-	-	-	(1,450)	-	**(1,450)**
Disposals	-	-	-	(192)	-	(270)	**(462)**
At 31 March 2025	**387,237**	**24,958**	**551,210**	**281,948**	**17,943**	**-**	**1,263,296**
Depreciation							
At 1 April 2024	150,962	9,513	205,689	175,461	-	100	**541,725**
Charge for the year	10,088	435	4,494	15,157	-	-	**30,174**
Disposals	-	-	-	(192)	-	(100)	**(292)**
At 31 March 2025	**161,050**	**9,948**	**210,183**	**190,426**	**-**	**-**	**571,607**
Net Book Value							
Owned	225,902	15,010	341,027	91,522	17,943	-	**691,404**
Leased	285	-	-	-	-	-	**285**
At 31 March 2025	**226,187**	**15,010**	**341,027**	**91,522**	**17,943**	**-**	**691,689**
Net Book Value							
Owned	150,560	15,445	325,731	92,898	100,668	170	**685,472**
Leased	291	-	-	-	-	-	**291**
At 31 March 2024	**150,851**	**15,445**	**325,731**	**92,898**	**100,668**	**170**	**685,763**

Tangible fixed assets include freehold land of £2,562,000 (2024: £2,555,000), which is not subject to depreciation, which is included in other tangible assets. Finance lease liabilities had been fully paid in previous years and therefore there are no finance lease liabilities or cash flows in the year.

Tangible fixed assets in the course of construction or commissioning included in the above table had a cost of £17,943,000 at 31 March 2025 (2024: £100,668,000).

14. Commitments

Capital commitments outstanding at 31 March 2025 were £7,178,000 (2024: £26,785,000). Payments due not later than one year were £4,326,000 (2024: £26,785,000). The majority of this relates to the major upgrade of our largest water treatment works.

15. Capital contributions – accruals and deferred income

	Infrastructure Assets	Other Assets	Total
	£'000	£'000	£'000
At 1 April 2024	156,192	34,820	**191,012**
Capital contributions received	836	6,724	**7,560**
Amortised in year	(2,039)	(1,435)	**(3,474)**
Balance at 31 March 2025	**154,989**	**40,109**	**195,098**

Capital contributions are expected to be amortised over the life of the asset.

16. Stocks

	31 Mar 25	31 Mar 24
	£'000	£'000
Raw materials and consumables	4,346	4,084

Stock is stated at lower of cost and net realisable value. There is no material difference between the balance sheet value of stocks and their replacement costs.

17. Debtors

	31 Mar 25	31 Mar 24
	£'000	£'000
Amounts recoverable within one year:		
Trade debtors	23,968	21,325
Other debtors	3,617	3,250
Amounts due from other group undertakings	43	3,689
Amounts due from parent undertakings	611	4,293
Prepayments	594	645
Accrued income	22,186	22,854
	51,019	**56,056**
Amounts recoverable in more than one year:		
Other amounts due from parent undertakings	2,251	2,215
Derivative financial debtors	483	1,224
	2,734	**3,439**
	53,753	**59,495**

Amounts due from parent undertakings of £611,000 (2024: £4,293,000) are trade balances receivable on demand. Amounts due from other Group undertakings, Group subsidiaries are balances receivable on demand.

Other amounts due from parent undertakings amount of £2,251,000 (2024: £2,215,000) are trade balances receivable in more than one year.

Amounts due from parent undertakings includes an amount for corporation tax receivable of £nil (2024: £2,813,000), which is due from parent undertakings.

Trade debtors are stated net of provisions.

Detail of provision against bad debt are shown in note 27 on page 264.

Derivative financial debtors represent the market value (obtained from a third party) of floating to fixed rate interest rate swaps designated as cash flow hedges. Detail of derivative financial debtors are shown in note 27 on page 264. The effective portion of the gain or loss on the hedging instrument is recognised in the statement of other comprehensive income and accumulated in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

18. Investments

	31 Mar 25 £'000	31 Mar 24 £'000
Investments	2	2

The balance represents the cost of investment of £1,596 related to 798 'A' ordinary shares and 8% of unsecured loan stock of WRc PLC, a research-based group providing consultancy in the water, waste and environmental sectors, incorporated in England and Wales.

19. Creditors– amount falling due within one year

	31 Mar 25 £'000	31 Mar 24 £'000
Payments on account	27,585	27,575
Trade creditors	3,581	4,916
Other creditors	5,306	9,604
Accruals	20,762	25,287
Retentions	149	362
Deposits and refunds	1,564	1,968
Amounts owed to other group undertakings	8,259	5,773
Other taxation and social security	692	664
Total creditors amounts falling due within one year	**67,898**	**76,149**

Amounts owed to other Group undertakings, which are fellow Group subsidiaries, of £8,259,000 (2024: £5,773,000) are trade balances payable on demand.

20. Creditors – amount falling due after more than one year

	31 Mar 25 £'000	31 Mar 24 £'000
Irredeemable debenture stock (unsecured) (note 21)	1,633	1,633
Perpetual debenture stock (unsecured)	19	19
Bank loans (unsecured and net of issue costs):		
payable between one and two years	-	29,902
payable between two and five years	29,659	-
Private placement loans (unsecured and net of issue costs):		
more than five years	79,926	79,919
Retail Price Index-linked debt (unsecured)	300,475	291,073
Borrowings	411,712	402,546
Payments on account	2,825	2,916
Other creditors	7,250	6,439
Creditors	10,075	9,355
Total creditors amounts falling due after more than one year	**421,787**	**411,901**

The gross bank loans (unsecured) of £30,000,000 (2024: £30,000,000) included in amounts falling due after more than one year is used for covenant reporting purposes but, in accordance with FRS 102, is stated above net of unamortised issue costs. These comprise of one revolving credit facility. The company's revolving credit facility was refinanced during the year, increasing the total facility to £75,000,000 (2024: £30,000,000) of which £30,000,000 was drawn (2024: £30,000,000). Fees of £400,000 were incurred, which have been recognised on balance sheet and will be amortised over the term of the facility. No other cash flows were associated with the refinancing.

Private placement loans of £80,000,000 (2024: £80,000,000) included in amounts falling due after more than five years, net of fees.

The book value index-linked debt of £300,475,000 (2024: £291,073,000) is stated above at amortised cost in accordance with FRS 102. The indexed principal of £289,209,000 (2024: £279,396,000) is used for borrowing covenant reporting purposes. Details of the terms of our index-linked debt is shown in note 27 on page 264.

21. Irredeemable debenture stock

	31 Mar 25 £'000	31 Mar 24 £'000
3.5%	476	476
4.0%	627	627
5.0%	500	500
	1,603	1,603
Net premium on irredeemable debenture stock	30	30
	1,633	**1,633**

Debentures are listed instruments on the London Stock Exchange (LSE).

22. Provisions for liabilities – falling due after more than one year

	Deferred Taxation £'000	Other Provisions £'000
At 1 April 2024	59,696	2,300
Charged to profit and loss account	756	-
Credit to other comprehensive income	(143)	-
At 31 March 2025	60,309	2,300
	31 Mar 25	**31 Mar 24**
Analysis of deferred tax	**£'000**	**£'000**
Accelerated capital allowances	83,754	86,175
Deferred tax arising in relation to retirement benefit obligations	(59)	(126)
Tax losses available	(22,146)	(25,141)
Timing differences in respect of hedging reserves	(1,013)	(870)
Timing differences in respect of finance charges	(202)	(210)
Other timing differences	(25)	(132)
Provision for deferred tax	60,309	59,696

Deferred taxation

Deferred tax assets and liabilities have been offset.

Deferred tax assets and liabilities are offset only where the company has a legally enforceable right to do so and where the assets and liabilities relate to taxes levied by the same taxation authority.

No deferred tax has been recognised on capital gains rolled over against the cost of acquisition of certain property and structures owned by South Staffordshire Water PLC. The gains will come into charge if the assets are sold and not replaced by suitable qualifying assets. As the properties are essential assets of the water supply business, it is regarded as unlikely that the gains will come into charge. The potential deferred tax amounts to £2,733,000 (2024: £2,733,000).

Other provisions

In July 2022, South Staffordshire Plc, the parent company of South Staffordshire Water PLC (including the South Staffs Water and Cambridge Water regions), experienced a criminal cyber-attack. The incident involved the theft of data from the Group's IT systems including personal data of a proportion of South Staffordshire Water's employees and customers.

The quantum and value of civil claims we may receive, and the costs of liabilities that may be incurred addressing those claims, and any regulatory penalties, involves significant judgment and uncertainty. The assessment is therefore subject to change as the claims progress and the factual position becomes clearer. As at 31 March 2025, the provision remains appropriate in line with prior year based on the company's assessment and external legal advice.

In addition, 'other provision' also includes an ongoing regulatory investigation, the assessment of which is therefore subject to change until the factual position becomes clearer.

23. Contingent liability

In addition to the details of the provisions included in note 22 during the prior year, the company received a notice of intention to impose a penalty under regulations 18 of the Network and Information Systems Regulations 2018 (as amended) by the DWI related to the cyber-attack. In the prior year the DWI subsequently suspended any further action, pending further investigation. It is presently unknown whether the DWI will issue a penalty and if so the quantum of any potential penalty.

24. Share capital

	31 Mar 25 £'000	31 Mar 24 £'000
Authorised:		
8,800,000 Ordinary shares of £1 each	8,800	8,800
Allotted, called-up and fully-paid:		
2,123,210 Ordinary shares of £1 each	2,123	2,123

There is a single class of ordinary shares.

25. Pension retirement benefits

The Group operates a number of funded pension schemes, of which some employees of the company are members. There is no contractual agreement for charging the net defined benefit cost of these schemes between the companies that participate in the schemes. As a result, the net pension cost of the scheme is recognised in the financial statements of the sponsoring employer, South Staffordshire Plc. It participates in the Water Companies Pension Scheme, by way of separate sections (the South Staffordshire section and the Cambridge section), which provides benefits based on pensionable pay.

The schemes were closed to all future benefit accrual with effect from 1 April 2015 and as such only funding deficit contributions are now being paid into the schemes by the company. During the year ended 31 March 2025, the funding into the schemes was made directly through the company. The total amount of cash contributions for the year ended 31 March 2025 being £1,210,000 (2024: £nil) to cover the deficit of the scheme in line with the planned recovery and was paid directly into the scheme.

The assets and liabilities of the South Staffordshire section of the scheme are accounted for in the accounts of the intermediate parent undertaking, South Staffordshire Plc. The assets and liabilities for the Cambridge section of the scheme are accounted for within Cambridge Water PLC.

In addition, the company participates in a defined contribution Money Purchase Pension Scheme. The assets of all schemes are held separate from those of the company and are invested by fund managers.

The contributions to the defined contribution scheme are charged against profits as incurred with the amount for the year ended 31 March 2025 being £877,000 (2024: £822,000), £940,000 has been recognised during the year for the valuation for Water Companies Pension Scheme defined benefit pension schemes (2024: £505,000).

Additional disclosures regarding the defined benefit pension scheme are required by FRS 102. The latest valuation of South Staffordshire section of the scheme as at 31 March 2025, prepared for the purposes of the consolidated financial statements of the parent company South Staffordshire Plc under FRS 102 rather than on the actuarial basis used for funding purposes, shows a surplus before deferred tax of £580,000 (2024: surplus of £255,000). The market value of the assets in this section of the scheme and the present value of the liabilities in the scheme that were accounted for in the intermediate parent company at the balance sheet date were as follows.

	31 Mar 25 Valuation £'000	31 Mar 24 Valuation £'000
Buy-in policy	109,555	122,384
Liquidity funds	9	5
Net current assets/(liabilities)	766	635
Cash	(78)	105
Market value of assets	110,252	123,129
Present value of scheme liabilities	(109,672)	(122,874)
Surplus in the scheme before deferred tax	580	255
Related deferred tax liability	(145)	(64)
Surplus after deferred tax	**435**	**191**

26. Cash and cash equivalents

	31 Mar 25 £'000	31 Mar 24 £'000
Cash at bank and in hand	15,506	21,155
Cash and cash equivalents	**15,506**	**21,155**

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the company's immediate cash requirements and earn interest at the respective short-term deposit rates.

Cash at bank and in hand includes cash collateral balances totalling £292,210 at year-end (2024: £277,497), which is restricted.

27.Financial assets and financial liabilities

The company's financial assets and liabilities include cash, loans receivable, borrowings, derivative financial assets and liabilities, trade creditors, trade debtors and accrued income. Borrowings as at 31 March 2025 represent bank term loans, private placement loan notes, finance lease obligations, index-linked debt and irredeemable debenture stock.

The main purpose of these financial instruments is to finance the company's operations. It is, and has been throughout the year under review, the company's policy that no trading in financial instruments shall be carried out. The company's policy in respect of cash, loans receivable and borrowings is to maintain flexibility with both long- and short-term debt while not exposing it to significant risk of market movements (see below). The company is not exposed to any material foreign exchange risk.

Bank loans bear interest that is linked to SONIA plus a bank margin, which is applied to the drawn down element of each loan, some of which are hedged through interest rate swaps. Fair values have been obtained from the relevant banks and are quoted at the relevant market price for the interest rate swap.

Borrowings represent:

	31 Mar 25 £'000	31 Mar 24 £'000
Fixed rate financial liabilities	111,237	111,471
Retail Price Index-Linked debt	300,475	291,073

The £35 million Retail Price Index-Linked debt is listed items of debt on the London Stock Exchange (LSE).

The company's revolving credit facility bears interest at a floating rate based on SONIA plus a margin. However, of the total committed facility of £75 million, £30 million has been drawn down, and this is effectively swapped to fixed rate by cash flow hedges. Therefore, these borrowings have been included within the 'Fixed rate financial liabilities' in the tables in this note.

a) Interest rate risk profile – borrowings

The interest rate profile of the borrowings (stated at book value) of the company as at 31 March 2025 was as follows.

	Fixed rate financial liabilities £'000	Floating rate financial liabilities £'000	Retail Price Index-Linked debt £'000
31 March 2025	111,237	-	300,475
31 March 2024	111,471	-	291,073

Floating rate loans that are hedged by the floating to fixed interest rate swaps are shown above as fixed rate. The company's cash balances earn interest at floating rates linked to SONIA or the Bank of England base rate. For all financial assets and liabilities, the book values and fair values are not materially different, except for the RPI-linked loan and the RPI-linked bond shown in the table below.

	31 Mar 25 £'000	31 Mar 24 £'000
Retail Price Index-Linked Loan		
Un-indexed Loan Value	111,400	111,400
Indexed/Covenant Loan Value	225,295	217,564
Book Value	235,522	228,141
Retail Price Index-Linked Bond		
Un-indexed Bond Value	35,000	35,000
Indexed/Covenant Bond Value	63,914	61,831
Book Value	64,953	62,931

b) Fixed-rate borrowings

	Weighted average interest rate	Weighted average period for which rate is fixed
	%	Years
31 March 2025	2.7	8.3
31 March 2024	3.6	8.8

c) Financial risks

The company's activities result in it being subject to a limited number of financial risks, principally credit risk as the company has financial assets receivable from third parties. Management of financial risks focuses on reducing the likely impact of these risks to a level that is considered acceptable. The company has formal principles for overall risk management, as well as specific policies to manage individual risks.

Interest rate risk

Interest rate risk arises from borrowings issued at floating rates, including those linked to SONIA and the RPI that expose the company's earnings and cash flows to changes in SONIA and RPI. Risks of increases in SONIA are managed by limiting the value and proportion of the company's borrowings that are linked to this variable and by entering into floating to fixed rate swap contracts. Risks associated with increases in RPI are effectively hedged against the revenues and the RCV of the regulated water business, both of which are also linked to RPI.

Credit risk

As is market practice, the company grants customers credit on amounts due for the services it supplies, leading to limited risk over the recovery of the amounts receivable from these customers.

Full details of the way this risk is managed are provided below. This risk is managed by ensuring that loans are only made to entities with sufficient financial resources to both service and repay the loans.

Liquidity risk

Liquidity risk represents the risk of the company having insufficient liquid resources to meet its obligations as they fall due. The company manages this risk by regularly monitoring actual and forecast cash flows and ensuring that the payment of its obligations are at least matched with cash inflows and availability of adequate banking facilities, including sufficient headroom. A maturity analysis of the company's borrowings has been provided below.

The company is confident it has sufficient access to capital markets and relationships with banks and other lenders to refinance borrowing facilities when necessary.

Interest rate swaps

The Group has entered into interest rate swaps under which it has been agreed to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal amounts. Such contracts enable the company to mitigate the risk of changing interest rates on future cash flow exposures arising from issued variable rate debt. The interest rate swaps have been accounted for as cash flow hedges with movements in the fair value of these swaps being recognised in the hedging reserve. Details of interest rate swaps are summarised below.

	Interest rate fixed		Nominal principal amount		Fair value	
	31 Mar 25	31 Mar 24	31 Mar 25	31 Mar 24	31 Mar 25	31 Mar 24
	%	%	£'000	£'000	£'000	£'000
Period to maturity						
In one year or less or on demand	2.14	2.14	30,000	30,000	(483)	(1,224)

Value	Category	Lender	RCF /Term	Fixed / Floating	Nominal Interest Rate	Start date	Maturity date
£1.7m	Debenture stock	Various	Term	Fixed	4.11%		
£30.0m	Revolving Cash Facility (RCF)	Lloyds / NatWest	RCF	Floating	1.05% + SONIA	Nov-24	Nov-27
£20.0m	Private placement loan (A)	Pricoa	Term	Fixed	2.57%	Sep-21	Sep-36
£40.0m	Private placement loan (B)	Pricoa	Term	Fixed	2.75%	Jun-22	Jun-37
£20.0m	Private placement loan (C)	Pricoa	Term	Fixed	6.70%	Dec-23	Dec-30
£111.4m	RPI Index Linked Bond	Artesian Finance	Term	Index Linked	3.76%	Sep-05	Sep-45
£35.0m	RPI Index Linked Bond	Citibank	Term	Index Linked	1.84%	Jun-08	Jun-51

The company's revolving credit facility was refinanced during the year, increasing the total facility to £75,000,000 of which £30,000,000 was drawn.

Debtors recoverable in more than one year

Debtors recoverable in more than one year of £2,734,000 (2024: £3,439,000). Of this £2,251,000 relates to the historical agreements put in place with a holding company in the Group structure to offset the impact on South Staffordshire Water of certain hedging relationships entered into with a third party bank, on both cash flow and the profit and loss account. The remaining £483,000 relates to interest rate swaps under which it has been agreed to exchange the difference between fixed and floating interest rate amounts calculated on agreed notional principal.

Trade debtors

Provisions are made within the trade debtor values detailed below, based on judgement by senior management for amounts considered to be unrecoverable due either to their nature or age. The total amount charged to the profit and loss account in the year to 31 March 2025 in respect of such provisions was £805,000 (2024: £468,000). Total trade debtors as at 31 March 2025 were £23,968,000 (2024: £21,325,000). The total amount of the provision included in the above, as at 31 March 2025, was £40,068,000 (2024: £41,818,000).

In accordance with the market conditions prescribed by MOSL, the wholesale market operator, we hold collateral where required and in line with market rules from retailers that purchase water from the company. This collateral is held in the form of:

- parent company guarantees;
- bank guarantees;
- letter of credits;
- credit insurance; and
- cash collateral balances totalling £292,210 at year end (2024: £277,497) which is restricted.

The Directors consider that debtors that are neither past due nor impaired are of a high quality and were considered, at the balance sheet date to be fully recoverable at their net book value.

Ageing of debtors

An ageing analysis of trade debtors that are invoiced but not impaired is provided below.

Regulated	< 1 year	1- 2 years	2- 3 years	3- 4 years	4- 5 years	5 years +	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2025	12,538	4,747	1,966	896	848	1,959	22,954
2024	13,008	4,169	2,006	1,906	12	252	21,353

Non-regulated	<1 month	1-2 months	>2 months	>3 months	Total
	£'000	£'000	£'000	£'000	£'000
2025	889	80	14	31	1,014
2024	438	105	1	(53)	491

Non-regulated debtors are provided to the value £5,000 (2024: £64,000) and were all more than two months past due.

An ageing analysis of appointed debtors that are considered to be impaired is provided below.

Regulated	< 1 year	1- 2 years	2- 3 years	3- 4 years	4- 5 years	5 years +	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2025	5,262	4,713	4,469	4,394	4,200	17,025	40,063
2024	4,564	4,032	4,539	4,223	4,372	20,024	41,754

The Directors consider that the carrying value of trade and other debtors including loans receivable, net of provisions, detailed in note 17 approximates to their fair value.

28. Related party transactions

Historical agreements were put in place with a holding company in the Group structure to offset the impact on South Staffordshire Water of certain hedging relationships entered into with a third party bank, on both cash flow and the profit and loss account. The balance due from Selena Bidco Limited in respect of these transactions at 31 March 2025 was £2,491,000 (2024: £2,579,000). In accordance with applicable accounting standards, the impact of both arrangements on the profit and loss account has been netted off with no overall impact.

During the year, the company provided wholesale water services to the retailer Pennon Water Services Limited (PWSL), and its subsidiary SSWB, a joint venture with South Staffordshire Plc, with a turnover of £16,532,000 (2024; £17,683,000). In relation to these transactions £nil was outstanding at the year-end (2024: £nil). The receivable is secured, due in 15 days from invoice date. Also at 31 March 2025 an amount of £3,000 was payable to PWSL for cash collected during the year that has not been paid over (2024: £400).

29. Ultimate controlling party

The immediate parent company is SSW Finance Ltd, which is registered in England and Wales.

The intermediate parent company is South Staffordshire Plc, which is registered in England and Wales and is the smallest group preparing consolidated accounts that include South Staffordshire Water. During the year, the ultimate parent company in the United Kingdom was Hydriades IV Limited, registered in England and Wales, which was the largest UK group preparing consolidated accounts that include South Staffordshire Water PLC at 31 March 2025. The consolidated accounts for Hydriades IV Limited can be obtained from the company's registered office, Green Lane, Walsall, West Midlands, WS2 7PD.

The ultimate controlling party is AIP Holdings Limited, a company registered in England and Wales, which controls and manages and is the General Partner of a UK registered investment entity that acquired a majority equity interest of a holding company of the Group.

30. Operating lease commitments

At the 31 March 2025 the company was committed to making the following minimum payments under operating leases for buildings. Payments due not later than one year were £67,000 (2024: £67,000).

31. Post-balance sheet events

On 25 June 2025, a second interim dividend of £1.84 million was approved for the financial year 31 March 2025 after the end of the reporting year. In total, the Board has approved interim dividend payments of £6.84 million for the financial year 2025 (2024: £5.3 million).

Independent Auditor's report

See following pages.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH STAFFORDSHIRE WATER PLC

Opinion

We have audited the financial statements of South Staffordshire Water PLC for the year ended 31 March 2025 which comprise the Profit and Loss Account, the Balance Sheet, the statement of comprehensive income, statement of cash flows, the statement of changes in equity and the related notes 1 to 31 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 March 2025 and of its profit for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

► We confirmed our understanding of the directors' going concern assessment process and challenged management to ensure key factors were considered in their assessment. We challenged the period of management's going concern assessment to 31 July 2026.

► We obtained the directors' going concern assessment, including cash flow forecasts, liquidity requirements and forecast covenant calculations and tested these for arithmetical accuracy. The Board's assessment considered base and sensitised cases, including a severe but plausible downside scenario. The directors also performed reverse stress testing to evaluate the sufficiency of cash and available facilities over the going concern assessment period.

► We considered the appropriateness of methods used to calculate the cash flow forecast models and forecast covenant calculations and determined, through inspection of the methodology and testing of the calculations, whether the methods used were appropriate to make an assessment for the company. Where applicable, we corroborated data used in the scenarios to appropriate third-party support.

► The company has an agreed business plan with Ofwat for the five-year price review period from 1 April 2025 to 31 March 2030 ('PR24'), setting out the basis of allowed tariff changes. We have compared the key assumptions in the company forecasts to the agreed business plan for consistency.

- ► We have challenged key assumptions used by the directors in the various scenarios including revenue growth, collection rate, operating cost inflation including chemical and energy costs, capital and infrastructure renewal expenditures and future cash outflows related to claims associated with the cyber-attack by comparing to information obtained from the work performed as part of our audit as well as any external sources we obtained independently.

- ► We discussed and challenged assumptions on the potential legal and regulatory costs associated with the cyber-attack, including the quantum and timing thereof, and the associated legal processes available to the company through direct discussions with and review of legal advice the company received from their external legal counsel.

- ► We have validated the maturity dates and covenant requirements of the company's facilities assumed in the models to the facility agreements.

- ► We recalculated and tested inputs into the covenant forecast calculations back to the base case and downside scenarios to identify whether there would be any forecast covenant breaches over the going concern review period.

- ► We evaluated the assumptions used in the directors' downside scenarios which included severe but plausible outflows for increases in operating costs beyond budget and deterioration in collections during the going concern period. This assessment included consideration of any mitigating actions within the control of the company which include the ability to reduce or withhold dividend payments and follow a legal process that would take a significant amount of time and extend payment of civil claims and regulatory fines well beyond the going concern period.

- ► We considered whether there are significant events after the end of the going concern review period which impact the entity's ability to continue as a going concern.

- ► We read the company's going concern disclosures included in the Annual Report in order to evaluate whether the disclosures were appropriate and in conformity with the applicable reporting standards.

Our key observations:

The directors have used the final determination for the years 2025 to 2030 as the basis for preparing the forecasts for the going concern assessment period to 31 July 2026. This provides assurance over forecast revenue for the going concern period. In November 2024, the company agreed a £75m revolving credit facility with maturity in November 2027 which, after repaying the previous facility, provided a £45m increase in available facility and remains undrawn as at the date of the approval of these financial statements.

A key assumption in the directors' forecasts, including a severe but plausible downside scenario, is the quantum and timing of legal and regulatory costs arising from the cyber-attack in 2022. The directors have included the estimated worst case outcomes which were based on legal advice. The directors concluded that the potential costs can be met through the undrawn revolving credit facility and mitigating actions (such as reducing or deferring any dividend distribution) which the company can influence.

The directors have also sensitised for downside scenarios with respect to the higher operating cost within the going concern period. In the directors' severe but plausible downside scenario, no incremental debt facilities were required and the company is able to operate within its available cash and facility. In addition, the directors have also performed a reverse stress test focused on the risk of further deterioration in collection rates and concluded that this scenario is implausible.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the period to 31 July 2026.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	• Manual journals to revenue and measurement of accrued income in relation to measured household revenue. • Valuation of bad and doubtful debt provisions for trade debtors and accrued income. • Capitalisation of costs relating to capital programme. • Valuation and completeness of provisions and/or contingent liabilities related to the cyber-attack and adequacy of associated disclosures.
Materiality	• Overall materiality of £1.85m which represents 3% of adjusted EBITDA.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the company and effectiveness of controls, the potential impact of climate change and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Climate change

Stakeholders are increasingly interested in how climate change will impact South Staffordshire Water Plc. The company has determined that the most significant future impacts from climate change on its operations will be on supply of water resources. These are explained on pages 125 to142 in the Climate Related Financial Disclosures and on pages 147, 155 and 156 in the principal risks and uncertainties. They have also explained their climate commitments on pages 137. All of these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the company's business and any consequential material impact on its financial statements.

The company has explained in the key accounting estimates section of the statement of accounting policies how they have reflected the impact of climate change in their financial statements. Significant judgements and estimates relating to climate change are included in note 1. These disclosures also explain where governmental and societal responses to climate change risks are still developing, and where the degree of certainty of these changes means that they cannot be taken into account when determining [asset and liability valuations] under the requirements of FRS 102.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, the effects of material climate risks disclosed on pages 125 to 142 and the significant judgements and estimates disclosed in note 1 and whether these have been appropriately reflected in long-term fixed asset values and useful economic lives, and associated disclosures where values are determined through modelling future cash flows. As part of this evaluation, we performed our own risk assessment ,supported by our climate change internal specialists, to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and viability and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Manual journals to revenue and measurement of accrued income in relation to measured household revenue Revenue for the year was £153.4m (2024: £151.6m). the total accrued income was £16.4m (2024: £16.1m) at the balance sheet date. *Refer to the Audit Committee Report (page 207); Accounting policies (pages 245 and 252); and Note 2 & 17*	We identified, documented and confirmed our understanding of the Company's revenue recognition policies including the process for the supply of measured services, meter reading and related billing and performed a walkthrough to assess the design and operating effectiveness of key controls over the revenue process but did not rely on these key controls. We used data analytics to understand the journal entries	We did not identify evidence of management override through inappropriate journal entries recorded to revenue, including unbilled accrued measured income. We identified an audit difference of £0.5m in the calculation of accrued measured household income which remained uncorrected by management.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
of the Financial Statements (pages 253 and 260) There is a risk that management may override controls to intentionally overstate revenue transactions, and consequently operating profit, through: a) Inappropriate manual journal entries to revenue in general; and b) Inappropriate calculations or assumptions used in the accrual for measured household income. Accrual for unbilled measured household income requires an estimation of the amount of unbilled charges at the balance sheet date. This calculation is inherently judgemental, and directly impacts reported revenue and operating profit and is susceptible to error and/or management bias. Management may also post erroneous or fraudulent journal entries to revenue as part of the measured household income accrual process or record other journals to revenue in general in order to manipulate the results of the business. The risk has remained consistent in the current year and in the prior year.	posted as part of the revenue, trade receivables and accrued income to cash collection process to identify transactions that were outside of our expectation, specifically looking at manual journals to revenue. We also introduced unpredictability into our manual journal testing. For the journals selected we corroborated these to source documentation to check whether the entries and revenue recognised were valid. We evaluated the accuracy of management's accrued measured household income estimates by comparing the accrued income balance to bills raised post year end. We tested the integrity and completeness of source data from which management estimated water consumption by verifying a sample of data to types of meter, previous meter readings, billing periods, tariff values and property locations to underlying customer bills and previous meter reads. We challenged the appropriateness of key judgements and manual adjustments to the accrued income calculation made by management for seasonality, operational data trends, leakage assumptions and meters not read over 12 months. We validated these to supporting information including internal and external data as well as considering the existence of contradictory evidence sources.	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of bad and doubtful debt provisions for trade debtors and accrued income. The bad and doubtful debt provision at the balance sheet date was £39.4m (2024: £41.8m). The bad and doubtful debt expense for the year was £0.8m (2024: £0.5m). Revenue recognised was reduced by £3.2m (2024: £3.5m) for amounts billed to customers whose collectability is not probable. *Refer to the Audit Committee Report (page 207); Accounting policies (pages 245 and 252); and Note 3 & 17 of the Financial Statements (pages 253 and 260)* The Company records a bad and doubtful debt provision to trade debtors and accrued income using a combination of system generated information on historic debt recovery rates and management's judgement of the likely future recovery rates. There is a risk that management may override controls to intentionally understate the bad debt provision and related expense, and consequently overstate operating profit. The assumptions and data, used by management in calculating the bad and doubtful debt provisions, may not be appropriate and the provision against trade debtors and accrued income may be understated, and consequently operating profit, overstated. The risk has remained consistent in the current year.	We identified, documented and confirmed our understanding of the Company's bad and doubtful debt policies and performed a walkthrough to assess the design and operating effectiveness of key controls over the process but did not rely on key controls. We evaluated the historical accuracy of management's cash collection rates to actual cash collections by agreeing a sample of cash receipts from cash collection rate data and comparing it to the bills raised during the year. We recalculated the estimated bad and doubtful debt provision to test the arithmetical accuracy of management's calculation. We developed our own independent view of cash collection rates by considering the debt collection cycle pattern over multiple years. Historical collection rates were applied against the billings during the year and accrued income balances to calculate our own expected bad and doubtful debt provision which we compared to management's estimate.	We did not identify evidence of management override through inappropriate bad and doubtful debt provisions on trade debtors and accrued income at the balance sheet date and the related bad debt expense. No audit differences were identified.
Capitalisation of costs relating to capital programme The additions to the tangible fixed assets and intangible assets for the	We identified, documented and confirmed our understanding of the Company's capitalisation of cost policies and performed a walkthrough to assess the design and operating effectiveness of key controls	We did not identify any material error in the amounts capitalised as tangible or intangible assets. Costs capitalised in respect of the capital programme have been treated in accordance with the

Risk	Our response to the risk	Key observations communicated to the Audit Committee
current year is £37.7m (2024: £73.7m) and £11.1m (2024: £8.5m). *Refer to the Audit Committee Report (page 207); Accounting policies (pages 246 to 248); and Note 12 & 13 of the Financial Statements (pages 258 and 259)* The company has a substantial capital programme in accordance with the business plan agreed with Ofwat and therefore incurs significant annual expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets. There is judgement involved in allocating costs between operating and capital expenditure given the nature of certain costs and projects which include both repairs and maintenance and as well as assets enhancement. In addition, internal expenditures including staff costs are capitalised if it can be demonstrated that they are directly attributable to the asset, provide probable economic benefits to the company and can be measured reliably. Therefore, there is a risk that management may override controls or may be biased to intentionally overstate the capitalisation of costs on the balance sheet. The risk has been elevated to fraud risk in the current year from significant risk.	over the process but did not rely on key controls. We evaluated capital and operating expenditures and assessed whether these are appropriately classified. For a sample of capitalised additions (including costs relating to the Fens reservoir), we evaluated the appropriateness of the classification as capital by considering the nature of the expenditure with reference to invoice, nature of the work performed by the employee or other relevant documents. We also considered the judgements management applied in capitalising certain staff cost and overheads. For the Fens reservoir costs, we also had discussions with the Asset Management and Investment Delivery director to understand the arrangements of this project and corroborated the status of relevant approvals from the regulatory agency. We tested a sample of items allocated to expenditure in the income statement and verified whether they are correctly classified by considering the nature of the work i.e., repairs and maintenance or asset enhancement, to which the expenditure relates. We physically visited two sites with the most significant additions and verified the existence of a sample of assets. Further, during these site visits, we made inquiries of project managers to gain an understanding of the projects, the benefits expected, status of	requirements of FRS 102 Section 17 Property, Plant and Equipment and Section 18 Intangible Assets other than Goodwill.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	the work and any indicators of potential impairment. Using data analytics, we identified unexpected patterns of capitalisation which may indicate misstatements. We assessed the appropriateness and completeness of disclosures provided in the financial statements.	
Valuation and completeness of provisions and/or contingent liabilities related to the cyber-attack and adequacy of associated disclosures. *Refer to the Audit Committee Report (page 207); Accounting policies (pages 248, 249, 251 and 252); and Note 7, 22 & 23 of the Financial Statements (pages 255, 262 and 263)* As described in notes 7, 22 and 23, South Staffordshire Plc (or "the Group"), an indirect parent company of South Staffordshire Water Plc, was the victim of a cyber-attack in the 2022 which involved the theft of data from the Group's IT systems including personal data of a proportion of the company's employees, customers and former employees. Management exercised judgement over the likelihood and reliability of the estimated outflow for regulatory penalties and civil claims. There is a risk of inappropriate conclusions, estimates, presentation and disclosure related to provisions, exceptional items and contingent liabilities from possible regulatory penalties and civil claims. As at 31 March 2025, the company's provisions relating to potential regulatory penalties and other	We updated our understanding of management's process to assess the impact of the cyber attack on the annual report and accounts, including their involvement of external legal counsel. We have assessed the Board's conclusions over the likely outcome of regulatory investigations, including that by the Information Commissioner's Office and the Drinking Water Inspectorate, and from civil claims received and may be received from customers, employees and former employees affected by the incident. In order to assess the Board's conclusions over these matters we have obtained and read advice received by the company from their external legal advisors that evaluated the current status of the ongoing regulatory investigations and civil claims. We directly discussed legal advice and legal conclusions with management's external legal advisors for both ongoing regulatory investigations and civil claims. We requested and received legal letters directly from the management's external legal advisors and	Provisions and contingent liabilities in relation to the cyber-attack have been recognised and disclosed in accordance with the requirements of FRS 102, Section 21 'Provisions and Contingencies'. With respect to potential regulatory penalties and other payments, we consider the level of provision recognised by management to fall within an acceptable range of possible outcomes. For the other elements concluded as contingent liability, we have concluded that the disclosure is appropriate in to note 23 of the financial statements, which describes management's judgements.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
payments associated with the 2022 data breach is £2m (2024: £2m). The related provisions and contingent liability are disclosed within Notes 22 and 23. The risk has remained consistent in the current year.	read for any contradictory evidence. We have reviewed minutes of board, audit and other sub-committee meetings in relation to the cyber incident and its related provision and corroborated with other related evidence obtained and to evaluate if there are any inconsistencies. We assessed the appropriateness and completeness of disclosures provided in the financial statements with respect to the cyber attack and related costs.	

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £1.85 million (2024: £1.73 million), which is 3% (2024: 3%) of adjusted Earnings before interest, tax, depreciation and amortisation ("EBITDA"). We believe that adjusted EBITDA is the most relevant performance measure to the stakeholders as exceptional items were non-recurring, sufficiently material and not related to the ongoing trading of the company. Below, we have shown the comparative materiality calculations for both years.

Starting basis
- Operating profit before exceptional items - £30.21m
- (2024: £27.31m)

Adjustments
- Depreciation and amortisation - £31.42m
- (2024: 30.44m)

Materiality
- Adjusted EBITDA - £61.63m
- (2024: £57.75m)
- Materiality of £1.85m (3% of Adjusted EBITDA)
- (2024: Materiality - £1.73m (3% of Adjusted EBITDA))

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the company's overall control environment, our judgement was that performance materiality was 50% (2024: 50%) of our planning materiality, namely £0.90m (2024: £0.90m). We have set performance materiality at this percentage due to the number of audit differences identified in prior year.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.09m (2024: £0.09m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained with the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' reports have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Opinions on other matters in accordance with the terms of our engagement letter with the company

Corporate governance statement

ISAs (UK) require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 203;

- Directors' explanation as to their assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 203;

- Directors' statement on whether they have a reasonable expectation that the company will be able to continue in operation and meets its liabilities set out on page 203;

- Directors' statement on fair, balanced and understandable set out on page 234;

- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 234;

- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 143 to 156; and;

- The section describing the work of the Audit and Risk Committee set out on page 205.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 234, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS 102, Companies Act 2006, the UK Corporate Governance Code), regulatory landscape (Ofwat, Drinking Water Inspectorate, the Environmental Agency) and relevant UK tax compliance regulations. In addition, the company has to comply with the General Data Protection Regulations, health and safety regulations, employment and environmental laws and regulations.
- We understood how South Staffordshire Water PLC comply with those frameworks by making enquiries of Board members and management, those responsible for legal and compliance procedures, the General Counsel and Company Secretary, Strategy and Regulation Director and internal audit. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit and Risk Committee and attendance at meetings of the Audit and Risk Committee and correspondence received from regulatory bodies and noted that there was no contradictory evidence.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by making enquiries of senior management including the Managing Director, Interim Finance Director, Interim Head of Internal Audit, General Counsel and Company Secretary, Strategy and Regulation Director and Audit and Risk Committee Chair. We also considered management remuneration and covenant compliance requirements which may create an incentive or pressure for management to manipulate results.
- We considered the possibility of fraud through management override, and, in response, we incorporated data analytics across manual journal entries into our audit approach. Where unusual results or anomalies were identified through our data analytics, we performed additional audit procedures to address each identified risk. These procedures included testing transactions back to source information and were designed to provide reasonable assurance that the financial statements were free from material fraud or error. For more details, please refer to our Key Audit Matters section above.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of key management, those charged with governance and legal counsel, reviewing key policies, inspecting legal correspondence and correspondence with regulators, reading key management meeting minutes and reviewing the volume and nature of complaints by the whistleblowing hotline during the year. We involved our internal specialists where appropriate. We also completed procedures to conclude on the compliance of significant disclosures in the Annual Report and Accounts with the requirements of the relevant accounting standards, UK legislation and the UK Corporate Governance Code.

- We attended key meetings with management and legal counsel in order to identify and communicate any instances of non-compliance with laws and regulations.
- We assessed management's accounting conclusions and disclosures with respect to the cyber-attack to confirm these are appropriate and are consistent with the legal advice received.
- The company operates in the water sector which is highly regulated. As such the Senior Statutory Auditor reviewed the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the Audit and Risk Committee, we were appointed by the company on to audit the financial statements for the year ended 31 March 2025 and will be reappointed for the year ending 31 March 2026.

  The period of total uninterrupted engagement including previous renewals and reappointments is 2 year and 9 months, covering the years ended 31 March 2023 to 31 March 2025.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.

- The audit opinion is consistent with the audit report to the audit committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report 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 company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signed by:

Ernst & Young LLP

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Christine Chua (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
15 July 2025

South Staffs Water

Cambridge Water

To help create a world where essential services and
infrastructure deliver for customers, clients and our planet

south-staffs-water.co.uk | cambridge-water.co.uk