SUTTON AND EAST SURREY WATER PLC
ANNUAL REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2025

seswater.co.uk

CONTENTS

OUR SECTOR – A CHANGING LANDSCAPE

THIS YEAR HAS BEEN PIVOTAL FOR THE SECTOR

This has been a year in which many of the foundations have been under review, with a new Government, new legislation, a sector wide commission, and a price review. In short, there has never been a more important time to be part of the sector, whether you are an investor, a customer or a water company.

PRICE REVIEW (2025-2030)

The latest price review PR24 (2025-2030) has heralded a reset, unlocking record levels of investment with over £100 billion over the next five years across the sector. This includes a fourfold increase in spending on new infrastructure and resources. By 2030, it's expected that this investment in critical infrastructure will deliver tangible improvements for customers and the environment, right across the UK. This will see the sector producing enough supply of water to meet the needs of nearly three million people, with nine new reservoirs and nine large scale water transfer schemes and delivering the lowest leakage levels since privatisation. Customers and communities will also continue to benefit from world class drinking water.

At the heart of Sutton and East Surrey Water's (SESW) plans is a £176.8 million[1] investment programme which drives forward our strategic priorities across the regions we serve, including ensuring resilient water supplies producing continued excellent drinking water quality, and delivering for customers whilst keeping bills affordable.

NEW LEGISLATION

The Water (Special Measures) Act, passed in February 2025 is an important step in strengthening the power of water industry regulators, with Ofwat now consulting on the detailed implementation. At a principle level, we always strive to maintain constructive working relationships with government and our regulators. It is what the public expects from us. Any proposed changes should therefore support good governance, leadership, and delivery in the public interest, and as part of a publicly listed Group, we welcome this.

INDEPENDENT WATER COMMISSION

The Cunliffe Review, led by former Bank of England deputy governor Sir Jon Cunliffe, aims to fundamentally reform the UK's water sector regulatory framework. Its primary purpose is to address the challenges facing the sector, including climate change, environmental pressures, public trust, and affordability, with a move towards a more integrated, outcomes-focused approach to water regulation, rather than what many say today is a fragmented, process-driven one. The recommendations form the basis of further legislation to attract long-term investment, environmental outcomes and support for customers and communities, injecting billions of pounds into the economy, speeding up delivery on infrastructure to support house building and addressing water scarcity for the longer term, and requiring c.£300 billion investment by 2050.

Drawing upon a panel of experts from across the regulatory, environment, health, engineering, customer, investor and economic sectors, its aim is to establish a new partnership between government, water companies, customers, investors, and all those who enjoy our waters and work to protect our environment.

We agree that in a transforming sector, regulation should also reset, building on what has been achieved to date. As a sector providing critical national infrastructure, we believe we should be governed in the same way as other utilities, making a strong case for a more investable, resilient and predictable sector, and in unlocking long term capital at fair rates. We stand ready to implement what is required.

CHAMPIONING CUSTOMERS, REGIONS AND COMMUNITIES

We also believe we have much to contribute, as part of a listed Group, with a model that advocates strong governance. We recognise there is much for the sector to benefit from in championing the customer voice, through transparency and fairness. Our parent companies unique Watershare+ model, which gives customers a stake and a say in their local water company, is a leading example of accountable and customer centric ownership and will remain at the centre of our purpose.

[1] At forecast outturn prices

OUR REGULATORS AND POLICY MAKERS

- **Department for Environment, Food and Rural Affairs (Defra)** - Defra sets the overall policy framework in England, including the environmental and service requirements. Climate change, growth, consumer expectations, and macroeconomic trends all impact on the policies that Defra sets.
- **Ofwat** - Ofwat is the economic regulator, with duties to protect the interests of consumers, ensure companies can carry out their functions, and ensure companies can finance their functions – through promoting efficiency, innovation, competition and economic growth.
- **Environment Agency (EA)** - The EA is the environmental regulator focused on protecting and improving the environment. It is also responsible for managing and reducing flood risk. The EA is a principal adviser to Defra on the water environmental.
- **Natural England** - Natural England is the government's advisor on the natural environment, with the aim to protect and improve the natural environment.
- **Drinking Water Inspectorate (DWI)** - The DWI is the drinking water quality regulator, with responsibility for ensuring that companies supply wholesome water that is clean and safe to drink.
- **Consumer Council for Water (CCW)** - CCW represent the needs of customers, and support customers who have complaints about their water company.

THE MARKETS IN WHICH WE OPERATE

HOUSEHOLD WATER SECTOR

The provision of safe drinking water is fundamental to society and to the economy. At the same time, the provision of this essential service must respect the management of the natural environment, and it should be consistent with the overall objectives for the management of the nation's water upon which there are many competing demands. It should be efficient and not impose unnecessary or unjustified cost on the consumers who pay for this essential service.

The water industry was privatised in 1989 with the objective of increasing efficiency and attracting the significant investment needed to meet EU environmental standards. There have been improvements since privatisation of the water industry. Drinking water standards are world leading. Environmental monitoring and transparency in England and Wales have increased. There has been roughly £236 billion of capital investment since privatisation with 2023/24 capital investment over double the annual levels in the years immediately before the sector was privatised.

Our parent company, Pennon Group Plc (Pennon), is a FTSE listed business, with a strategy focused on the UK water sector, underpinned by delivering long term value creation for stakeholders. With a history and heritage built up over many years, we continue to learn, innovate and grow, organically and through acquisition, as the only consolidator investing in the sector today. Over the past 10 years Pennon has been growing and learning, with acquisitions enabling the Group to unlock benefits for customers.

OUR CEO'S REVIEW

I am pleased to share my Chief Executive's review for 2024/25, the key highlights across the year and as we look to conclude the K7 (2020 -2025) five-year delivery period.

As a group focused on UK Water, there has never been a more important time to deliver for customers today, and to invest for the future. Our brilliant colleagues who live and work in the regions have stepped up to the challenges, and I couldn't be prouder. It hasn't always been easy with the media and political spotlight firmly on the sector, and we haven't always got it right. When you look after critical infrastructure, sometime things can and do go wrong, and the focus has to be on how quickly you respond, learn the lessons and how you support customers. We have focused on all three – using our size and scale to deploy teams and resources from across the Group to support in an incident, and enhancing customer promise payments, because it's the right thing to do. I'd particularly like to recognise the kindness and patience that customers and businesses showed to colleagues last year working around the clock to restore water services impacted by a valve failure at Cheam Water Supply Works and the highly unusual road collapse above a water main in Godstone.

Our customer and community roadshows are always a personal highlight for me, as I get to speak to thousands of customers regularly. From questions about hosepipe bans, bonuses, dividends, bills and everything in between, they are always challenging conversations. For me, it's all about building trust and changing views one conversation at a time.

We have a fantastic customer panel as part of Watershare+, with panel members representing the views of customers from across all regions, and we were delighted to welcome SES's customer and environmental panel to join the panel. They are really good at holding my executive team and I to account for making sure we are walking in our customers shoes, and I am grateful for their time.

As we have grown, more and more customers have benefited from what we do, whether that's giving customers a stake and a say in our business through Watershare+, or because we have invested in their financial resilience. That has been the most immediate benefit of our acquisition of SES, which was given the green light by the CMA in June 2024, following a fast-track review. We committed to retain separate reporting, and in addition will waive the small company premium allowance that previously would have charged to customers as part of PR24.

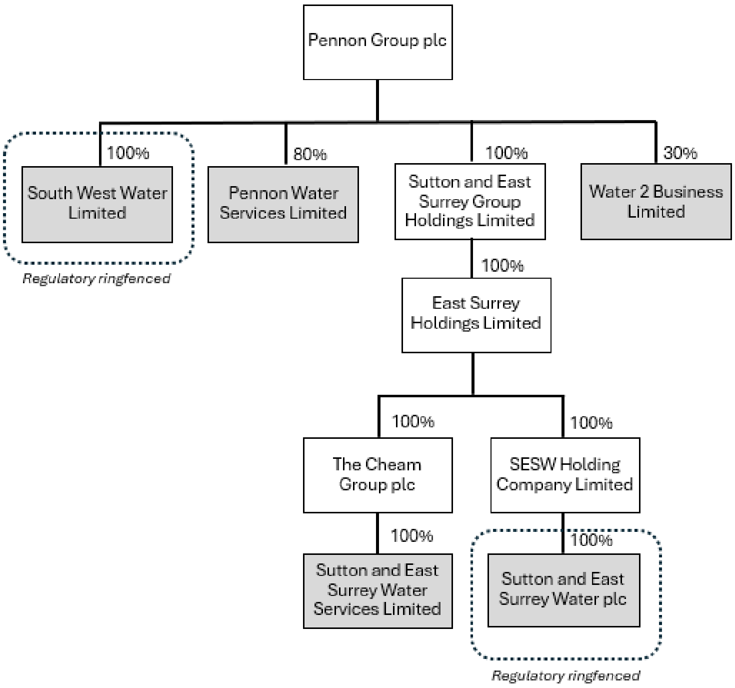
Overall, it means that SES has ended the K7 period in a resilient position, operationally and financially, and as we have reshaped the business to put more resources into front line services, with streamlined support functions and as we have focused everyone on delivering on our four strategic priorities – based on customer feedback about what matters most. Of note is SES's high quality water pledge, all day and every day, as measured by the Compliance Risk Index, ending the period as the industry's top performer as assessed in the Drinking Water Inspector's Annual Report. There have also been improvements in leakage and mains repairs. Over the period, SES has focused on affordability and vulnerability for customers today and for those in the future, welcoming 5,000 children and adults to our purpose built "Flow Zone" educational centre at Bough Beech reservoir and through ongoing in school activities and community talks.

At the same time, more customers than before have been supported on one of our support or social tariffs. That said, there are areas of focus, and whilst the one-off supply interruptions and unplanned outages have impacted performance, there's more to be done to deliver consistently and in improving customer service. Having received a good business plan for K8, SES is well positioned as we look ahead, with customers seeing a more resilient business, and lower bills in real terms.

I'd like to finish – where I started. Everyone who works at SES Water is fiercely proud of our heritage in the water sector, and leadership is all about making this a great place to work and a safe place to work. As a living wage employer, we continue to invest in skills and jobs, as the only water company recognised by the Government as a top 100 apprenticeship employer. I'd like to thank our brilliant colleagues for everything they have delivered and will continue to do so.

SUTTON AND EAST SURREY WATER'S CONTEXT

Sutton and East Surrey Water plc ("SES Water") is an ultimate subsidiary of Pennon Group Plc ('Pennon Group'), a FTSE 250 company, whose principal significant trading subsidiaries are shown in grey in the summarised structure diagram below. This diagram excludes Group entities that do not generate significant external revenues.



SES WATER (SUTTON AND EAST SURREY WATER PLC)

On 10 January 2024 Pennon Group Plc acquired 100% of the issued share capital of Sutton and East Surrey Group Holdings Limited, from our previous shareholders Sumitomo Corporation and Osaka Gas. In July 2024, the Competition and Markets Authority ("CMA") gave clearance on the acquisition of SES water and the wider East Surrey Holdings Group to Pennon Group plc.

SES Water provides regulated water services across parts of Surrey, Kent and south London. SES Water provides retail services to residential (household) customers.

SOUTH WEST WATER (SOUTH WEST WATER LIMITED)

South West Water provides regulated water and wastewater services across Cornwall, Devon, Isles of Scilly and parts of Dorset and Somerset, water only services in areas of Dorset, Hampshire and Wiltshire (the Bournemouth Water area), Bristol and a small amount of non-appointed services. It was responsible for delivering the 2020-25 business plan, in the original South West Water area of operation, the Bournemouth Water and the Bristol Water areas of operation. South West Water provides retail services to residential (household) customers.

PENNON WATER SERVICES (PENNON WATER SERVICES LIMITED)

Pennon Water Services provides retail services to non-household customers. Whilst part of the wider Pennon Group, South West Water has in place robust policies and practices to ensure full competition compliance with the market codes for the non-household retail market.

WATER 2 BUSINESS (WATER 2 BUSINESS LIMITED)

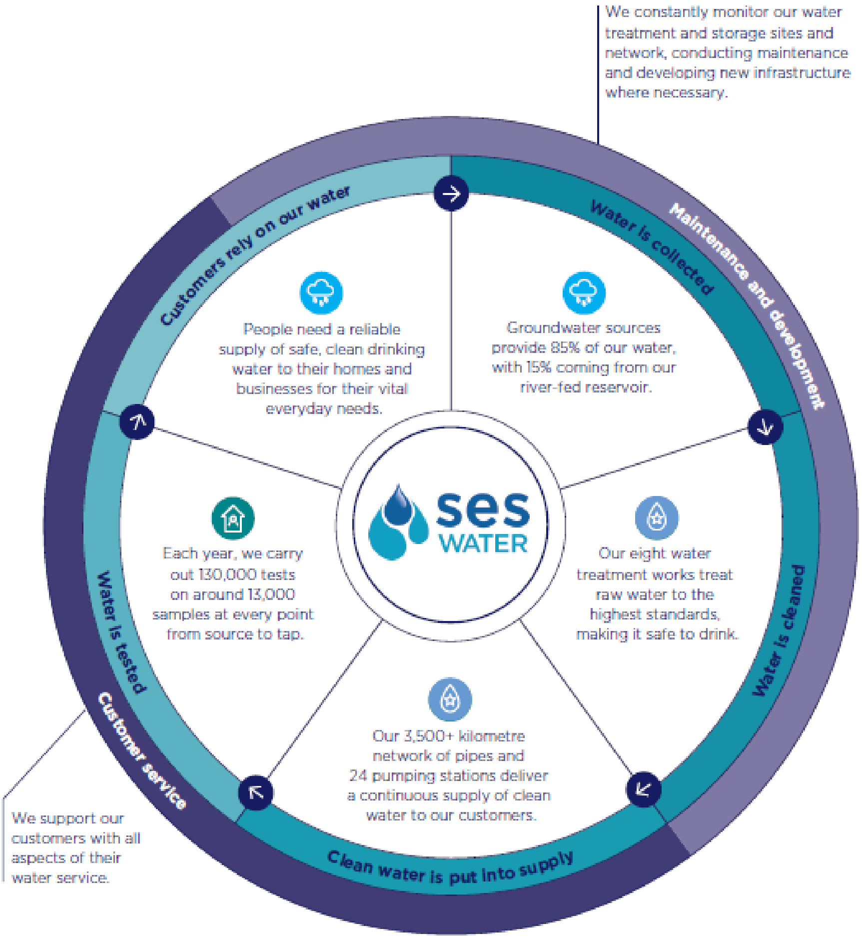
The Company is a joint venture between Wessex Water Limited ("Wessex Water") and Bristol Water Holdings Limited ("Bristol Water"). The principal activities of the Company are retail services relating to the provision of water, sewerage and trade effluent services to non-household customers, together with advice on water efficiency services (i.e. leakage detection and repair, water audits and benchmarking).

SES BUSINESS WATER AND SES HOME SERVICES (SUTTON AND EAST SURREY WATER SERVICES LIMITED)

Sutton and East Surrey Water Services Limited operates as two separate trading divisions: SES Business Water and SES Home Services. SES Business Water provides water and wastewater retail services to non-residential customers across the UK. SES Home Services provides plumbing and heating services which cover domestic water and gas heating systems in the Southeast of England.

OUR BUSINESS MODEL

Our business model is shaped by our purpose: Harnessing the potential of water to enhance nature and improve lives. We take pride in being a local company with a long heritage, and our customers have told us they value their water being supplied by a local company whose employees have comprehensive knowledge of our supply area. To do this, our business model is reliant on a number of key resources and relationships that enable us to meet our obligations.



For the benefit of our stakeholders:

- **Customers –** Our high-quality services support households and businesses in the regions we serve. Read more on page 21.
- **Shareholders and investors –** Our strong business model ensures shareholders and investors get a fair return.
- **Regulators and stakeholders -** Our engagement with regulators and key stakeholders ensures transparency in our business approach.
- **People -** Our employees are highly valued and are integral to our success. Their health and safety is paramount. Read more on pages 14 to 18.
- **Suppliers and contractors –** The relationships we have with our suppliers and contractors are fair and deliver many regional economic benefits.

Our business is underpinned and supported by our Pennon Group values:

Be YOU   Be ROCK SOLID   Be the FUTURE

STAKEHOLDER ENGAGEMENT OVERVIEW

We believe the best decisions are made when everyone has a voice. That's why we maintain regular, open dialogue with our stakeholders, from customers and community groups, to regulators and environmental partners. These conversations are not a formality, they are a vital part of how we shape our strategy, make decisions, and deliver meaningful outcomes. By listening closely to what matters to our stakeholders, we can respond effectively, and ensure our actions deliver real value to the communities we serve.

Our approach is built on trust, transparency, and long-term relationships. Whether it's through formal panels, market research, community events, or one-to-one meetings, we stay connected, because strong relationships result in better outcomes. The insights we gain directly influences everything we do, from Board decisions to strategy and social purpose. For more on how stakeholder voices shape our governance, see Section 172(1) on pages 73 to 74.

CUSTOMERS

WHO THEY ARE

Our business supplies water to c.0.8 million people in parts of Surrey, Kent and South London. Our supply area is c.322 square miles extending from Morden and South Croydon in the North, to Gatwick Airport in the South, and from Cobham, Leatherhead and Dorking in the West, to Edenbridge in the East.

WHY WE ENGAGE

Working in partnership with our customers and stakeholders is at the heart of everything we do. Their feedback and insight help us deliver better outcomes for the customers and communities we serve.

We have undertaken a comprehensive programme of customer and stakeholder engagement, recognising that our success and sustainability depends on their input and involvement. We have worked hard to apply it consistently throughout the development and delivery of our work programmes across our supply area, whilst ensuring it captures the views from all the different customer groups we serve.

HOW WE ENGAGE

Building on our extensive research programme for PR24, we continue to engage proactively with our customers through our quarterly 'Voice of Customer' programme, ad-hoc research projects, and post interaction and event feedback surveys amongst others. This helps us to understand what's important to our customers and shapes our future plans.

The Pennon Group Customer and Environmental Scrutiny Panel, which was formed in 2020 as an expert group to challenge, and in the process, accelerate our ambitions in the environmental and customer arena, gives us the opportunity to talk to our customers and stakeholders directly. The panel includes independent members who have expertise in areas such as vulnerability, sustainability and community engagement; as well as representatives from organisations including CCW (the water industry's consumer watchdog), the Environment Agency, local authorities, and environmental and consumer support groups. They provide robust scrutiny and challenge to us to put the long-term needs of customers and the environment first when assessing current performance, our future plans and overall strategy.

Our customer engagement programme has been closely overseen by our Board, who are central to the creation and delivery of our plans, both in the shorter term, and looking to the future too. Board members attend our Customer and Environmental Scrutiny Panel, and regularly receive reporting, making sure customer views are heard at Board level. Overall, we are confident we have met Ofwat's customer engagement standards.

Our community events are conversation based. Expert colleagues from around our business are on hand to talk to our customers and answer any questions they may have. Our roadshows focus on four key areas:

- Raising awareness of our support schemes for customers who may need extra help
- Educating our customers about water use, and our collective efforts to protect the local environment
- Having a general presence in our community so we go beyond the provision of clean drinking water

We're pleased to continue our engagement with our customers throughout the year via regular surveys and through our online customer panel, 'Talk on Water'. We regularly ask our customers opinions on things that matter the most to them and their feedback helps us shape our plans, as we evolve our policies and services.

We engage with customers by contacting the customers via email, the 'MyAccount' customer portal, social media channels, and we have Community Support Officers who visit customers at home.

KEY CHALLENGES AND HOW WE ARE RESPONDING

The provision of clean, safe drinking water is the number one priority for our customers. We are focused on building new resources, investing to upgrade infrastructure and reducing leakage and supply interruptions.

We are committed to being a socially responsible business. We aim to achieve net zero by 2030. We focus on key environmental projects, including energy efficiency at our sites and improvements to our transport fleet.

With the ongoing cost-of-living crisis and implementation of bill increases, affordability has been a major focus for us. We do all we can to keep bills affordable and support those who need it.

COMMUNITIES

WHO THEY ARE

We deliver services that are crucial to daily life, which means we are not just a utility provider, we're part of the fabric of local communities. Our teams live and work where we serve, so we're closely connected to the people and places that make each community unique. We work with community groups to ensure people have a voice in shaping services that matter to them.

WHY WE ENGAGE

We are woven into the everyday lives of communities across the region. By listening regularly and responding with care, we can better understand local needs and deliver services that protect water, support wellbeing, and safeguard the environment today and for generations to come.

HOW WE ENGAGE

We engage through regular newsletters to local schools, charities and community partners We also work in partnership with community organisations that help us reach and support people who have additional needs and by using their insights to help us improve our services.

KEY CHALLENGES AND HOW WE ARE RESPONDING

We want to play an active role in the communities we serve and support projects that will deliver environmental and societal benefits. That we support people with additional needs or who need help accessing our services

By providing more than £20,000 in direct donations to our three community partners. By raising £4,250 through fundraising for campaigns such as Macmillan coffee mornings, Save The Children and Movember and providing around 1,200 hours of employee volunteering time.

PEOPLE

WHO THEY ARE

Over 350 people work across the Company, in corporate and operational roles. They are the heart of our business, delivering essential water and ensuring clean, safe drinking water for our customers 24/7.

WHY WE ENGAGE

Our employees are our greatest asset. We believe that when employees are heard, supported, and empowered, they thrive, and so does our business.

We engage with colleagues at every level through two-way dialogue, feedback channels, and regular communication. This helps us understand what matters most to them and make meaningful improvements based on their feedback.

We regularly connect with our teams on topics such as:

- Health, safety, and wellbeing
- Organisational culture and values
- Diversity, equity, and inclusion
- Training, development, and career growth

We use a range of tools to stay connected, including pulse surveys, listening sessions and employee forums.

HOW WE ENGAGE

During the year we integrated into the Pennon Group, and therefore employees were able to start to utilise the Great Place To Work (GPTW) platform. Regular pulse surveys were introduced during the year, alongside the full survey, which gave colleagues additional opportunities to share feedback. We continue to work hard to keep engaging and supporting our colleagues to enable them to bring their best to work, and to ensure we are creating the best work environment as well as supporting them appropriately.

We take our responsibility to listen, to understand and support our employees seriously. Our s172(1) statement on pages 73 to 74 outlines how employee interests are considered in our decision making.

The Pennon Group Speak Up whistleblowing policy continued to operate throughout the year, and remains a vital channel for open, safe and transparent communication, helping build a culture of trust. Employees are able to speak up and are supported if they do so.

Additionally, as a Group, we have introduced new ‘open door’ channels that allow employees to ask questions and share ideas directly with senior leaders fostering a culture of openness and accessibility. This new approach brings together several employee communication channels and encourages employees and senior leaders to keep connecting more.

We’re committed to helping our people grow. Last year, the Pennon Group as a whole delivered over 25,000 training days across the group for our colleagues, an average of nearly seven days per employee. We undertake high-quality training and development to support all our colleagues and enable them to undertake their jobs professionally and safely. All our training places health and safety at its core to ensure all colleagues go home safe at the end of every day.

Our award-winning Group apprenticeship programme is helping develop the next generation of water professionals.

Regular one-to-ones, appraisals, and performance reviews ensure colleagues are supported in their roles and have clear pathways for development.

We’re always evolving how we communicate. Our key activities include:

- Big Chat video calls with the Pennon Chief Executive Officer and Pennon Group Executive team are held regularly and focus on topical business issues and employee highlights. In response to employee feedback, we have broadened the group of speakers, involving colleagues from all areas and levels across the business.
- Viva Engage, our Pennon Group-wide internal communications platform is growing in popularity.
- Toolbox talks and breakfast meetings with frontline teams that work tirelessly around the clock, supported by our senior leaders and designed to ensure two-way dialogue with operational teams.
- WaterWorks, our monthly dashboard, keeps everyone informed on performance and progress on delivering for our customers, communities and the environment, so that all employees across the Company are regularly updated on these critical areas.

KEY CHALLENGES AND HOW WE ARE RESPONDING

We proactively recognise and address employees’ mental health and wellbeing by delivering a broad and comprehensive programme of offerings for all employees and their family members.

Maintaining focus on Health and Safety is key, with continued investment through Group programme HomeSafe.

We support diversity and inclusion through our employee networks and ensure we provide equal opportunities for all through our recruitment processes.

We are focused on future skills. We’re investing in apprenticeships, internships, and graduate schemes to build a skilled, resilient workforce.

Employee survey feedback is addressed by enhancing communications and employee pay and bonuses.

SUPPLIERS

WHO THEY ARE

As a large organisation we work with a large and diverse supply chain. Our supply chain partners are essential to delivering safe, efficient, and sustainable operations, bringing innovation, expertise, and resilience to every part of our business.

WHY WE ENGAGE

We know that strong partnerships are key to meeting future challenges and delivering long-term value. By working collaboratively with strategic suppliers, we can deliver major investment programmes, drive innovation, and ensure our operations remain resilient and future ready.

We're committed to working with partners who share our values, standards, and behaviours. Through our structured approach, rationalising and segmenting our supply base into strategic, key, preferred or transactional relationships, we have tailored our engagement with each supply chain partner to maximise value and impact.

Our parent company, Pennon Group plc, is a signatory to the EU Skills Accord, we support skills development and investment throughout the supply chain. And through our ESG and Net Zero strategies we engage our supply chain to better understand and reduce our collective environmental impact.

HOW WE ENGAGE

Supplier reviews and audits continue to deliver opportunities for innovation, testing and improvements.

The Code of Conduct for Supply Chain Partners has been established, and all new suppliers are brought on board using the framework.

Formal contracts and framework agreements are utilised to generate robust cost effective and market-tested procurement.

E-procurement and Risk Management platforms are being used to monitor the suppliers, flag risks in advance to the teams and ensure suppliers remain compliant.

Looking forward, the Pennon Group's capital delivery supply chain partnership 'Amplify' is now stood up and is delivering on schemes for significant investment to 2030. To help deliver these projects, Amplify's main construction partners, following a highly competitive tendering process, are working alongside a range of consultancy organisations. Project management, design and cost consultancy is now being used to deliver the optimum spend through standardising specifications, streamlining requirements for efficiency and building supply resilience.

KEY CHALLENGES AND HOW WE ARE RESPONDING

Meeting the environmental challenges of today, and tomorrow, requires a shift in how we think about infrastructure. That's why we're embracing a 'nature-first' approach, prioritising solutions that work with the natural environment rather than against it. We're embedding nature-based thinking into the heart of our supply chain strategy.

To deliver this, we're securing the best talent and expertise from our partners, those who share our vision for a greener, more resilient future. Our mobilisation board is already overseeing the delivery of current schemes, ensuring that nature-based principles are integrated from the outset.

We also continue to minimise the risk of supplier failure or insolvency through rigorous due diligence and proactive risk management, strengthening resilience and ensuring long-term delivery capability.

REGULATORS

WHO THEY ARE

We have an open dialogue and meet regularly with our regulatory bodies: Ofwat, the Environment Agency, the Drinking Water Inspectorate, Natural England, and the Health and Safety Executive (HSE).

WHY WE ENGAGE

Engaging with our regulators is fundamental to maintaining our licence to operate and delivering long-term value. Through open and constructive dialogue, we ensure our plans are aligned with national priorities, meet compliance obligations, and reflect the needs of the people and places we serve.

The regulatory landscape is evolving, around environmental performance, affordability, and governance, and our engagement aims to help shape future policy in the interests of our customers.

We work to ensure that regulation supports innovation, enables long-term investment, and holds the sector to account in a way that is fair, transparent, and focused on outcomes. Engaging early and often is essential to build a regulatory framework that is fit for the future, supporting both public trust and sustainable growth.

HOW WE ENGAGE

We take a proactive and collaborative approach to regulatory engagement. This includes regular meetings and open dialogue to ensure customer voices and environmental needs are reflected in our plans.

We submit detailed action plans, performance reports, and compliance reviews to our regulators, ensuring transparency across key metrics such as leakage, customer service, and investment delivery. We participate in industry consultations and working groups, helping to shape new and emerging regulations. Joint site visits and inspections provide further opportunities to review progress and performance in real time.

KEY CHALLENGES AND HOW WE ARE RESPONDING

The water sector is facing a period of significant transformation, driven by environmental pressures, technological advances, and rising expectations from customers. Issues such as water quality, drought resilience, and affordability are becoming more urgent, particularly in the context of changing weather patterns, growth, and pressures on household incomes.

In response, we are working closely with our regulators as the regulatory framework evolves to meet these challenges. This includes contributing to the Government's comprehensive review of water regulation, led by Sir Jon Cunliffe and conducted through the Independent Water Commission.

We are also responding to HM Treasury's Action Plan, which calls on regulators to support economic growth and housing. With new homes planned across our regions, we are investing early in infrastructure to support this growth, including sustainable bioresources solutions.

In parallel, we are engaging with Ofwat on its evolving expectations around executive pay, dividends, and performance-linked incentives. We support the principle that rewards should be clearly linked to delivery for customers and the environment, and we are aligning our governance and reporting accordingly. We are also exploring innovative tariff structures that better reflect customer usage and affordability, while supporting long-term investment in resilience and sustainability.

These efforts are underpinned by strengthened governance, improved data transparency, and a clear focus on delivering sustainable outcomes in partnership with our regulators.

POLICY MAKERS

WHO THEY ARE

Policy makers, play a central role in shaping the legislative and regulatory environment in which we operate. We engage with national and regional stakeholders, forming relationships that are essential to ensuring that water policy reflects the needs of customers, communities, and the environment.

We maintain open and transparent relationships with a broad spectrum of policy makers, from central government departments, such as the Department for Environment, Food & Rural Affairs (Defra), through to local authorities, local MPs, and parliamentary committees. While local MPs advocate for their constituents, central government sets national water priorities and policy directly and through regulatory bodies such as Ofwat and the Environment Agency.

As a Group, Pennon engage with Parliamentary Committees regularly to set the tone of legislative activity, ensuring that Pennon’s voice is heard at the heart of government. But we don’t just engage with the Government, we work cross-party to our best to ensure that Pennon’s values are heard across the political divide.

WHY WE ENGAGE

Following huge change at the last General Election in July 2024, and in a highly politicised operating environment, it is more important than ever to educate and engage our new and historical stakeholders.

We have a responsibility to support the local economy and growth in our region, whilst upgrading and improving our assets, so that stakeholders have confidence in our plans.

HOW WE ENGAGE

As part of the Pennon Group, we engage with national political stakeholders through Select Committees, All Party Parliamentary Groups, and other forum focused on the environment, renewable energy, skills and regional growth, so that our story is at the forefront of the minds of policymakers. Our membership of Water UK enables us to contribute to national policy development and sustainable water service delivery.

As a Group we host regular meetings with MPs, including site visits and constituency-based meetings, as well as events in Westminster. We also contribute to roundtable debates and provide briefings to MPs and ministers ahead of parliamentary discussions, helping shape the narrative from the outset.

We also respond to government consultations, such as the proposed reforms to the National Planning Policy Framework and the Independent Water Commission's Review into the Water Sector.

KEY CHALLENGES AND HOW WE ARE RESPONDING

In the wake of the 2024 General Election, as a Group we have proactively built relationships with new and returning MPs, helping them understand our business and regional impact. Stakeholders have been interested to hear from us on a range of topics, including customer bills, investment plans and environmental initiatives.

We respond promptly to enquiries we receive from local MPs and councillors. We proactively facilitate site visits for them to see firsthand our work in their constituencies, demonstrating investment in infrastructure and how we are upgrading our network to protect and enhance water quality and the environment. Policy makers are also regularly invited to join Group-wide customer roadshow events, where we explain the work we have been doing in their area.

OUR PEOPLE AND CULTURE

At SES Water, we are united with our 355 colleagues in understanding we have a responsibility and duty to make a positive societal contribution. Our goal is to be the Employer of Choice across our region through promoting social mobility, prioritising Diversity and Inclusion by addressing racial and gender inequality.

We provide safe, secure and meaningful employment where all employees are paid fairly for the work they do and where trust is high. We want to show that it is a dynamic and exciting time to be working in the water industry. We provide safe, secure and meaningful employment where all employees are paid fairly for the work they do and where trust is high. We fully recognise that the levels of external scrutiny on the water industry have increased significantly in recent years, and this is felt by our colleagues personally as they carry a heightened level of responsibility. Despite these pressures, we are delighted that our colleagues are even more determined to provide high quality services to our customers and the communities we serve.

At SES Water, we take our social stewardship role seriously, whether that's through driving environmental improvements or growing the number of jobs we support. Following the acquisition of SES Water by Pennon Group last year, we are integrating within the Group in a balanced and considered way to both maintain our unique company identity and align with the broader set of companies within the Group. Pennon Group's strategic priorities include focusing on having more colleagues on the front line, and ensuring we are in a good position as we move into the new year and business planning cycle. Pennon Group's strategic priorities are our drumbeat internally, ensuring we can deliver commitments externally, and delivering the things that matter most to customers.

PREPARED FOR PR24

We have been working hard throughout the last year to align our teams to other group functions as appropriate and to ensure we are well placed to successfully deliver the challenges within PR24.

Our exciting Group business plan, which has been approved by our regulators and was built around our Group Values and aims to have a positive impact on customers, communities, colleagues and the environment.

Our approach to Human Capital seeks to go further; supporting Community Investment and social mobility across the regions we work in; ensuring we pay our employees a fair wage for doing a fair day's work and therefore be well placed to be able to make a wider societal contribution; and delivering our Diversity and Inclusion strategy by prioritising diversity of thought, gender and ethnicity to promote social mobility and opportunity for all.

This is all part of a wider strategy to be the employer of choice in the region and being a Great Place to Work.

EMBEDDING OUR NEW GROUP VALUES

Last year, we launched new values across all entities within the Pennon Group, including SES Water: Be You, Be Rock Solid and Be the Future. These values serve as guiding principles that shape our interactions with customers, communities and each other. They give us a framework for how we should engage as a team, and help us build a foundation for growth and trust, and a positive workplace environment.

The values are:

Be you

We want you to bring your best every day. Be open and inclusive, work together and win as one team. Let your passion inspire those around you. Be authentic, make your mark and be you.

Be rock solid

We want you to be the one we all look up to. Be trusted. Act with integrity and make good on your promises. Build trust, one relationship at a time. Be rock solid.

Be the future

We encourage you to be curious and challenge convention. Share ideas with confidence and purpose, and help share our future. Embrace change. Drive progress. Own the challenge. Be the future

Over this past year, we have worked hard to embed these values, using them as a tool to align our teams as we prepare the business for K8 and to deliver on our strategic priorities. Some examples of this include:

- Launching the 'Pennon Pod' – encouraging open and engaging discussions on what our values mean to individuals across the business
- Colleague Roadshows – holding face to face events for colleagues to interactively engage with the new values
- 'Be You' Photo competition – encouraging colleagues to share their authentic selves whether that be in or outside of the workplace

We are proud to witness our values in action in the workplace every day. Because of this, we have launched a new set of internal colleague awards – the 'You Rock' Awards. This is a new recognition scheme that aims to shine a light on the best of Pennon, highlighting those who truly embody our values and demonstrate the best behaviours for our colleagues, customers and communities.

ENHANCING THE ORGANISATION CULTURE

After launching our new Pennon Group Values last year and working hard with colleagues across all our business units to fully roll them out during this year, we are now well placed to deliver our PR24 plans aligned with our Company Values. Our Values are seen as the guiding principles by all colleagues in how we undertake our activities.

We have sought to embed our values to deliver real behavioural change and incorporate them in all business activities from recruitment, induction, performance management and communications to reward, recognition and reporting. Setting the tone from the top has been key to ensuring that these principles are reflected across the company.

Across the business we have developed a coherent approach to leadership, culture, talent, and skills development which will not only help us unlock the full potential in our business, ensuring we are match fit today, but also prepare us for future challenges.

Ensuring our people are at the heart of all these key areas of focus will mean we continue to successfully deliver for all the customers and stakeholders that rely on us. Our people are our greatest asset. We are proud of the values we live by in all that we do, and we have been delighted by how our employees have risen to the challenges we have faced throughout the last year, and in going above and beyond to deliver for our business and our customers.

We continue to work to develop strong relationships with our employees, ensuring we are engaging with them in our business in all aspects of our People Strategy.

As a purpose-led organisation, we have strong values and ethics which are important barometers in fostering the culture and beliefs that we require to be successful. One of the key reasons why, as a Group, we use Great Place to Work to survey our employees is that it is one of the few providers that seeks to measure values and ethics. These are notoriously difficult areas to measure as they are impacted by individual's personal values and ethics.

TALENT DEVELOPMENT

We have a strong commitment to invest in the development of our employees and to build and recognise talent across the business. Training and development are available for employees at all levels within the business and all are actively encouraged to participate. Our aim is to increase productivity, job satisfaction and safety, and to equip the next generation of leaders and employees with appropriate knowledge, skills and the competencies they need to thrive.

As part of the Pennon Group we joined the 5% Club, an organisation with over 1,000 members that aims to address the issue of poverty arising from high youth unemployment and a shortage of the right skills for the workplace of today and tomorrow. We are delighted to be the only water company that has been awarded Platinum Membership status of the 5% Club as we have around 10% of our employees undertaking apprenticeships or on a formal structured graduate programme. Achieving Platinum status demonstrates our long-term commitment to investing in structured apprenticeship and graduate programmes for our employees.

APPRENTICESHIPS

At SES Water and within the wider Group, we have a long-standing commitment to apprenticeships, as they are an effective way to recruit and develop high quality talented employees. After setting a Group target in 2020 to support 1,000 apprenticeships by 2030, we are delighted to report we are ahead of schedule and have supported 663 and currently have 368 live on programme, with 23 being in SES Water. Attracting and developing the next generation of talented employees is vital in building resilience in our workforce and ensuring we can deliver the essential services our customers and communities deserve.

LEADERSHIP DEVELOPMENT

We continue to invest in our leaders and have two leadership programmes across the business, LEAD Aspire and LEAD Programme.

LEAD Aspire is a four-day programme for employees who have been recognised as being a leader of the future and are working towards this as part of their personal development plan. The programme allows them to develop their leadership mindsets and approaches, explore leadership theories, models and best practices, and learn that you don't need a title to be a leader. The four-day programme also has senior leaders from across the business sharing their thoughts on leadership, providing great insight into their personal experiences of leadership and how it has shaped them.

Our LEAD Programme is for our current manager and leadership population to help them hone their leadership skills, working across a six-month programme on leadership mindset, including topics such as personal impact and purpose- led leadership, and skills areas such as coaching and mentoring, inclusive leadership, and building high-performing teams.

EQUITY, DIVERSITY AND INCLUSION (E,D&I)

We have a responsibility to promote social mobility, address inequality and drive inclusivity and we continue to champion diversity and promote an inclusive workplace. It is important to be open and transparent about the gender and ethnic diversity of our employees and this report is a key tool for us to do that, whilst also allowing us to share the measures we have taken and will be taking to continue to create a more diverse workforce across all roles and levels within the organisation.

We understand that fostering an inclusive workplace is imperative for both attracting and retaining talent within our organisation. As one of the largest employers in the region, we have a duty to contribute positively within our communities, providing a work environment that promotes social mobility, celebrates and drives diversity and inclusion, and ensures an equitable and psychologically safe space for all our employees.

As a Group we are pleased with the recent progress made but know there is more to do in increasing the diversity of our workforce during the coming year.

OUR GENDER AND ETHNICITY PAY GAP

We have previously, since 2020, published our annual Gender Pay Gap report for the Company. These can both be found on our company's website: https://seswater.co.uk/about-us/publications/our-gender-pay-gap-report. Since acquisition by the Pennon Group in 2024, we are included in the Pennon Group's Gender and Ethnicity Pay Gap Reports, which can be found on the pennon Group website: https://www.pennon-group.co.uk/about-us/gender-and-ethnicity-pay-gap-report.

Within SES Water, our gender pay gap for the year has remained relatively consistent with prior year moving from 7.1% to 7.4%. The rise is driven by a c.5% reduction in female representation at the highest pay level. This is significantly lower than the national average, which stands at 13.1%.

We know that there is still more for us to do in this area, including increasing the employee self-disclosure diversity rates across the Group and continuing to attract more ethnically diverse candidates at all levels across the Group.

RECRUITMENT

As a Group we continue to develop our careers website to leverage our employer value proposition and the creative campaign that sits alongside this, #JustAddWater. We have forged new partnerships with third parties to enhance and drive our work in the recruitment space to support our ED&I agenda.

We regularly review our approach to monitoring diversity and inclusion with a specific focus on job applications. We use a software gender decoder tool which allows us to check all our job adverts for masculine bias to reduce the potential risk of alienating female applicants. We ensure that our brand imaginary represents both the communities we serve and our workforce, which encourages more diverse candidates to apply. We are pleased that we are receiving high numbers of applications from ethnically diverse applicants and women into what is still a male-dominated industry.

EMPLOYEE LED INCLUSION

Our Employee Network Groups continue to play a significant role in raising awareness and driving change. Areas of focus for these groups include raising awareness around challenges that under-represented groups face, which has included educating employees on LGBTQ+ topics and experiences, including a session led by a transgender speaker, celebrating different cultures and customs through in-person events, sessions on racism and allyship, promoting understanding of neurodiversity, developing a webinar on sexism and misogyny, and creating an ED&I awareness session, which is delivered to all new starters to the business.

Our two new network groups this year, brought about through employee feedback, are the Veterans Network and the Neurodiverse Network. All of our groups have members sitting on the overall ED&I Steering Group to ensure collaboration across the whole ED&I agenda and driving communication between the groups.

PROGRESSION

One of our key challenges has been enabling a diverse workforce at all levels through internal progression. The REACH (Racial, Ethnic and Cultural Heritage) Network and Women's Network have both been key drivers in looking at how we can better support them with career progression across the organisation.

We operate a Women's Mentoring Programme, which supports women whether they are seeking professional guidance, building their network, or navigating their working environment and some of the challenges this entails. Throughout the year we piloted a Reciprocal Mentoring scheme, which paired eight members of the REACH Network with eight members of our executive and senior leadership team, with the goal being for individuals to share their lived experiences and encourage actionable behaviours from those involved.

We have also partnered with the Inclusive Village to run a REACH development programme. The programme is designed to support the career ambitions of those who may experience career disadvantage or inequalities due to their racial identity, whilst also enabling Pennon to foster the realisation of our commitment to the Change the Race Ratio campaign. This programme will cover a range of career-enabling topics identified by research as most pertinent in supporting ethnic minorities in the workplace, including leveraging line manager and ally relationships, impact and influence, and developing a credible professional/personal brand.

We will continue to work with these groups in relation to career progression opportunities, to understand the challenges they face and how as an organisation we can address these.

HUMAN RIGHTS

We are fully supportive of the principles set out in the UN Declaration of Human Rights, and the Pennon Group ethics policy outlines the high standards of employment practice with which all employees are expected to comply. The Pennon Group also supports the International Labour Organisation's core conventions for the protection and safety of employees wherever they may work throughout the Group. These standards are also embedded in our sustainable supply chain and documented in our procurement policy and Code of Conduct for supply chain partners.

PRIORITISING HEALTH AND WELLBEING

Our wellbeing strategy is a core area in our People Strategy, to ensure our people know that we care about them. To further enhance the support we provide our people, we have embedded health and wellbeing into our Group HomeSafe strategy. This will provide extra emphasis on occupational health, physical and mental health, and overall wellbeing.

It is estimated that in any given week, one in six people of working age experiences a common mental health problem like stress, depression or anxiety. Most of us will understand, from personal experiences or friends and family, the huge personal cost that this can bring.

Our Wellbeing strategy focuses on four main areas:

- **Mental** - Taking care of our Minds, coping effectively with life and creating satisfying relationships
- **Physical** - Encompassing the major external and internal factors such as social health
- **Financial** - Taking care of our financial wellbeing, being in control over our financial future
- **Community** – Encompassing the major external and internal factors such as social health

Our approach to wellbeing, incorporates a number of initiatives including:

- **Mental Health First Aiders**: We now have 100 Mental Health First Aiders across the Pennon Group.
- **Wellbeing Champions:** We have established a network of wellbeing champions across the business to help us engage colleagues.
- **Time To Talk:** Regular sessions where colleagues are invited to join online webinars focusing on a range of health and wellbeing issues, primarily focused on mental health.
- **EAP Helpline**: Our Employee Assistance Programme (EAP) provides extensive advice and support for employees and family members, and we intend to further boost awareness and utilisation of the services offered.

HOMESAFE, THE PENNON GROUP's FLAGSHIP HEALTH AND SAFETY PROGRAMME

Ensuring Pennon Group people go home safe to their families safely every day is an utmost priority. The Group's HomeSafe programme continues to focus on the three key areas of Visible Safety Leadership, Accountability and Data Driven Targeted Interventions. Relentless focus on and driving consistency in these areas has seen the Company's Lost Time Injury Frequency Rate (employees and agency, excluding contractors), the Group's primary measure of health and safety performance, continue to reduce, and this year achieve the original HomeSafe strategic target of 0.25. This year the Pennon Group has seen the fourth year in a row of reduction in LTIFR, down to 0.22 in September 2024, and 0.25 at 31 March 2025, compared to 0.30 at 31 March 2024.

The three areas we focused on:

1. Visible Safety Leadership, via HomeSafe Live events
   - Leaders owning HomeSafe, celebrating success with the intention of encouraging others to develop good practice and behaviours.
   - Leaders hosted safety 'stand-downs' to discuss recent events and immediate lessons to be adopted.
   - An expansion of the successful '12 days of Christmas' campaign into a full 24-day advent calendar where each day for 24 days, a team from across all Group companies and supply chain partners owned a key HomeSafe message for the Group ranging from simple pictures and messages through to scripted and acted out videos to engage the audience.
2. Driving a culture of accountability throughout the organisation
   - Implementing an index HomeSafe scorecard with a 70% performance bias on lead activities, driving up performance against these areas and embedding these behaviours as the 'way we work'.
   - Empowered decision making on risk management and investment into the front-line teams to identify hazards and solutions, and deliver these locally at pace to improve the working environment.
3. Using analytics to target interventions on the key areas at the right time to drive down harm particularly in manual handling and slips, trips and falls.

While as a Group, we have delivered year-on-year improvements, we continue to recognise that HomeSafe is not a project that will be completed. It continues to be the way we work and how we deliver on our commitments to customers, communities and the environment. HomeSafe is truly embedded within the Group, and to build on this success we have evolved HomeSafe again, focusing on four key cornerstones that will drive continued improvements in Occupational Safety while increasing focus and improvements in health and wellbeing. The plan to 2030 has been developed with significant input from across the whole business and will see HomeSafe remain at the core of how we deliver for our customers, stakeholders and the environment, expanding the remit to ensure we support our people to be the best version of themselves and that everyone goes home safe every day.

OUR OPERATIONAL REVIEW

The 2024 ‘Price Review’ for water companies in England and Wales was a process led by Ofwat to determine prices for the period 2025-2030. As part of this process all companies were required to work with their customers to produce a business plan for 2025-2030 setting out what they intend to deliver for customers and the environment. Alongside our peers, we submitted our five-year business plans to Ofwat on 2 October 2023. On 19 December 2024, Ofwat published their Final Determination on company business plans. After careful consideration, we chose to accept the SES Final Determination. Given the close alignment our plans, and the material improvements made by Ofwat following the Draft Determination, we concluded that this was in the interests of all our stakeholders.

As we look back on the year, it has been one of transition for both SES Water and across the wider water sector. During our first full year operating as part of the Pennon group we have embarked on a programme of business transformation that will set us up to deliver record levels of investment over the next five years, drive positive change and deliver improved outcomes for our customers, the environment and wider society.

There has been significant focus on integrating SES Water into the wider group and aligning our purpose, vision and values to set us up for the future. It is a time of great opportunity as we pool our collective experience and knowledge, while leveraging the many benefits that come with being part of a larger organisation. We are bringing our people together to centralise expertise and maximise our skills, while our customers have already been invited to become shareholders through our Watershare+ scheme, that reinvests outperformance directly with customers.

Our focus remains on delivering for our customers, enhancing the environment and building trust. We continue to listen and act on what our customers tell us, engaging locally and being open and honest about our performance.

BUILDING WATER RESOURCES, IMPROVING WATER QUALITY

We supply high quality drinking water to more than 700,000 people in parts of Surrey, West Sussex, south London and Kent. Between 2020 and 2025 we have maintained industry leading consistently high water quality standards through the effective management and maintenance of our treatment works and distribution network, and ongoing reviews of our Drinking Water Safety Plans.

The Compliance Risk Index (CRI) is the measure used by the Drinking Water Inspectorate (DWI) to measure water quality compliance. Our CRI score of 0.00 in 2024 continues our industry leading performance for another year and sees us finishing the five-year investment period as the industry’s top performer in the Drinking Water Inspector’s Annual Report.

We know how important it is to our customers that their drinking water looks, smells and taste great and we set ourselves a challenging target to reduce the number of contacts we receive about our drinking water quality. Our performance in this area is also amongst the best in the industry, with us receiving only 0.58 contacts per 1,000 customers last year, which is significantly better than the industry average of 1.11 contacts per 10,000. That said, we did fall slightly short of our target of 0.5 contacts per 1,000 customers.

Understanding the cause of contacts is pivotal to improving our performance and these are analysed each month so action can be taken where necessary. The illegal use of hydrants with unauthorised standpipes that disturb our network accounts for around 10% of contacts from our customers and we continue to successfully pursue and prosecute companies which do this. Over the coming five years we will continue to work to achieve our target and maintain our strong performance.

Providing reliable water supplies is essential for public health and confidence and we have worked hard over the last five years to minimise interruptions and improve how we respond to them when they do occur. The roll out of smart technology and artificial intelligence (AI) across our network has enabled us to locate and fix burst mains more quickly and target our emergency response to better support customers during events.

Two significant events in Cheam and Godstone disproportionately impacted our supply interruption performance over the year. A fault at our treatment works in Cheam in December 2024, resulted in the loss of supply to more than 6,000 properties for a prolonged period. By reconfiguring our network, we were able to minimise the number of customers who were affected by no water to less than 10% of the properties supplied by the works. While support from the wider Pennon Group enabled us to maintain 24/7 tankering and incident management support for the duration of the incident.

Additionally, a road collapse above a water main in Godstone in early 2025, further impacted our overall performance causing us to fall short of our supply interruptions performance target. We are extremely disappointed that we have not delivered against our target this year, however, without these two incidents, our supply interruptions for 2024/25 would have been under a minute per property. This is in line with the best in the industry and our upper quartile performance over the previous three years of this investment period.

Despite narrowly missing our target for mains repairs this year, our performance remains consistent and well above industry average, reflecting the good condition of our network. Our proactive network optimisation activities, also known as our DMA Asset Health Programme, has extended across more than half of our network. This work, which has adopted technology not previously utilised in the UK, undertakes non-destructive, in-situ testing of our metal infrastructure to help determine its condition. This has improved how we target our asset interventions and will inform our ongoing mains replacement programme, so we prioritise the mains most likely to burst.

As the only company in England and Wales with a statutory obligation to soften our water before it is supplied to our customers, we have a bespoke performance commitment in this area. Water is partially softened at five of our eight water treatment works where water is abstracted from naturally hard groundwater sources located predominantly in chalk aquifers. These sites produce around 80% of the water we put into supply.

In 2024, we temporarily ceased softening at our Cheam treatment works for a period of four months whilst we carried out essential maintenance. Since this intervention, our performance at all sites has significantly improved with March 2025 showing our best softening performance since April 2022. Whilst we are disappointed that we have not met our softening target, we continue to focus on ensuring the appropriate level of softening reliability and have made significant capital investment in our softening capabilities over recent years.

We have been driving leakage down for many years, consistently achieving our target and performing amongst the best in the industry. Last year we once again outperformed against our target with our lowest ever annual leakage figure, seeing a further 3% decrease on 2023/24. This means that over the last five years, leakage has fallen by almost 16%, as assessed on a three-year rolling average, with our use of innovative technology and improved operational practices delivering significant benefits.

As the only company in the UK to have a fully smart distribution network, we can monitor in near real time what is happening across our network and are alerted to events as they happen. Our ground-breaking approach has enabled us to almost halve the time it takes to detect a leak, reducing the amount of water lost by up to 40% on average for major leaks and burst mains. We have also used satellite technology to assess 1,000km of mains, almost a third of our network to help detect hidden leaks. By identifying unexplained areas of chlorinated water that require further investigation.

Through the implementation of our DMA (District Metered Area) Asset Health programme, we are managing and optimising our network to reduce leakage further. We are also prolonging the life of our assets by reducing and stabilizing pressure in the network and identifying those mains that are most in need of replacement.

Summer 2024 saw our water resources in a healthy position with no need for restrictions. Our water resources recharged well at the beginning of winter and despite the UK being on course for its driest spring in over a century, are in a relatively healthy position going into Summer 2025. We do not currently forecast the need for any restrictions on water use.

As the prolonged dry weather continues the environment is beginning to show signs of stress, bringing into sharp focus the importance of our efforts to reduce the volume of water we need to abstract and underlining our role in protecting our treasured landscape.

We have reached the final phase of our 15-year resilience programme to increase the connectivity of our network. Once complete, we will be the only company in the industry able to serve all our customers from more than one water treatment works. As well as building our resilience to short-term events, this investment helps our management of water supplies during droughts, by enabling us to use our different sources more strategically.

During 2024/25, we completed the second phase of the Buckland to Headley trunk main reinforcement scheme, installing 40m of new water main to connect two strategic mains and providing full resilience to the Elmer supply area. This scheme, one of several strategic cross connections and modifications, allows up to 30Mld to be transferred from Buckland to Headley. Despite this scheme helping us deliver an additional resilience to a further 10% of our customers, we have fallen just short of our target, with 91% of customers now benefiting from the resilience afforded by at least two sources of supply. We will reach our 100% target upon completion of work at our Purley Booster Station expected in July 2025.

We have successfully completed a pilot project using advanced smart technology, marking a significant milestone in our smart production ambitions and a pioneering approach to managing customer demand of water. The new technology, called Opie, will help us predict customer demand so our treatment works can keep pace and are operating as efficiently as possible.

Unexpected incidents at our sites can temporarily reduce the capacity of our water treatment works or require us to take them out of service for emergency maintenance. Our ongoing focus on operating, maintaining and investing in our water treatment works has seen us outperform our unplanned outage targets for four of the past five years. However, the incident at Cheam reduced the amount of water we could produce at the site while we carried out repairs, which saw us miss our target for the first time.

SUPPORTING AFFORDABILITY, DELIVERING FOR CUSTOMERS

We know that cost of living challenge continues to affect households across the country, and while nearly 40% of our diverse customer base are classed as highly affluent, there are many customers experiencing significant financial challenges in our supply area. We have maintained our proactive approach to identifying customers who could benefit from extra financial support and are pleased to have surpassed our 2025 target with over 3,000 more customers than last year receiving financial help through our water support programme. This means more than 25,000 customers now receive a 50% reduction on their water bill and many more are being helped by our other financial support schemes.

Our priority services register (PSR) provides extra support to customer who have health, access or communication needs, helping us tailor our services to support households who need extra help, particularly during operational incidents. We have performed strongly in recent years, exceeding our target every year. A further data sharing agreement with the Department for Work & Pensions has helped us to identify even more customers who may need extra help from us and has brought a notable swing from 9.3% of customers on our PSR in 2023/24 to 15.5% for 2024/25.

We remain committed to ensuring our services are accessible and responsive to those who need extra help. While we surpassed our target of 80% for vulnerable support scheme helpfulness, we recognise there's more to do, having not quite reached our target for vulnerable support scheme awareness in 2024/25.

Currently 40% of our customers are aware of the support we provide. This is behind where we want to be, but we are already working to improve. We have enhanced how we communicate through our website and on social media. Messaging has been made clearer on our bills, and we now add support information to all envelopes. A dedicated email campaign promoting our support schemes recently reached more than 100,000 customers.

Through our expanded community events programme, we reached an audience of 100,000 customers during the year, including over 100 local engagements at foodbanks, warm hubs and community centres. We worked with several local charities who provide support for customers needing extra help and set up over 40 partnerships with local authorities, housing partnerships and others to increase awareness and identify customers who might need our help.

By leveraging the support of the wider Pennon Group, we hope to make positive strides in improving awareness even further, so our customers know what help is available to them when they need it. We plan to explore the benefits of taking a more data led approach and the potential role of auto enrolment, as well as how we can elevate our performance using partnerships. We will continue to work closely with stakeholders and partners, including the Consumer Council for Water, as we develop and evolve our policies.

At the start of the PR19, the volume of connected properties without a billing account stood at 4.4%. We have now reduced that down to just 2% on average across the year meaning more customers are paying for the water they are using.

We have accelerated our Metering programme, with 77% of customers having a meter installed at their property. Water meters provide valuable information to help customers understand their water usage, and customers can now view their usage on our online customer portal, MyAccount.

We regularly refer our customers to advice and support providers, such as StepChange, Citizens Advice (CA) and the National Debtline to offer more expert support. These organisations are promoted on our website, on our dedicated website page.

Last year, we launched our new 'Payment Ladder' process which colleagues follow to ensure the right support is given at the right time to help prevent a customer from falling behind in their payments. When going into debt is unavoidable, we have a debt collection process, with a focus on understanding individual customer circumstances and putting affordable plans in place.

We remain committed to providing excellent service to all our customers and improving customer satisfaction continues to be a priority. We aim to be a company that is easy to deal with and gets things right first time and have maintained our high first call resolution level, which now stands at almost 91% of calls resolved at the first time of asking.

Whilst our current C-MeX ranking is below where we want it to be, we have made significant investments in our systems and processes, including increased capabilities across our customer teams. We are working hard to improve the customer experience by expanding our 'My Account' service and evolving our digital capabilities so customers can easily access the information or support they need through a channel of their choice, at a time that suits them.

We regularly engage with organisations, such as the Consumer Council for Water (CCW) and other partners, seeking to learn from others, and embracing independent challenge to make sure we are always doing our best for our customers. Our integration within the Pennon Group will enable us to utilise our colleagues' knowledge and put into action learnings from those with the highest satisfaction scores.

DRIVING ENVIRONMENTAL GAINS

Maintaining our local focus, we have worked actively within in our communities on shared causes and collaborated to deliver environmental improvements in the catchments we rely upon for our customers' water supplies.

Our household customers use 214 litres per person per day on average, which remains higher than many other areas of the country. While we remain behind on achieving our target for customer consumption, we have seen a steady downward trend as the impacts of our metering programme and water efficiency work begin to take hold.

Our customers who have meters typically use 132 litres per person per day, and just over 80% of customers are now metered, up from 30% in 2020. The number of metered properties is slightly short of where we anticipated being at the end of the 2024/25 as we temporarily paused our activities as we transition to a smart metering programme. This will see us install more advanced meters in the majority of homes over the next five years, enhancing how we work with our customers to help them detect wastage and use water more efficiently.

To encourage customers to use water more efficiently in Summer 2024, we launched our 'Together' creative campaign. The campaign trialled a different approach to communicating with our customers around their water use, encouraging them to 'Get water fit' and to be more aware of their water usage.

Utilising programmatic advertising and digital audio, the campaign highlighted that the average person uses about 150 litres of water daily, the equivalent of 300 plastic bottles.

Our award-winning education programme for schools, young people, businesses and community groups reached more than 5,460 people in 2024/25, a significant increase on previous years. This included welcoming more than 4,000 teachers and pupils to our Flow Zone Education Centre at Bough Beech Treatment Works. Buoyed by attendance at community events and promotional activities, our industry leading programme helps us to instil efficient water habits from an early age.

For the last 10 years, we have been proactively lowering our carbon emissions and reducing our impact on the environment, with the ultimate aim of achieving net zero operational carbon emissions. Once again, we have surpassed our bespoke performance commitment for greenhouse gas emissions, as we have done every year since it was introduced in 2020.

We are switching to electric vehicles for our fleet and company cars to save CO^2e, as well as reducing the impact on local air quality. 100% of our company cars are now electric or hybrid vehicles.

We successfully attained our third Biodiversity Benchmark award for land management from The Wildlife Trust in March 2024, achieving our commitment to have three accredited sites a year ahead of target. We are extremely proud to be the only UK water company to hold the award, underlining the ongoing importance we place on enhancing and protecting biodiversity across all of our operational sites. Through our Benchmark work across our biodiversity sites and the implementation of management protocols, we are confident we have the skills to deliver further biodiversity net gain between 2025 and 2030.

Although we are a water only company, we can be responsible for pollution incidents if clean water from a site failure or mains burst enters a water cause and causes environmental damage. We place significant importance on protecting the environment and were the only water only company to include a performance target for pollution in our business plan for 2020 to 2025.

We have an exemplary record in this area, however, an isolated mains burst in late 2024 brought an end to more than 15 years of zero Cat 1 or Cat 2 pollution incidents. We are using the key learnings from this incident to drive our environmental improvement programme and are confident that our strong performance will be restored over the next five years.

We continue to invest to improve the ecology and the quality of water in our rivers through the delivery of our Water Industry National Environment Programme (WINEP). This has included a series of environmental projects and investigations to improve raw water quality and understand the impact of our operations on local rivers and streams.

We have completed our catchment management programme, working with farmers and landowners to reduce the pollution of our water sources. We hope to use this as a springboard into further work we want to do in specific environments such as within the Eden catchment, where we have enabled a farm cluster to be set up with water management as one of its three key pillars. Delivery of the final two river-based improvement schemes has proved particularly challenging and changes in delivery deadlines have been agreed with the Environment Agency.

FUTURE DEVELOPMENTS

The Pennon Group has confirmed plans to deliver what matters most to its customers and communities with its largest ever investment programme between 2025 and 2030. The expenditure allowance for SES Water's operating expenditure totals £367 million over the five-year period to improve water quality and resilience, achieve net-zero and enhance nature and biodiversity.

SES Water is the only water company whose customers will see their bills reduce (in real terms) by 2030, as it delivers a more efficient service and realises the benefits of being part of the wider Pennon group. Those who are struggling to pay will be supported through an affordability package.

We operate in one of the driest yet most populated parts of the country and projected housing growth alongside climate change is putting increasing pressure on our water supplies. Our strategy to secure our long-term water resources is focused on continuing to drive down leakage, targeting a further 12.7% reduction over the next five years. We will also renew our approach to working with customers to help them reduce consumption, rolling out smart meters that will transform the service we can provide, enabling businesses and households to use water efficiently while also detecting more leaks and wastage. This is an area where we are benefiting from Pennon's position in the market so we can deliver this critical programme more efficiently for customers.

Our use of smart technology and artificial intelligence will continue to extend across our operations allowing us to monitor, control and intervene from source to tap to optimise our performance. Using this technology enables us to react more rapidly to issues; while also helping us to predict what might occur so we can take a more proactive approach and avert service disruption. We are using this to better understand the condition of our pipes so we can repair and replace those most likely to leak and burst.

Our already embedded approach to innovation, combined with the opportunities that integration within Pennon brings, means we are well placed to deliver our next ambitious business plan. We will be embedding the green first approach to investment championed by our colleagues at South West Water, identifying opportunities to use catchment management and partnership working to deliver improved water quality in our aquifers, rivers and streams and enhance the management of our water resources in catchments including the Eden and the Mole. We will continue to increase biodiversity on our own sites and other areas where we work, building on our biodiversity benchmark accreditations to deliver measurable biodiversity gains over the long-term.

The Government has also rightly recognised the vital role that the water industry needs to play in boosting growth. We look forward to working with colleagues and stakeholders across the region to develop a more integrated plan to secure the water needed for customers, industry and the environment in the future and creating more value for people and places.

We operate in an area of water stress and 2024 saw us publish our final Water Resources Management Plan (WRMP) for 2025 to 2075, which sets out how we will provide secure, reliable water supplies for our customers into the future. We have worked collaboratively with our neighbouring water companies as part of Water Resources South East, to develop a regional plan that has identified a range of new water supply schemes that will provide additional water and increase the connections between the South East water companies so we can better share our resources as the population grows and the climate changes. Our WRMP has been derived from the regional plan and prioritises making more efficient use of the water available by reducing leakage from both our network and customer-owned pipes, as well as helping customers to use water more efficiently.

OUR INTEGRATED APPROACH TO ESG

As we are incorporated into Pennon's ESG structure, it is no surprise the key findings from the double materiality assessment carried out this year highlights water use, climate adaptation and servicing our communities remain priority areas. In addition, there is focus on regulation and compliance, pollution, health and safety, and biodiversity, reflecting the Group's responsibilities and risks operating in the sector.

More broadly, our purpose and aims fully align with the Group; and our business planning activities over recent years will see us contributing valuably to our collective future. As we look ahead to the next business plan period (2025-2030), we reflect on our progress over the last five years and the outcomes of Ofwat's final determination which sets out our deliverables to customers and the environment going forward.

ESG CAPITALS

Creating value through our ESG approach. Everything we do is connected to our six capitals, which serves as a foundation for informed decision-making and long-term value creation. Our integrated approach to the capitals framework drives sustainable outcomes across all areas of our business.

Our Natural Capital – Environment	Our Social & Human Capital – Social	Our Manufactured, Intellectual & Financial Capital – Governance
• Freshwater • Land (including soils) • Species • Ecological communities • Coasts • Atmosphere • Waste	• Colleagues • Customers • Commitments	• Supply Chain • Responsible business • Stakeholders and partnerships • Finance

ESG performance and targets can be seen in the Pennon Group plc Annual Report and Accounts 2025 on pages 83 to 87.

SUSTAINABILITY - OUR PROMISE TO THE PLANET

ENVIRONMENT

Notably, the last several years have demonstrated the environment's vulnerability to continued unpredictability in weather as a result of the changing climate we face. Whilst we have been able to respond to extremely dry weather, as well as freeze thaw events, remarkably well, we have observed impacts across our business. Notably, this includes extremes in demand as a result of variable weather, stresses to some of our assets and poor water quality across several sources; as well as our awareness of the vulnerability of several environments we operate in.

Our climate adaptation plan focuses on four key areas and aligns with the key aims of our business long term delivery strategy and business plan:

Sustainable management of our water resources	Safeguarding our water quality
Enhancing the resilience of our production and supply assets	Enhancing the environment

For further details of these please refer to the SES Water Annual Performance Report and Regulatory Reporting 2025 (APR) on page 22.

PROGRESS IN THE YEAR

Lowering the carbon emissions from our operational activities and throughout our supply chain is the responsible thing to do and aligns with efforts being taken by businesses, institutions and customers across the region to tackle the climate crisis and increase our resilience to climate change.

Our regulator Ofwat set us a bespoke operational greenhouse gas emissions reduction performance commitment to achieve by 2024/25. This target, based on a performance measure of annual operational emissions per annual megalitre of water input into our distribution system, is set against a baseline performance measured in 2019/20.

It uses historical emissions factors that are fixed at the 2019 level, allowing us the opportunity to track our emissions reduction progress from our direct actions rather than being partially reliant on decarbonisation happening elsewhere and outside of our control. It is a market-based measure allowing us to include emissions reduction from our purchase of renewable electricity backed by Renewable Energy Guarantees of Origin (REGO) certificates.

Our performance over the five-year period between 2020 and 2025 has shown a steady reduction in our kgCO2e/Ml, with our annual performance in 2024/25 measured as 38 kgCO2e/ Ml. This represents a significant outperformance of our target, removing around 30% of our operational emissions per megalitre of water input into our distribution system compared with our target of 55 kgCO2e/Ml.

We remain committed to reducing our greenhouse gas emissions and contributing to our Parent Group's overall net zero ambitions. For further details on this please refer to the SES Water Annual Performance Report and Regulatory Reporting 2025 (APR) on pages 22 to 23.

NET ZERO CULTURE

We recognise that achieving our Net Zero goals will be a collaborative effort. We are working towards creating a working environment in which workers, customers, and suppliers are motivated to accelerate our transition to Net Zero emissions.

As part of the Pennon Group, we have developed a robust communication and engagement plan, supported by an effective governance structure working with internal stakeholders at all levels to ensure carbon emissions and our Net Zero commitments are adequately considered in decision making. This is further corroborated by data, and our benefits realisation work, where we quantify and monitor the greenhouse gas consequences of our Net Zero initiatives.

SUSTAINABILITY REPORTING

The Company has taken advantage of the exemption offered under the Companies Act 2006 and has not reported details of Greenhouse gas emissions during the financial year. Details of SES Water's greenhouse gas emissions can be found in the SES Water Annual Performance Report and Regulatory Reporting 2025 (APR) on pages 22 to 23.

For further details on SECR (Streamlined Energy and Carbon Reporting) can be found in our ultimate parent company's (Pennon Group Plc's) Annual Report and Accounts 2025 on pages 91 to 93.

For further details on SASB (The Sustainability Accounting Standards Board) disclosures can be found in the ESG data book on our parent company's website https://www.pennon-group.co.uk/sustainability.

KEY PERFORMANCE INDICATORS

More information can be found in Pennon Group Annual Report and Accounts 2025 pages 56 to 60.

NON-FINANCIAL METRICS

BUILDING WATER RESOURCES, IMPROVING WATER QUALITY

WATER QUALITY (CRI SCORE)

The Compliance Risk Index (CRI) is the Drinking Water Inspectorate's measure of water quality. Our CRI score of 0.00 in 2024 continues our industry leading performance for another year and sees us finishing the five-year investment period as the industry's top performer in the Drinking Water Inspector's Annual Report.

TASTE, SMELL AND COLOUR (CONTACT PER 1,000 POPULATION)

We recognise that customers expect their drinking water to look and taste great and this is important in maintaining customers' trust in the quality of our supplies.

Our performance in this area is also amongst the best in the industry, with us receiving only 0.58 contacts per 1,000 customers last year, which is significantly better than the industry average of 1.11 contacts per 10,000. That said, we did fall slightly short of our target of 0.5 contacts per 1,000 customers. Whilst it is disappointing that we did not meet the target set, we expect our contact rate performance to continue to be amongst the industry upper quartile.

SUPPLY INTERRUPTIONS (DURATION PER PROPERTY PER YEAR)

Performance is often impacted by colder weather and third-party damage. Although we have a track record of achieving target in respect of this metric, a sink hole in Godstone and a water quality event at Cheam, impacted a number of customers in 2024/25. Interruptions increased to more than 26 minutes lost per household across the year, compared to under 4 minutes in the prior year, missing our supply interruptions performance target by some margin. Without these unusual events, SES Water's performance would have been less than one minute. While essential repairs were completed and water was restored, alternative water supply provisions were offered, including bottled water stations and utilisation of our priority services register, to ensure vulnerable people received bottled water to their homes.

LEAKAGE (3-YEAR AVERAGE – MEGALITRES PER DAY)

Reducing leaks is a critical component of ensuring a sustainable water supply. Most companies saw an increase in annual leakage in 2022/23, reporting higher levels of bursts resulting from a hot, dry summer and the winter freeze-thaw. We saw our leakage reduce by 3%, meeting our 2024/25 target.

UNPLANNED OUTAGES (%) & MAINS REPAIRS (NUMBER OF REPAIRS PER 1,000KM)

Asset Health is essential for ensuring a robust supply of water to our customers. Unplanned Outages have increased this year to 4.01% from 0.81% in the previous year, which is outside of our targeted levels. The major contributory factors to this year's reported value of unplanned outage are an unplanned outage at Cheam Water Treatment Works following a valve failure causing a reduction to peak week production capacity, two unplanned outages at Godstone Water Treatment Works following raw water mains bursts and two unplanned outages at Elmer Water Treatment Works following Rapid Gravity Filter feed pump failures. Without the above incidents, SES Water would have achieved its unplanned outage target for the year. We saw our mains repairs drop to 61.9 from 63.8 in the prior year, narrowly missed the regulatory target of 59.0. Ofwat. Most of the main repairs were associated with bursts that we had proactively detected, rather than reactive repairs for mains failures that had been reported by customers.

SUPPORTING AFFORDABILITY, DELIVERING FOR CUSTOMERS

CUSTOMER MEASURE OF EXPERIENCE (C-MEX)

C-MeX is Ofwat's measure of customer experience, both for those customers who directly contact us, as well those surveyed around their perception of our brands. Our C-MeX ranking was 14th for the year. We see opportunity for improvement for SES Water by sharing learnings and best practise from Bristol Water, whose performance has been consistently strong throughout the period.

DEVELOPER MEASURE OF EXPERIENCE (D-MEX)

D-MeX is Ofwat's measure of service experience for developers which directly compares us with our peers. Across the 2020-25 period, SES Water has seen improving trends in performance in this metric, coming in 12th for the year, compared to 17th last year.

FINANCIAL METRICS

RORE (cumulative K7 measure)

Return on regulated equity (RORE) expresses the return the water businesses have managed to earn above and beyond expectations set by the regulator through financial and operational performance. RORE for SES Water is 2.9% for the year (2023/24: 3.1%). Commentary on performance is set out in the Financial review on pages 29 to 31.

RCV

Regulatory Capital Value (RCV) has been developed for regulatory purposes and is primarily used in setting price limits. RCV is widely used by the investment community as a proxy for the market value of the regulated business and forms part of covenant debt limits. RCV for SES Water is £365 million for the year. Commentary on performance is set out in the Financial review on pages 29 to 31.

REGULATED GEARING

The regulated gearing is calculated as year end net debt as a proportion of RCV (based on RCV including the adjustment for the IFRS16 leases). SES Water saw regulated Gearing of 59.3% at 31 March 2025 (31 March 2024: 78.7%). Commentary on performance is set out in the Financial review on pages 29 to 31.

(LOSS)/PROFIT BEFORE TAX (£M)

(Loss)/profit before tax is a key measure of the Company's financial performance after deducting all operating and finance costs. SES Water had a loss before tax of £6.4 million for the year (2023/24: loss of £25.4 million). Commentary on performance is set out in the Financial review on pages 29 to 31.

FINANCIAL REVIEW

This year marks the end of the “K7” regulatory period spanning from 2020 to 2025. During this year we have worked with Ofwat to agree our ambitious plan for the next regulatory period (“K8”) and in December 2024 we alongside the rest of the Pennon group accepted our Final Determination (“FD”) that determines our performance targets and consequently the costs we incur to deliver this performance over that five-year period from 2025 to 2030. The water industry continues to be prominent in the media spotlight, we recognise the need to continue to deliver for our customers and the environment as we embark on our ambitious plans for K8.

The financial year ended 31 March 2025 has been another busy and challenging year for both SES and the water industry, with continued levels of high inflation, upward cost pressures particularly on electricity and the ongoing impacts of rising cost of living.

In July 2024, the Competition and Markets Authority (“CMA”) gave clearance on the acquisition of SES water and the wider East Surrey Holdings Group to Pennon Group plc. This first year of operating has seen the start of our integration with the wider group, understanding best practices and learnings, and bringing synergies across the Companies. Our focus for the last financial year of K7 has been to ensure that we are in a strong financial position as we enter into K8.

STATUTORY FINANCIAL PERFORMANCE

Our financial performance for the year ended 31 March 2025 has been in line with expectations. Operating profit has increased to £12.4 million (2024: £4.3 million) due to tariff related increases in revenue offset partially by an increase in operating costs.

REVENUE

Our revenue is mainly generated by billing our household and non-household customers for the essential water service that we provide. The prices that we charge our customers are determined by working with our regulator, Ofwat, on a five-year price review process, based upon the costs we expect to incur to operate the business in that period. 2024/25 being the final year of the five-year period.

Total revenue has increased by 13.6% to £82.7 million (2024: £72.8 million) mainly driven by a 21.4% increase in household measured revenue to £43.1 million (2024: £35.5 million). Unmeasured revenue increased marginally, driven by tariff increases offset by customers switching from unmeasured to measured plans as part of our planned metering programme. Despite the overall increase in revenue from the prior year, our revenue remained lower than our allowed revenue from Ofwat.

OPERATING COSTS AND OTHER OPERATING INCOME

Operating costs increased marginally to £70.1 million (2024: £67.3 million) with the movement primarily driven by:

- Our total employee costs increased by 12.7%, to a total of £17.7 million (2024: £15.7 million) this was driven by pay rises for the year, combined with the impact of the Group restructure.
- Power increased by 7.3% to £8.8 million (2024: £8.2 million) due to inflationary pressures. We hedged our volume driven power costs to the end of K7, without this hedge in place our electricity costs would have been significantly higher in the year.
- Raw materials and consumables reduced by 10.4% to £4.3 million (2024: £4.8 million) due to the stabilisation of chemical prices seen across the industry.
- Depreciation and amortisation increased by 8.0% to £16.2 million (2024: £15.0) due to the continued investment in our capital investment programme.
- Legal and professional fees reduced by £1.3 million to £1.8 million (2024: £3.1 million) due to prior years costs associated with the submission of our PR24 Business Plan to Ofwat not being repeated, and the first synergies with the wider Pennon Group being achieved.
- Other operating costs increased in line with inflation and amounted to £21.3 million (2024: £20.5 million).

Bad debt is predominantly driven by customers who are unwilling or unable to pay their water bills. The Company continues to have measures in place to support those customers who are unable to pay their water bills and enhance its cash collections. The cost of living crisis has adversely impacted our customers’ ability to pay their water bills, the expected credit loss provision resulted in a year end balance of £7.5 million, relatively in line with prior year.

NET FINANCING COSTS

Net financing costs reduced by £10.9 million to £18.8 million (2024: £29.7 million). In the year RPI inflation continued to drop compared to prior years, although still significantly above historic levels. The drop in inflation resulted in a lower indexation charge on our long-term index-linked bond. Despite the lower inflation rate in the year, the value of the index-linked bond increased by £10.6 million, which will be repayable in cash instalments to the bond holders between 2027 to 2031.

TAX

Due to the loss before tax, a tax credit was reported in the year. In the prior year we continued to pay contributions to HMRC of £15.6 million in business rates, National Insurance contributions, PAYE and other taxes. Within the financial year we have not had to pay corporation tax to HMRC due to our interest costs and tax relief generated by our capital investment programme.

DIVIDENDS

The Board carefully considered the payment of a dividend in line with our dividend policy, taking into account operational performance and delivery for customers, and financial results, the board concluded that no dividend would be declared or paid in the year.

CAPITAL EXPENDITURE

During the year we invested £20.3 million (2024: £22.4 million) in our capital investment programme. Key projects include:

• £4.2 million (2024: £6.3 million) investment in the ongoing replacement of pipes in our network.

• £0.9 million (2024: £1.1 million) to improve our resilience mains (to ensure water can be efficiently moved around our supply area now, and in the future).

• £0.3 million (2024: £0.4 million) was spent on extending our network into new housing developments.

• £5.1 million (2024: £3.0 million) was invested in replacing and upgrading our treatment works, pumping stations, service reservoirs and other operational sites.

• A further £3.0 million (2024: £4.7 million) was invested in our ongoing metering programme to ensure we can accurately bill and monitor water usage and predict future demand trends.

• £1.3 million (2024: £1.6 million) was invested in IT to maintain our software, hardware and cyber security, and enhancement to improve our customer journey.

• Other expenditure on capex including facilities, laboratories and other capitalised charges totalled £5.5 million (2024: £5.3 million).

CASH AND NET DEBT

In the year to 31 March 2025, we continued to increase our liquidity and financial resilience. Our cash reserves were £74.6 million at the end of the year, of which £12.1 million sits within our restricted accounts in accordance with the requirements of our index-linked bond.

On 12 June 2024, the Company replaced its two existing RCF facilities with a new 18-month RCF facility of £65 million with NatWest. The new facility is at 1.35% above SONIA rate per annum and was originally due to expire in December 2025. This was negotiated in May 2025 for a period of 3 years with the option to extend.

As at 31 March 2025, £26.5 million were drawn down under the £65 million RCF (2024: the £40 million and £25 million previous RCFs were fully drawn down.

In addition, in the year ended March 2025 our new owners Pennon Group Plc, injected £70 million of equity into the Company to reduce gearing and increase liquidity.

The Company's total borrowings at 31 March 2025 totalled £289.8 million (2024: £320.0 million), a decrease of £30.2 million (9.4%).

SES Water's net debt portfolio predominantly reflects index-linked and fixed-rate debt, based on the legacy portfolio acquired at the date of acquisition. Subsequent to the equity injections in 2024/25, SES Water's gearing levels relative to RCV have reduced to 59.3%, with recognition from Ofwat of their improving financial resilience as a result of Pennon's ownership.

FINANCING RATIOS AND CREDIT RATING

During the year we have continued to have constructive conversations with the credit rating agencies, with our focus on financial and operational resilience during another challenging year. Under our new ownership and the strength of the balance sheet that the Pennon group bring to SES our credit rating has improved to Baa1.

In accordance with our £100 million index-linked bond agreement, we have restrictions on our level of gearing and interest cover ratios (ICR). Our gearing, as measured by the bond agreement, is the ratio of net indebtedness to regulatory capital value (RCV) which is determined by Ofwat. See note 18 for further detail.

REGULATORY CAPITAL VALUE (RCV)

SES Water's RCV of £365.3 million includes the benefit of regulatory reconciliation items in the PR24 Final Determination, inflation of 3.4% at March 2025, as well as additional accelerated investment and expenditure to drive outcomes in 2024/25.

RETURN ON REGULATED EQUITY (RORE)

We continue to outperform the regulatory cost of equity. Our RORE across the K7 period reflects a 4.2% real return to stakeholders, outperforming the equity return allowed by Ofwat of 4.19% as a result of strong financing performance across the five-year cycle, partially offset by increased investment, cost pressures including higher power costs than allowed, and ODI performance.

ODI performance for SES for 2024/25 is on track to achieve c.52% of its ODIs and has resulted in a net financial penalty of c.£2 million.

REGULATED GEARING

SES Water's regulatory Gearing dropped in 2024/25 to 59.3% in 2024/25 from 78.7% in 2023/24. The reduction results from the equity injection received from our shareholders.

OUR RISK MANAGEMENT

The Company, as part of the Pennon Group, operates within a complex and evolving risk landscape which includes changing Government policy, multiple regulatory frameworks and increasing customer and wider societal expectations.

The long-term success of the business is dependent on the effective management of risks and opportunities and remains a key focus for the Board.

The Business' risk management framework considers risk from both a strategic (top down) and tactical (bottom up) perspective. This enables a common understanding of risks and opportunities and their interdependencies, allows risks and opportunities to be cascaded and escalated effectively and provides a multi-layered approach to the review and challenge of risk.

SES WATER'S RISK MANAGEMENT FRAMEWORK

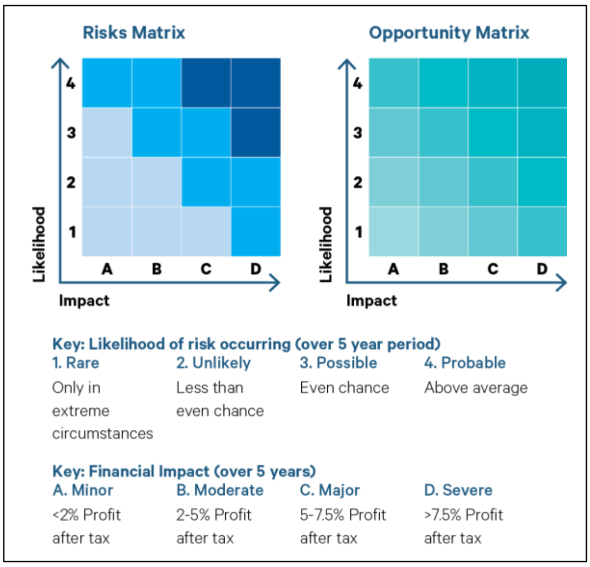
Principal and emerging risks are regularly reviewed by the Board throughout the year and are considered in the context of the business' strategic priorities and the external environment within which the business operates.

The consideration of these risks and the effectiveness of their management against the desired risk appetite is informed by and reviewed against other data points including key performance metrics, operational insights, the outcome of assurance activities and broader geopolitical and economic developments.

This is underpinned by an established risk management framework which forms part of our governance structure and is embedded into our processes, culture and ways of working ensuring that there is robust identification, review, challenge and assurance over the management of both our current and emerging risks and opportunities.

		Risk management responsibilities	**Key assurance activities**
OVERSIGHT	Board/Pennon Group Board	• Sets the Business' strategic objectives • Establishes the Business' risk appetite • Determines the Business' principal risks • Ensures an effective internal control framework	• Quarterly reviews of the Business' principal risks against the determined risk appetite • Quarterly reviews of emerging risks and horizon scanning
	Audit Committee	• Reviews the effectiveness of the Business' risk management framework and internal controls framework	• Perform regular deep dive reviews on principal risks • Ensures an appropriate level of assurance coverage over the Business' principal risks • Approves the risk-based SES Water Internal Audit Plan • Receives reports on the outcomes of key assurance activities
FIRST LINE OF DEFENCE	Operational Risk Management	• The identification, evaluation and monitoring of strategic and tactical risks • Maintaining robust internal controls to mitigate key risks • Monitoring compliance with internal control framework	• Ensure robust first line assurance across key business processes • Annual self-assessment and certification of compliance
SECOND LINE OF DEFENCE	Pennon Group Executive Committee	• Ensuring the operation of the business' risk management and internal control frameworks • Quarterly review of the business' principal risks and mitigation strategies • Review of significant bottom-up tactical risks • Provides challenge to individual functional areas over the management of their risks • Horizon scanning to identify emerging risks and opportunities	

		Risk management responsibilities	Key assurance activities
	Compliance Committee	• Performs deep-dive reviews on risk areas relating to data and substantive submissions	• Reviewing, scrutinising and approving data submissions • Escalating identified material issues and risks to the Pennon Group Executive Committee • Ensuring the completion of actions to mitigate any risks identified
THIRD LINE OF DEFENC	Pennon Group Internal Audit	• Provides independent, risk-based assurance on the effectiveness of the internal control framework • Coordination of independent assurance activities	• Quarterly reporting to Audit Committee and Pennon Group Executive on the effectiveness of internal controls and the outcomes of key assurance activities



A consistent methodology is applied when assessing the business' risks and opportunities (including climate-related risks and opportunities), which considers both the likelihood of a risk occurring and its potential impact. Risk impact is assessed across various financial and non-financial categories including financial, safety, environmental, stakeholder and customer impact, reputation, sustainability, and quality. Likelihood is defined as the probability of a risk event occurring over the next five years under four categories (probable, possible, unlikely or rare) with defined probability thresholds. Risks are assessed on both a 'gross' (without the consideration of existing control measures) and 'net' (with consideration of existing control measures) basis enabling the effectiveness of control measures to be assessed and assured. The combined impact and likelihood determines the overall risk rating which is assessed against the relevant risk appetite to determine and prioritise further action.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISK MANAGEMENT

Our purpose and values recognise the broader societal role that the business plays within the regions and communities it serves. Consequently environmental, social and governance (ESG) considerations are at the heart of the business' activities and how we operate as a responsible business. The identification, assessment and management of ESG risks and opportunities is integrated into the business' overall risk management framework and methodology. The delivery of ESG metrics and targets, and the associated risks and opportunities, are monitored thorough the ESG framework by the ESG Committee.

As a water company, the Company acknowledges the fundamental impact that climate change has on the Company's strategy and priorities and is considered to be pervasive across the business' principal risk profile. The assessment of the individual principal risks, as detailed within the table below, has included the consideration of both physical and transitional climate change influences, where relevant, and the mitigating actions being taken.

Further detail on the specific physical and transitional climate change risks and opportunities relevant to the Company, are detailed further on pages 46 to 48.

REGULATED WATER TECHNICAL (NON- FINANCIAL) DATA

In addition to the risk management framework detailed above which applies across the business, recognising the importance of the regulatory ODI framework, SES Water engage independent, third-party auditors to audit the accuracy of the technical (non-financial) data reported within the various annual performance reports and regulatory publications and submissions, including its performance commitments and environmental data. Furthermore, a third-party provider, Jacobs, has also performed additional assurance work over selected sustainability measures.

CONTINUOUS IMPROVEMENTS TO RISK MANAGEMENT AND INTERNAL CONTROL

The business is committed to continuously improving its ability to identify and respond to current and emerging risks. Examples of risk management improvements during the year include the Groups' confidential Speak Up process has been reviewed and further enhanced, and a dedicated second line function has been established focused on environmental permit assurance across the Company's water sites, providing an additional layer of assurance in this area.

OFWAT'S PRINCIPLES - BOARD LEADERSHIP, TRANSPARENCY AND GOVERNANCE

Ofwat requires that holding companies manage their risks in such a way that the regulated company is protected from risk elsewhere in the Group. Pennon Group's principal risks and uncertainties include those Group-level risks which could materially impact on SES Water.

Pennon's risk management and internal control frameworks ensure that it does not take any action that would cause SES Water to breach its licence obligations. Further, the Group's governance and management structures mean that there is full understanding and consideration of SES Water's duties and obligations under its licence, as well as an appropriate level of information sharing and disclosure to give SES Water assurance that it is not exposed as a result of activities elsewhere within the Group.

Further details of Group-wide principal risks and application of the Group's risk management framework across the Group are provided in the Pennon Group plc Annual Report and Accounts 2025 (pages 70 to 79).

HORIZON SCANNING AND NOTEABLE EMERGING RISKS

Emerging risks and opportunities are considered to be factors and events which could have a future impact on the achievement of the Company's strategic priorities but lack the required clarity or certainty in order to adequately assess their impact. Horizon scanning of emerging risks and opportunities is embedded within the risk and opportunity review process.

Emerging risks are reviewed by the Board as part of their regular assessment of the Company's risk profile. Notable emerging risks and opportunities are detailed within the table below:

Risk/opportunity	Comment	Risk category impact	Time horizon
Geopolitical Tensions	Increased escalation of conflict in the Middle East combined with the ongoing war in Ukraine could further impact the global economy, heighten energy resilience risks and disrupt key supply chains such as chemicals.	• Market and Economic Conditions	Short-Medium term
Artificial intelligence and machine learning	There is a risk that automated intelligence and learning deployed within operational processes develops faster than Government regulations and standards.	• Operating performance	Medium-term
Quality of water resources	Changes in regulatory requirements over the treatment of micro-plastics, micropollutants and 'forever chemicals' (e.g. PFAS) as a result of ongoing research may require significant changes in operational processes in the water treatment process	• Operating performance • Business systems and capital investment	Medium-term
Changes to the demographics within the areas that we serve	Increases in population, climate change and an increasingly aging population could place further demand on our resources and assets.	• Operating performance	Medium-term
Water sector reform	Reviews of the water industry commissioned by the Government, the Cunliffe Review and the Correy review, could result in significant changes to approach, regulation, and to institutional arrangements	• Law, regulation and finance	Short-Medium term

RISK APPETITE

There are inherent risks that exist within the water sector and all risk cannot be completely eliminated in the delivery of the business' activities. The Company therefore seeks to strike an appropriate balance between risk and reward which aligns not only with the Company's strategic priorities but also its purpose and values.

Recognising that it is not possible to apply a single risk appetite to all risks that the Company is exposed to, the Board has developed overarching risk appetite statements for each risk category which then informs the risk appetite statement for individual principal risks.

This allows the business to pursue value-enhancing opportunities, while maintaining an overall level of risk exposure that the Board considers to be appropriate.

The risk appetite statement for each risk category is detailed below:

Risk category	Risk appetite statement
Law, regulation and finance	The Board is committed to fully complying with, and being seen to be complying with, all relevant laws, regulations and obligations and has no appetite for non-compliance in this area. This includes, but is not limited to, environmental and health and safety laws and regulations. The business also operates a low-risk appetite in respect of our financing strategy, ensuring our long-term financing commitments are met. The Board acknowledges, however, that SES Water operates in a complex environment influenced by Government regulatory policy. Consequently, there is a greater risk appetite in these areas whilst seeking to mitigate any potential downside and leverage opportunities that may arise from Government policy and regulatory change.
Market and economic conditions	The Board recognises that our activities are exposed to changes in macroeconomic and external market conditions. The business seeks to take well-judged and informed decisions to mitigate these risks where possible but accepts that a level of residual risk may remain beyond the Board's control.
Operating performance	Whilst the Board recognises that unforeseen events do occur from time to time, the Board has no appetite for significant operational failure of our water assets and seeks to reduce both the likelihood and impact through long-term planning and careful management of our operational assets. There is greater appetite for well-informed risk taking to develop further markets, subject to this not detrimentally impacting on the level of service expected of our regulators, customers and wider stakeholders.
Business systems and capital investment	The Board has a low-risk appetite for risk associated with the delivery of capital investment within our regulated business plan. There is greater appetite for broader value accretive investments with risk weighted against the expected level of return on a case-by-case basis and subject to this not detrimentally impacting on the level of service expected of our regulators, customers and wider stakeholders. SES Water seeks to minimise technology and security risk to the lowest possible level without detrimentally impacting on the business' operations.

PRINCIPAL RISKS AND UNCERTAINTIES

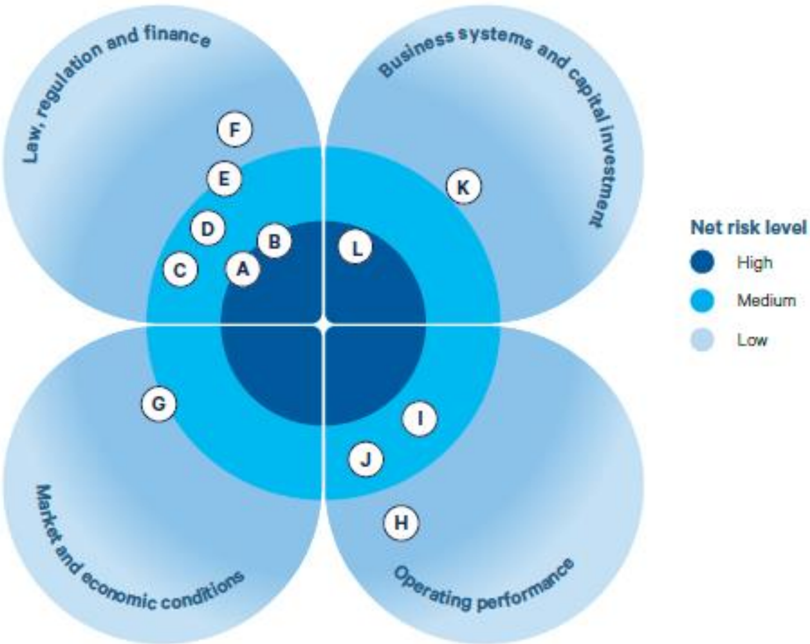
During the year there have been continued sector specific and broader geopolitical developments that have created an environment of continued heightened risk and uncertainty. Notwithstanding that from a regulatory perspective there is certainty as a result of the PR24 Final Determination, there remains continued focus on the financeability of the broader sector as well as ongoing government-commissioned reviews of the sector, the impact of global trade wars and of the continued war in Ukraine impacting operational costs and energy prices.

The Board has carried out a detailed review of the business' principal risks in the context of the Company's strategic objectives and priorities as well as the external environment within which it operates. This has included:

- Confirming that the Company's risk appetite statements remain appropriate
- Receiving and reviewing updates on the Company's principal risks, including movements in the risk exposure
- Undertaking horizon scanning of emerging risks and trends
- Performing deep dive reviews into key risk areas
- Through the Group Audit Committee, confirmed the effectiveness of the risk management and internal control framework.

These principal risks have been considered in preparing the viability statement on pages 49 to 51.

AN OVERVIEW OF THE PRINCIPAL RISK PROFILE



Principal risks	Ref	Strategic priorities - outcomes	Risk description	Net risk level	Trend
Law, regulation and finance	**A**	Water Quality and Resilience Net Zero and Environmental gains Addressing affordability and delivering for our customers	Changes in Government policy	HIGH	⟷
	B	Water Quality and Resilience Net Zero and Environmental gains Addressing affordability and delivering for our customers	Changes in regulatory frameworks and requirements	HIGH	⟷

Principal risks	Ref	Strategic priorities - outcomes	Risk description	Net risk level	Trend
	C	Water Quality and Resilience Net Zero and Environmental gains Addressing affordability and delivering for our customers	Non-compliance with laws and regulations	MEDIUM	↑
	D	Water Quality and Resilience Net Zero and Environmental gains Addressing affordability and delivering for our customers	Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments	MEDIUM	↑
	E	Water Quality and Resilience	Non-compliance or occurrence of avoidable health & safety incident	MEDIUM	↔
	F	Net Zero and Environmental gains	Failure to pay all pension obligations as they fall due and increased costs to the Company should the defined benefit pension scheme deficit increase	LOW	↔
Market and economic conditions	**G**	Net Zero and Environmental gains Addressing affordability and delivering for our customers	Macro-economic risks impacting inflation, interest rates and power prices	MEDIUM	↑
Operating performance	**H**	Water Quality and Resilience	Failure to secure, treat and supply clean drinking water	MEDIUM	↑
	I	Addressing affordability and delivering for our customers	Failure to provide excellent service or meet the needs and expectations of our customers and communities	MEDIUM	↑
	J	Water Quality and Resilience Net Zero and Environmental gains Addressing affordability and delivering for our customers	Inability to attract and retain staff with the skills required to deliver the Company's strategy	MEDIUM	↑
Business systems and capital investments	**K**	Water Quality and Resilience Net Zero and Environmental gains	Insufficient capacity and resilience of the supply chain to deliver the Company's operational and capital programmes in K8	LOW	↔
	L	Water Quality and Resilience Addressing affordability and delivering for our customers	Inadequate technological security results in a breach of the Company's assets, systems and data	HIGH	↔

For information on climate-related and nature-related risks impact see pages 46 to 48.

LAW REGULATION AND FINANCE

<table>
<tr><td colspan="3">Principal Risk A: Changes in Government policy</td></tr>
<tr><td colspan="2">2025 Net risk and direction:
HIGH, STABLE</td><td>2024 Net risk and direction:
HIGH, DECREASING</td></tr>
<tr><td>Strategic impact</td><td>Mitigation</td><td>Appetite</td></tr>
<tr><td>Changes in Government policy may fundamentally impact our ability to deliver the Company’s strategic priorities.

Water Quality and Resilience

Net Zero and Environmental gains

Addressing affordability and delivering for our customers

Climate change influence:
Transitional

Nature change influence:
Transitional</td><td>We actively engage and respond to policy consultations and the Company regularly engages with MPs, government departments and other political stakeholders, both directly and via Water UK. This includes highlighting the impact that our proposed capital investment in the next regulatory period will have on our operational performance as well as our wider contribution to society and the economy.

Additionally, horizon scanning of emerging changes in Government policy, including climate change-related policies, is regularly undertaken to monitor and assess the potential direct or indirect impact on the Company and to ensure we engage and respond accordingly.</td><td>We recognise that Government Policy evolves which presents both risks and opportunities.

We seek to minimise the potential risk and maximise opportunities through regular engagement and robust scenario planning.</td></tr>
<tr><td colspan="3">Principal Risk B: Changes in regulatory frameworks and requirements</td></tr>
<tr><td colspan="2">2025 Net risk and direction:
HIGH, STABLE</td><td>2024 Net risk and direction:
HIGH, STABLE</td></tr>
<tr><td>Strategic impact</td><td>Mitigation</td><td>Appetite</td></tr>
<tr><td>Changes to regulatory frameworks may impact on the deliverability and affordability of the Company’s priorities, which can impact value.

Water Quality and Resilience

Net Zero and Environmental gains

Addressing affordability and delivering for our customers

Climate change influence:
Transitional

Nature change influence:
Transitional</td><td>SES Water has a well-established and experienced strategy and regulatory function. Regular meetings take place with regulators, and we have comprehensive and robust response processes.

We announced our acceptance of Ofwat’s Final Determination for PR24 on in January 2025, and a robust governance framework remains in place over the K8 period.</td><td>We accept that regulatory frameworks evolve which creates both risks and opportunities.

We seek to minimise the potential risks by targeting changes which align to our long-term strategy.</td></tr>
</table>

LAW REGULATION AND FINANCE (CONTINUED)

<table>
<tr><td colspan="3">Principal Risk C: Non-compliance with laws and regulations</td></tr>
<tr><td colspan="2">2025 Net risk and direction:
MEDIUM, INCREASING</td><td>2024 Net risk and direction:
MEDIUM, INCREASING</td></tr>
<tr><td>Strategic impact</td><td>Mitigation</td><td>Appetite</td></tr>
<tr><td>SES Water is required to comply with a range of laws and regulations.

Non-compliance with one, or a number of these may result in financial penalties or a negative impact on our ability to operate effectively and reputational damage to the Company.

Water Quality and Resilience

Net Zero and Environmental gains

Addressing affordability and delivering for our customers

Climate change influence:
Transitional
Physical

Nature change influence:
Transitional
Physical</td><td>The Company operates within robust and mature regulatory frameworks, which includes second line compliance functions, ensuring compliance with permit and other requirements of Ofwat, Environment Agency and other relevant regulators. These frameworks are regularly reviewed to ensure the business remains compliant with the increasingly complex legal and regulatory landscape. The control framework continues to be enhanced with the embedding of a dedicated internal Environmental Permit Assurance Team, which conducted 213 site visits, across the Pennon Group, in the year.

The business also maintains a comprehensive internal framework, overseen by the Legal Compliance function, to ensure compliance with corporate laws applicable to public limited companies, reinforced through key policies approved by the Pennon Group Board and compliance training provided to staff. This has been enhanced this year through the creation and roll out of a new Code of Conduct and interactive eLearning module which is mandatory for all employees.

The business operates a confidential whistleblowing process. This is overseen by the Pennon Group Executive-led Ethics Management Committee. To underpin our commitment to continuous improvement, the Pennon Group have led on the creation of a Water Industry Whistleblowing Best Practice Forum consisting of 12 water and waste companies across England and Wales.</td><td>SES Water maintains the highest standards of compliance and has no appetite for legal or regulatory breaches.</td></tr>
</table>

<table>
<tr><td colspan="3">Principal Risk D: Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments.</td></tr>
<tr><td colspan="2">2025 Net risk and direction:
MEDIUM, INCREASING</td><td>2024 Net risk and direction:
MEDIUM, INCREASING</td></tr>
<tr><td>Strategic impact</td><td>Mitigation</td><td>Appetite</td></tr>
<tr><td>Failure to maintain funding requirements could lead to additional financing costs and put our growth agenda at risk. Breach of covenants could result in the requirement to repay certain debt.

Water Quality and Resilience

Net Zero and Environmental gains

Addressing affordability and delivering for our customers

Climate change influence:
Transitional
Physical

Nature change influence:
Transitional
Physical</td><td>The business, as part of the Pennon Group, has well established treasury, funding and cash flow arrangements in place, underpinned by a Treasury Management Policy endorsed by the Board.

The Company’s financing commitments and cash flow, funding and covenant compliance is regularly reviewed by the Board.

In February 2025, the Pennon Group completed a Rights Issue to secure £490m of gross equity proceeds, to support the financial resilience and balance sheet strength of the Group as it enters into a period of significant growth over the next five years.

SES Water retains £113.1 million of cash and committed facilities as at 31 March 2025.

Since the 31 March 2025 the Revolving credit facility has been renewed and some of the cash has been used to repay the facility.</td><td>We operate a prudent approach to our financing strategy, maintaining an appropriate mix of cash and pre-funding facilities, to ensure our funding requirements are fully met.</td></tr>
<tr><td colspan="3">Principal Risk E: Non-compliance or occurrence of an avoidable health & safety incident</td></tr>
<tr><td colspan="2">2025 Net risk and direction:
MEDIUM, STABLE</td><td>2024 Net risk and direction:
MEDIUM, DECREASING</td></tr>
<tr><td>Strategic impact</td><td>Mitigation</td><td>Appetite</td></tr>
<tr><td>A significant health and safety event could result in financial penalties, significant legal costs and damage to the Company’s reputation.

Water Quality and Resilience

Climate change influence:
Physical

Nature change influence:
Physical</td><td>The Pennon Group has developed HomeSafe 2030 to ensure the Group’s plans and strategy are fit for the future and deliver continued improvements throughout K8.

Established health and safety training, procedures and reporting systems are complimented by site-based investment, regular site visits by senior staff, initiatives such as Site Pride and HomeSafe Live as well a regular programme of wellbeing events.

Health and safety performance is monitored by the Pennon Group Executive and the respective Board and Pennon Group Health and Safety Committees.

Continual integration of health and safety initiatives and processes across the Group and establishing best practice, through collaboration and alignment.

Full implementation of HomeSafe across SES will take place from April 2025 onwards under the evolved strategy.</td><td>The Company has no appetite for health and safety related incidents, and we maintain the highest standards of compliance for our staff, contractors and other third parties.</td></tr>
</table>

<table>
<tr><td colspan="3">Principal Risk F: Failure to pay all pension obligations as they fall due and increased costs to the Company should the deferred pension scheme deficit increase</td></tr>
<tr><td colspan="2">2025 Net risk and direction:</td><td>2024 Net risk and direction:</td></tr>
<tr><td colspan="2">LOW, STABLE</td><td>LOW, STABLE</td></tr>
<tr><td>Strategic impact</td><td>Mitigation</td><td>Appetite</td></tr>
<tr><td>The Company could be called upon to increase funding to reduce the deficit, impacting our cost base.

Net Zero and Environmental gains

Climate change influence: n/a

Nature change influence: n/a</td><td>The business has in-house pensions expertise supplemented by external specialists, including professional advisors who manage the scheme’s investment strategy.

The balance sheet of the defined benefit scheme is expected to remain relatively stable going forward, due to the buy-in policy that was purchased with JUST to insure Section benefits in full on 31 March 2023.</td><td>The Company will ensure that all obligations are met in full but seeks to manage this without unnecessary increased costs to the Company.</td></tr>
</table>

MARKET AND ECONOMIC CONDITIONS

<table>
<tr><td colspan="3">Principal Risk G: Macroeconomic near-term risks impacting on inflation, interest rates and power prices</td></tr>
<tr><td colspan="2">2025 Net risk and direction:</td><td>2024 Net risk and direction:</td></tr>
<tr><td colspan="2">HIGH, INCREASING</td><td>MEDIUM, DECREASING</td></tr>
<tr><td>Strategic impact</td><td>Mitigation</td><td>Appetite</td></tr>
<tr><td>Significant changes in inflation, interest rates and power prices could increase the Company’s near-term cost base.

Net Zero and Environmental gains

Addressing affordability and delivering for our customers

Climate change influence: Transitional

Nature change influence: Transitional</td><td>The macroeconomic position remains volatile, with rising gilt yields, continued high inflation and ongoing global conflicts.

The company maintains a manageable debt maturity profile, and following the Pennon Group equity injections, remains in a good position. The debt portfolio continues to be monitored to ensure the best outcome for the company.

The business’ in-house procurement function drives value within strategic contracts and consumables through competitive sourcing and tendering processes.

Long-term protection from an increasing inflationary environment is provided through regulatory mechanisms with inflation-linked revenues and RCV growth, along with regulatory true-ups.</td><td>The Company seeks to de-risk volatility by having set proportions of inflation linked debt, fixed interest, and power prices. These are implemented over time to avoid concentrated exposure to one particular cycle of the macroeconomic environment.

The macro-economic environment sets the financial background for performance and five-yearly regulatory reviews provide a natural long-term mitigation.</td></tr>
</table>

OPERATING PERFORMANCE

<table>
<tr><td colspan="3">Principal Risk H: Failure to secure, treat and supply clean drinking water</td></tr>
<tr><td colspan="2">2025 Net risk and direction:</td><td>2024 Net risk and direction:</td></tr>
<tr><td colspan="2">MEDIUM, INCREASING</td><td>LOW, STABLE</td></tr>
<tr><td>Strategic impact</td><td>Mitigation</td><td>Appetite</td></tr>
<tr><td>An inability to secure, produce or supply clean drinking water could result in financial penalties, regulatory enforcement and damage to the Company’s reputation.

Water Quality and Resilience

Climate change influence:
Transitional
Physical

Nature change influence:
Transitional
Physical</td><td>The business continues to diversify its water resource capacity and the resilience of its network and assets, informed by key plans including the Water Resources Management Plan and drought plans. As a result of this investment, with the scenarios we have modelled, we do not anticipate restrictions to supply across our regions this summer.

Asset health is managed through a well-established programme of routine planned and preventative maintenance works with asset and network performance managed by the 24/7 Control Centre.

Where such events do occur, these are managed through established incident management procedures and utilises the business’ supply chain partners.</td><td>The Company operates a low tolerance for significant operational failure of its water treatment assets or quality of water produced and seeks to mitigate these risks where possible.</td></tr>
<tr><td colspan="3">Principal Risk I: Failure to provide excellent service or meet the needs and expectations of our customers and communities</td></tr>
<tr><td colspan="2">2025 Net risk and direction:</td><td>2024 Net risk and direction:</td></tr>
<tr><td colspan="2">MEDIUM, INCREASING</td><td>MEDIUM, STABLE</td></tr>
<tr><td>Strategic impact</td><td>Mitigation</td><td>Appetite</td></tr>
<tr><td>Failure to meet the needs of both customers and wider stakeholders may result in reputational damage to the Company and lower performance resulting in financial penalties impacting on stakeholder value.

Addressing affordability and delivering for our customers

Climate change influence:
Transitional
Physical

Nature change influence:
Transitional
Physical</td><td>The business continues to enhance and invest in its customer services teams, expanding the channels by which it can interact with and support household customers.

The business offers a range of schemes and tariffs to support customers with affordability challenges.

The Company undertakes a range of initiatives to engage with the wider communities it serves including community road-show events, Neighbourhood Fund and funding to support water retention and leakage reduction.</td><td>The Company continually seeks to engage with and improve satisfaction levels amongst customers and wider stakeholders.</td></tr>
</table>

<table>
<tr><th colspan="3">Principal Risk J: Inability to attract and retain staff with the skills to deliver the Company's strategy</th></tr>
<tr><td colspan="2">2025 Net risk and direction:</td><td>2024 Net risk and direction:</td></tr>
<tr><td colspan="2">MEDIUM, INCREASING</td><td>MEDIUM, STABLE</td></tr>
<tr><td>Strategic impact</td><td>Mitigation</td><td>Appetite</td></tr>
<tr><td>Failure to maintain a workforce of skilled and motivated individuals will detrimentally impact all of our strategic priorities. We need the right people in the right places to innovate, share best practice, deliver synergies and move the Company forward.

Water Quality and Resilience

Net Zero and Environmental gains

Addressing affordability and delivering for our customers

Climate change influence: Transitional

Nature change influence: Transitional</td><td>The demands for high quality skills and expertise across the business remains high, mirroring the national and regional skills demands for our industry.

The introduction of the Water (Special Measures) Act, could impact the attraction and retention in comparison to other sectors.

The business' People strategy, aligned to the Group Values, enables us to attract, retain and develop our employees as well as recognising the significant contribution that our people make on delivering for our customers and communities every day. The key areas of focus during the year have been on reallocating resources to align with customer and business priorities.

We regularly engage with our employees, both individually and in groups, across multiple communication methods, to really understand their issues and concerns, and obtain feedback. We undertake employee pulse surveys throughout the year, conduct Big Chats for all employees to hear from the Pennon Group Executive, have an Employee Engagement Forum attended by functional representatives, provide employee newsletters sharing topical updates and have an employee collaboration platform via Viva Engage. These are all in addition to the countless team meetings, breakfast meetings and toolbox talks which take place every day across the business, to share updates and gather employee feedback.

We have continued to develop a diverse and inclusive talent pipeline and have doubled our long-term commitments with enhanced recruitment targets for graduates and apprentices through to 2030, and continued prioritisation of our diversity and inclusion agenda.

The business continues to invest in leadership development with two leadership programmes rolled out across the business helping current and prospective senior leaders develop key skills and mindsets.</td><td>We ensure the appropriate skills, knowledge and experience are in place, which, combined with our Reward Strategy and robust succession plans, provide adequate resilience to keep employee turnover at a minimum.</td></tr>
</table>

BUSINESS SYSTEMS AND CAPTIAL INVESTMENT

<table>
<tr><td colspan="4">Principal Risk K: Insufficient capacity and resilience of the supply chain to deliver the Company's operational and capital programmes in K8</td></tr>
<tr><td colspan="2">2025 Net risk and direction:</td><td colspan="2">2024 Net risk and direction:</td></tr>
<tr><td colspan="2">LOW, STABLE</td><td colspan="2">LOW, STABLE</td></tr>
<tr><td>Strategic impact</td><td colspan="2">Mitigation</td><td>Appetite</td></tr>
<tr><td>The inability of our supply chain to support in the delivery of our operational and capital programmes may result in increased costs and delays, detrimentally impacting our ability to achieve our change and growth agenda.

Water Quality and Resilience

Net Zero and Environmental gains
Climate change influence:
Transitional
Physical

Nature change influence:
Transitional
Physical</td><td colspan="2">The integrated delivery model for K8 will enable greater flexibility and broadens the number of supply chain partners providing enhanced resilience for the business. The framework procurement for professional services and Tier 1 contractors has been completed and is well progressed for Tier 2.

The business also regularly monitors the financial health of key partners and we work in partnership with our supply chain to identify and manage potential issues and challenges. Where action is required, there are established plans and alternative arrangements which provide mitigation and early intervention.</td><td>The Board has a low appetite for risk associated with the delivery of key operational and capital programmes within our regulated business plan.</td></tr>
<tr><td colspan="4">Principal Risk L: Inadequate technological security results in a breach of the Company's assets, systems and data</td></tr>
<tr><td colspan="2">2025 Net risk and direction:</td><td colspan="2">2024 Net risk and direction:</td></tr>
<tr><td colspan="2">HIGH, STABLE</td><td colspan="2">HIGH, INCREASING</td></tr>
<tr><td>Strategic impact</td><td colspan="2">Mitigation</td><td>Appetite</td></tr>
<tr><td>Failure of our technology security, due to inadequate internal processes or external cyber threats, could result in the business being unable to operate effectively and the corruption or loss of data. This could have a detrimental impact on our customers and result in financial penalties and reputational damage.

Water Quality and Resilience

Net Zero and Environmental gains

Addressing affordability and delivering for our customers

Climate change influence: n/a

Nature change influence: n/a</td><td colspan="2">External threats are increasing in complexity and sophistication with the National Cyber Security Centre (NCSC) highlighting the heightened risk to critical national infrastructure and an increased focus on the water sector.

The business maintains a dedicated Information Security team with a strong preventive and detective information security framework, aligned to guidance issued by the NCSC, supported by regular training, and communications to raise awareness amongst staff.

Enhanced technical controls introduced during the year across the business' corporate and operational technology sector are informed by best practice and learnings from across sectors. Furthermore, the regulated water business continues to progress actions as part of the roadmap to meet the requirements of the Network and Information Systems Directive (NIS), with activities aligned to the priorities identified by the Drinking Water Inspectorate.

The business also maintains established disaster recovery plans which are subject to regular review and testing.</td><td>The business seeks to minimise technology and security risk to the lowest possible level without detrimentally impacting on the business' operations.</td></tr>
</table>

RISK MANAGEMENT – CLIMATE CHANGE RISKS AND OPPORTUNITIES SUMMARY

We depend on the natural environment to deliver essential services to customers and communities. We therefore need to address the challenges posed by climate change, the nature emergency, and the transition to Net Zero.

We operate in a changing environment where the impacts of climate change and biodiversity loss are increasingly evident. To remain resilient, we monitor environmental risks, assess their implications, and embed these insights into our strategic planning and investment decisions.

Climate change is inherent across our principal risks. Stakeholder interest across the water sector continues to focus on the various aspects of climate change on water companies' operations, such as flooding risk and the use of energy to operate our treatment works and transport water around our network.

This focus is reflected in our regulator and customer views, as noted in our recent PR24 Business Plan.

We have considered climate risk and opportunities as detailed in the table below.

Risk/ opportunity	Causes of financial risk/opportunity	Type	Type of financial impact	Time horizon	Likeli-hood (scale 1-5)	Magnitude of impact (scale 1-5)	Potential financial impact
Increasing frequency and intensity of droughts – risks to water supply and impacts on the overall water cycle.	High/peak demand due to heatwaves	Physical	Increased operating costs	Short term	**3**	**3**	Low
	Drought impacting water supply	Market	Increased operating costs	Medium term	**2**	**4**	Low
	Climate-induced land use change leading to high/peak demand	Market	Increased operating costs	Long term	**3**	**2**	Low
	High temperature and low precipitation leading to reduced abstraction allowance	Market	Increased operating costs	Long term	**2**	**3**	Low
	Wildfires and urban fires increasing water demand	Market	Increased operating costs	Medium term	**3**	**2**	Low
Gradual and significant increasing average and high temperatures – risks to raw water quality and water treatment	High precipitation increasing run off and pollution	Physical	Increased operating costs and potential fines	Short term	**4**	**3**	Medium
	Declining natural capital due to high temperatures and low precipitation	Physical	Increased operating costs	Long term	**3**	**3**	Low
	Algal blooms due to high temperatures	Physical	Increased operating costs and capital costs	Medium term	**4**	**2**	Low
	Increased invasive and non-native species driven by high temperatures	Physical	Increased operating costs	Medium term	**3**	**2**	Low
	Changing climate driving land-use change increasing pollution	Physical	Increased operating costs and capital costs and potential	Long term	**3**	**2**	Medium

Risk/ opportunity	Causes of financial risk/opportunity	Type	Type of financial impact	Time horizon	Likeli-hood (scale 1-5)	Magnitude of impact (scale 1-5)	Potential financial impact
			fines				
	Changing climate increasing wildfires driving increased diffuse pollution	Physical	Increased operating costs and capital costs and potential fines	Long term	**3**	**2**	Low
Increasing frequency of extreme weather events, heatwaves and storms – Acute risks to assets and services	High precipitation causing river, surface water and/or groundwater flooding of assets	Physical	Increased operating costs and capital costs	Short term	**3**	**3**	High
	High precipitation causing river bank erosion impacting assets	Physical	Increased operating costs and capital costs	Long term	**3**	**3**	Low
	Subsidence causing damage to assets	Physical	Increased capital costs		**4**	**3**	High
	High temperature and low precipitation leading to failure of earth impounding reservoir	Physical	Increased operating costs and capital costs and potential fines		**1**	**4**	Medium
	Extreme weather causing failures in production network	Physical	Increased operating costs and capital costs	Short term	**3**	**2**	Medium
	Extreme weather causing failures in distribution network	Physical	Increased operating costs and capital costs and potential fines	Short term	**3**	**3**	Medium
	High temperatures causing assets to fail in production and distribution networks	Physical	Increased operating costs and capital costs and potential fines		**3**	**2**	Low
	Wildfires causing damage to assets	Physical	Increased operating costs and capital costs	Short term	**3**	**2**	Low
Enhancing resilience across the water operations, asset base, and supply chain to avoid costs and enhance value	Replacement of current assets with lower emissions or environmentally sustainable options	Physical	Lower operating costs and elimination of high capital costs	Medium term	**3**	**3**	High
Risk of challenges balancing trade-offs in regulation in the Water sector between	Prioritising different regulatory goals can result in undesired climate impacts. Rapid	Policy, Regulation and legal risk	Additional cost to meet regulation	Short to medium term	**3**	**4**	low

Risk/ opportunity	Causes of financial risk/opportunity	Type	Type of financial impact	Time horizon	Likeli-hood (scale 1-5)	Magnitude of impact (scale 1-5)	Potential financial impact
agendas of Net Zero, climate resilience, environmental enhancement, and other objectives, posing the risk of increasing costs and carbon	changes in policies and regulations can misalign holistic actions with stringent agendas,						
Reducing carbon and enhancing energy resilience and revenue by using and generating renewable energy	Sourcing of more energy-efficient solutions for managing treatment works	Physical	Lower operating costs and elimination of high capital costs	Medium term	**3**	**3**	Low
	Climate-induced disruptions to energy and telecoms	Market	Increased operating costs	Long term	**4**	**2**	Low
	Disruption to supply of critical materials and equipment	Market	Increased operating costs	Short term	**3**	**3**	Low

VIABILITY STATEMENT

The Directors of SES Water are responsible for ensuring the long-term viability of the company. The Directors need to ensure the resilience of the Company by identifying, managing, avoiding or mitigating risks which may impact viability.

The Board's consideration of longer-term viability of the company is an extension of the strategic business planning which is managed through regular long-term modelling and monitoring of key measures including gearing, debt covenant headroom and level of liquidity. The resilience of the business and these key viability measures are appropriately assessed by a number of mechanisms including a robust risk management assessment, sensitivity analysis and stress tests of financial performance.

The overall market context is a cornerstone of the viability assessment. South West Water is a long-term business characterised by multi-year investment programmes, with associated revenue streams with high levels of future visibility.

The viability assessment has been made with reference to the Company's current position and prospects, including consideration of the ongoing impacts of the Ukraine crisis, climate change, its longer-term strategy, the Board's risk appetite and the Company's principal risks and how these are managed, as detailed on pages 32 to 45.

PERIOD OF ASSESSMENT

The Board regularly considers the appropriate period for the viability assessment to be performed in line with the UK Corporate Governance Code. The Board considers the appropriate period to assess the Company's viability should be increased to seven years, previously until the end of 2030, which recognises the longer-term visibility in the regulatory environment of the SES Water business to the end of the next price setting period in 2030 and beyond. This period gives visibility beyond the current regulatory AMP, testing the long-term viability of the business.

RISKS

The Board considers the preventative and risk management actions in place and the potential impact of the principal risks (as detailed on pages 32 to 45) against our ability to deliver the business plan. This assessment has considered the potential impact of these and other risks arising on the business model, future performance, solvency and liquidity over the period in question. The Company has a strong liquidity and funding position with £113.1 million of cash and committed facilities as at 31 March 2025.

The Company has a mixture of fixed, floating and index-linked debt financing. In making their assessment, the Directors reviewed the principal risks and considered which risks might threaten the Company's viability. Over the course of the year the Board, either directly or through the activities of the Audit Committee, has considered a deep-dive review of the following principal risks to enable a thorough assessment of the impact of these risks on ongoing viability:

- Incident management
- Cyber security

STRESS TESTING

The Company's business plan has been stress-tested. Whilst the Company's risk management processes seek to mitigate the impact of principal risks as set out on pages 32 to 45, individual sensitivities (shown in the table below) have been identified. These sensitivities, which are individually ascribed a value with reference to risk weighting, factoring in the likelihood of occurrence and financial impact, were applied collectively to the baseline financial forecast which uses the Company's annual budget for 2025/26 and longer-term strategic business plan through to March 2032, based on the Final Determination for the first five years.

The impacts of climate risks have been considered on pages 46 to 48.

The stress-testing scenarios applied during the viability assessment period do not include specific reference to climate change-related risks alone as climate change has been considered as part of the principal risks identified.

Principal risk	Viability sensitivities tested	Modelled profit impact
A: Changes in government policy	Changes in Government policy affecting the water industry, such as additional environmental legislation may impact operational performance or investment requirements. The estimated average adverse impact on the Company's cash flows from a range of potential policy changes has been applied as a sensitivity.	£2.0m
B: Changes in regulatory frameworks and requirements	Whilst we have seen greater stability in the regulatory framework post PR24 Price Review, there are still significant changes expected in the water sector over the next few years.	£2.0m
C: Non-compliance with laws and regulations	The estimated impact of financial penalties and reputational damage from failure to comply with laws and regulations has been modelled as a sensitivity.	£2.0m
D: Inability to secure sufficient finance and funding, within our debt covenants, to meet ongoing commitments	The impact of reduced availability of financing resulting in increased costs has been modelled as a sensitivity.	£1.4m
E: Non-compliance or occurrence of an avoidable health and safety event	The financial impact and cash outflows related to a major health and safety event has been applied as a sensitivity.	£2.0m
F: Failure to pay all pension obligations as they fall due and increased costs for the Company should the defined benefit pension scheme deficit increase	The financial impact on the Company's gearing from additional funding being required to support the Company's defined benefit pension scheme has been applied as an adverse scenario.	£1.4m
G: Macroeconomic near-term risks impacting on inflation, interest rates and power prices	The adverse impacts of higher operating and finance costs from increasing power prices and general inflation increases over and above increases assumed in base financial plans, including the impact on Totex underperformance on regulatory returns and impact on debt financing costs have been applied as a sensitivity, as well as a reduction in the collection of customer debt from adverse economic conditions.	£5.7m
H: Failure secure, treat and supply clean drinking water	The adverse impact from non-delivery of regulatory performance targets which result in ODI penalties, other financial penalties and required additional investment reducing Company revenues and cash inflows have been applied as a sensitivity to the base plan.	£3.4m
I: Failure to provide excellent service to meet the needs and expectations of our customers and communities		
J: Difficulty in recruiting and retaining staff with the skills required to deliver the Group's strategy	Whilst the business has robust processes to retain and develop staff, viability testing considers the impact of increasing costs including staff-related costs.	£2.0m
K: Insufficient capacity and resilience of the supply chain to deliver the Company's operational and capital programmes in K8	Supply chain capacity shortages will impact on the costs required to deliver on the programme, which, whilst specific cost protections exist in the regulatory framework against construction costs, have been considered as part of the sensitivity testing.	£0.8m
L: Inadequate technological security results in a breach of the Company's assets, systems and data	The adverse financial impacts of a cyber-attack resulting in operational disruption, potential loss of data, potential detrimental impacts on customers with potential for financial penalties have been included in the sensitivity analysis.	£2.0m

A combined stress testing scenario has been performed to assess the overall impact of these individual scenarios impacting the Company. The combined weighted impact of the risks occurring is c.£15.9 million, this value is considered equivalent to an extreme one-off event that could occur within the going concern period to 31 October 2026, the probability of such an event happening is deemed unlikely.

STRESS TESTING EVALUATION AND MITIGATIONS

Through this testing, it has been determined that none of the individual principal risks would in isolation, or in aggregate, compromise the Company's viability over the seven-year period. The assessment has been considered by reviewing the impact on the solvency position as well as debt and interest covenants, the modelled impact on each of the individual risks and combined stress tested scenario did not breach the headroom or covenant calculations over the viability period. The financial impacts of the risks were probability weighted to obtain a value that was used in the stress testing. While mitigations were not required in any of the above individual or combined scenarios to ensure that the company was viable, additional mitigations could be deployed to reduce gearing and increase covenant headroom. These include:

- Reduction in discretionary operational expenditure
- Deferral of capital expenditure and / or cancellation of essential capital expenditure
- Reduction in the amount of dividend payable

The Company has confidence in its ability to raise additional funding if required should it be required to ensure the Company maintains solvency.

In addition, a reverse engineered scenario that could possibly compromise the Company's viability over the seven-year assessment period has been modelled. This scenario builds on the factors above and additionally assumes all the Company's principal risks occurring in any given year across the viability period, with no probability weightings attached. The Board considered the likelihood of this scenario on the Company's viability over the seven-year viability period, as remote, concluding the Company could remain viable. Mitigations, as noted above, could also be deployed over the period if deemed necessary.

In making its assessment of the Company's viability, the Directors have taken account of the Company's strong capital solvency position, the Company's latest assessments of forward power and other commodity prices, latest inflation forecasts, its ability to raise new finance and a key potential mitigating action of restricting any non-contractual payments. In assessing the prospects of the Company, the Directors note that, as the Company operates in a regulated industry which potentially can be subject to non-market influences, such assessment is subject to uncertainty, the level of which depends on the proximity of the time horizon. Accordingly, the future outcomes cannot be guaranteed or predicted with certainty. As set out in the Audit Committee's report on pages 79 to 86, the Directors reviewed and discussed the process undertaken by management, and also reviewed the results of the stress testing performed.

VIABILITY ASSESSMENT CONCLUSION

The Board has assessed the Company's financial viability and confirms that it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over a seven-year period, the period considered to be appropriate by the Board in connection with the UK Corporate Governance Code.

Approval of strategic report

The Strategic Report on pages 3 to 51 was approved by the Board, and signed on its behalf by:

Laura Flowerdew
Group Chief Financial Officer
10 July 2025

GOVERNANCE AND REMUNERATION

GOVERNANCE AT A GLANCE

On 10 January 2024, Pennon Group plc (‘Pennon Group’) announced that it had acquired the Company (the ‘Pennon Acquisition’), which meant a change in the shareholder representatives on the Company's Board. The Pennon Acquisition was referred to the CMA for review (the ‘CMA Pennon Review’) as required by law. During the period of the CMA Pennon Review and for a period beyond, due to the completion of the PR24 process, the Company was run as an independent company and business entirely separate from Pennon Group.

In July 2024, the Competition and Markets Authority (“CMA”) gave clearance on the acquisition of SES water and the wider East Surrey Holdings Group to Pennon Group plc. Following this announcement, the Pennon Group and the Company began discussions on the merger and integration of the Company into the Pennon Group.

Up to the date of acquisition of the Company by Pennon Group plc, representatives from our previous shareholders, Ken Kageyama and Kenii Olda, were on the Board of SES Water plc. Ken and Kenji resigned at the point of the Pennon acquisition on 10 January 2024. Following the CMA clearance of the Pennon acquisition on 14 June 2024, directors from Pennon Group plc were appointed to the Board of SES Water.

On 2 October SES Water became incorporated into the Pennon Group’s Governance framework, at which point the majority of the original Board members of SES Water stepped down and were replaced by Pennon Board members.

BOARD CHANGES

- Susan Davy was appointed to the Board as an Executive Director on 14 June 2024.
- Andrew Garard was appointed to the Board as an Executive Director on 14 June 2024.
- Gill Rider was appointed to the Board as Chair on 14 June 2024 and retired on 24 July 2024.
- David Sproul was appointed to the Board as Chair on 24 July 2024.
- Jonathan Butterworth was appointed to the Board as a Non-Executive Director on 2 October 2024.
- Iain Evans was appointed to the Board as a Non-Executive Director on 2 October 2024.
- Claire Ighodaro was appointed to the Board as a Non-Executive Director on 2 October 2024 and stepped down from the Board on 31 December 2024.
- Dorothy Burwell was appointed to the Board as a Non-Executive Director on 2 October 2024.
- Loraine Woodhouse was appointed to the Board as a Non-Executive Director on 2 October 2024.
- Rebecca Wiles stepped down from the Board on 2 October 2024.
- David Shemmans stepped down as Chair on 14 June 2024 and from the Board on 2 October 2024.
- Jonathan Woods stepped down from the Board on 2 October 2024.
- Murray Legg stepped down from the Board on 2 October 2024.
- Laura Flowerdew was appointed to the Board as an Executive Director on 19 November 2024.
- Paul Kerr stepped down from the Board on 28 February 2025.
- Andrea Blance was appointed to the Board as a Non-Executive Director on 8 April 2025.

Read more on the new Directors’ experience in their biographies on pages 57 to 60.

KEY FOCUS AREAS FOR THE BOARD IN 2024/25

- Customer affordability
- Delivery of capital projects
- PR24
- K8 Readiness
- Investment programmes
- Water quality and resilience
- Incident management

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE 2018 AND OTHER REQUIREMENTS

SES Water firmly believes that good corporate governance is essential to enable us to deliver our purpose for all of our stakeholders and remains a top priority for the Board. SES Water aims to comply with the UK Corporate Governance Code (the 'UK Code') as fully as possible, within the context of being a subsidiary of a 'listed' company, Pennon Group plc, which itself fully complies with the UK Code, except for the provisions which are outlined in the Pennon Group annual report and Accounts 2025 on page 128. The UK Code is published on the Financial Reporting Council (FRC) website, www.frc.org.uk.

The Company complied fully with the provisions and spirit of the UK Code during the year, subject to the exceptions as described below. Most of the exceptions relate to the Group structure, where certain responsibilities rest with Pennon Group plc (SES Water's ultimate parent company).

Provision 24 of the UK Code state that the Board should establish an audit committee of independent non-executive directors, with a minimum membership of three. For the period between Claire Ighodaro stepping down to the appointment of Andrea Blance, the committee composition was not in compliance with Provision 24, however for meetings during the relevant period another independent Non-Executive Director was in attendance along with the Chair, to ensure all decisions were made with the correct oversight of the company's control, governance and risk management.

Provision 25 of the UK Code state that the Audit Committee should make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor. Provision 25 also states that the Audit Committee should develop and implement policy on the engagement of the external auditor to supply non-audit services. As the auditor is appointed on a Group basis, the appointment, re-appointment and removal of SES Water's external auditor is (and has been throughout the year) a matter for the Pennon Group Audit Committee, as is the auditors' remuneration, terms of engagement and non-audit services.

Provision 26 of the UK Code states that a separate section of the annual report should describe the work of the Committee in discharging its responsibilities, in particular an assessment of the effectiveness of the external audit process. Due to the Group structure, and change in governance framework from 2 October, the overall assessment as to whether the external audit function is effective (and has been throughout the period since 2 October 2024) is the responsibility of the Pennon Group Audit Committee. Prior to 2 October 2024, any assessment was the responsibility of the, then separate, SES Water Audit Committee.

Provision 33 of the UK Code states that the Remuneration Committee should have delegated responsibility for determining the policy for Executive Director remuneration and setting remuneration for the Chair, Executive Directors and senior management. However, the remuneration of the SES Water Board at 31 March 2025, was the responsibility of the Pennon Group Remuneration Committee.

In addition, SES Water has complied with Ofwat's revised 'Board leadership, transparency and governance' principles. Further details on our compliance with these principles will be provided in our Annual Performance Report and Regulatory Reporting.

MEETING ATTENDANCE DURING THE YEAR AND BOARD SKILLS MATRIX

FOLLOWING INCORPORATION INTO PENNON GROUP’S GOVERNANCE FRAMEWORK

Position	**Chair**	**Non-Executive Directors**						**Executive Directors**			
Member	David Sproul[1]	Iain Evans[2]	Jon Butterworth[2]	Loraine Woodhouse[2]	Dorothy Burwell[2]	Claire Ighodaro[3]	Andrea Blance[4]	Susan Davy[5]	Ian Cain	Laura Flowerdew[6]	Andrew Garard[5]
Attendance	3/3	3/3	3/3	3/3	3/3	1/1	0/0	3/3	3/3	3/3	3/3
Skills											
Water sector	X	X						X	X	X	X
Regulation	X	X	X	X	X	X	X	X	X	X	X
Finance and Accounting				X		X	X	X		X	X
Strategy	X	X	X	X	X	X	X	X	X	X	X
Transformation	X	X	X	X	X	X	X	X		X	X
Health, safety and wellbeing			X					X		X	X
ESG including climate change	X	X	X	X	X	X		X	X	X	X
Enterprise Risk Management	X	X	X	X	X	X	X	X	X	X	X
Data, technology and digital			X		X	X		X		X	X
People	X		X	X	X	X		X	X	X	X
Governance	X	X	X	X	X	X	X	X	X	X	X
Remuneration	X						X	X		X	X

BEFORE INCORPORATION INTO PENNON GROUP’S GOVERNANCE FRAMEWORK

Position	**Chair**	**Non- Executive Directors**				**Executive Directors**			
Member	David Sproul[1]	David Shemmans[7]	Jonathan Woods[7]	Murray Legg[7]	Rebecca Wiles[7]	Susan Davy[5]	Andrew Garard[5]	Ian Cain	Paul Kerr[8]
Attendance	2/2	4/4	4/4	4/4	4/4	2/2	2/2	4/4	4/4

1. Appointed 24 July 2024
2. Appointed 2 October 2024
3. Appointed 2 October 2024 and stepped down 31 December 2024
4. Appointed 8 April 2025
5. Appointed 14 June 2024
6. Appointed 19 November 2024
7. Stepped down 2 October 2024
8. Stepped down 28 February 2025

CHAIR'S INTRODUCTION

The Board reaffirms its commitment to maintaining effective corporate governance and integrity that enable us to deliver for the long-term benefit of all our stakeholders.

I am very pleased to introduce, on behalf of the Board, the SES Water Corporate Governance Report for 2025, which sets out our governance practices and processes, and how we applied the principles of the UK Corporate Governance Code 2018 (the Code) throughout the year. The report covers our key focus areas and achievements during 2024/25 and explains how the Board continues to operate effectively and efficiently and to support the Company's strategy.

REVIEW OF THE YEAR

We continue to operate to the highest standards of corporate governance. Strong governance remains central to the successful management of the Company, providing the framework we need to deliver our strategy, fulfil our purpose, create value for all our stakeholders and continuously develop our business.

The table on page 53 will help you to navigate our reporting and evaluate our performance against the Principles of the Code. As we explain below, we also have processes and procedures in place to safeguard the independence of decision-making by the Board of SES Water.

More information on the Board's activities can be found on pages 69 to 70.

CHANGES TO THE BOARD

On 10 January 2024 Pennon Group plc announced that it had acquired the Company, which meant a change in the shareholder representatives on the Company's Board. Following the acquisition and subsequent CMA clearance, there were a number of changes to the Board during the year, which are summarised on page 52.

As the new Chair, together with my other newly appointed Board colleagues, I would like to thank Gill, Paul, Rebecca, David, Jonathan, Murray and Claire for their contributions and wish them all well for the future. We are grateful for the strong stewardship of the previous Board and executive management and mark the acquisition as an important step for the Pennon Group as we look ahead to the K8 (2025-30) regulatory period.

I am also pleased to welcome Ian Cain into his new role, as CEO Retail and Customer Markets, and look forward to working with him in the future.

The biographies for the new members can be found on pages 57 to 60.

PROMOTING DIVERSITY

Diversity and inclusion (D&I) continued to be a top priority for the Board and the Company during the year. Our Board composition is substantially ahead of the diversity targets suggested by the Parker Review and the FTSE Women Leaders Review.

Our commitment to diversity is also reflected right across the business; our widespread commitment and focused drive to recruit talent from all backgrounds has the heartfelt support of our strong and diverse leadership team.

More information can be found in the Nomination Report on pages 75 to 78.

ENGAGING WITH OUR STAKEHOLDERS

Engaging with all our stakeholders has never been more essential, particularly in view of the national and global issues we are facing. All companies in the water sector face much scrutiny around their environmental impacts, so it is vital that we listen to and respond to our stakeholders' views. We make sure to carefully consider all decisions and their likely impacts on our stakeholders.

We continue to foster an open and transparent feedback culture within the business. All colleagues have the opportunity to share feedback with the Board in several ways, including the Big Chat initiative and our Great Place to Work survey. You can read more on how we engage with our stakeholders on page 71 and in our Section 172(1) statement on pages 73 to 74.

CULTURE

As a Board we pay particular attention to our Company's culture, ensuring it is fully aligned with our shared purpose, values, and strategy. We continue to monitor these essential properties and receive regular reports from management on the work being done to ensure their continuous improvement. During the year, the Board was delighted to see the Pennon Group's new values, which reflect the views of our wider stakeholders and culture, be integrated into the Company.

ROLE OF THE BOARD AND ITS EFFECTIVENESS

It is my view that the Board continues to be highly effective with a deep understanding of the opportunities available to us and the threats facing the business. The results of this year's Board and Committee performance reviews support this view; see page 78 for further detail. We keep all identified threats to the future success of the business under constant review. Please see our risk report on pages 32 to 45 for a description of the risks we identify and review.

BOARD INDEPENDENCE - SES WATER AND PENNON

In accordance with Ofwat's principles on board leadership, transparency and governance, the Company maintains separate and independent boards for SES Water and our parent Company, Pennon.

Our system of governance remains appropriate and effective, while continuing to support the delivery of our strategy.

Our Board and Committee framework also allows us to remain efficient in our decision-making processes. The SES Water Board convenes on the same day as the Pennon Board meeting and considers all key relevant issues. This arrangement allows full operational oversight and governance by the boards over the Company's water interests, while the Pennon Board continues to focus on strategic forward-looking matters for the Company as a whole.

LOOKING AHEAD

I would like to take this opportunity to thank my Board colleagues, the management team and our wider workforce for their outstanding work over the year just gone.

The Board will continue to focus on delivering against our strategic priorities in the year ahead, ensuring the wellbeing of our workforce as we build on the work of the last year in creating a successful and sustainable business.

OUR BOARD

WORKING RESPONSIBLY TOGETHER

David Sproul Chair
Appointment to the Board David was appointed to the Board as Chair on 24 July 2024. He is Chair of the Nomination Committee and a member of the Remuneration Committee and the Environmental, Social and Governance Committee.
Skills and experience David is also Chair of Pennon Group Plc and South West Water Limited, since July 2024. He is a Chartered Accountant who has spent the majority of his career in professional services with Deloitte and prior to that, Andersen, serving a diverse range of UK and international clients. He concluded his executive career at Deloitte in summer 2021 as Global Deputy CEO having previously been elected for two terms as Senior partner and Chief Executive of Deloitte UK and Northwest Europe from 2011 to 2019. During his leadership, the firm became the largest and most profitable professional services firm Globally and in the UK, driven in part by significant investments in technology services, as well as differentiating itself as the Audit quality leader with a strong inclusive culture.
Current external appointments Chair of Starling Bank Limited and non-executive director on Safanad Limited. David is also a senior adviser to Bridgepoint Europe, and he sits on the Board of Governors as chair designate of University of Hertfordshire.

Susan Davy Group Chief Executive Officer
Appointment to the Board Susan was appointed to the Board on 14 June 2024. She is a member of the Environmental, Social and Governance Committee and the Health and Safety Committee.
Skills and experience Susan is also the Chief Executive Officer of Pennon Group Plc and South West Water Limited since July 2020, having previously served as Chief Financial Officer since 2015. Susan brings extensive industry knowledge, backed by strong financial and regulatory expertise, which has been key to shaping and delivering South West Water's strategy. This includes value-enhancing acquisitions such as Bournemouth Water, Bristol Water, Sutton and East Surrey Water, along with the successful disposal of Viridor. With over 27 years of experience in the listed utilities sector, Susan has held several senior positions in the water industry, including at Kelda Group plc. Her experience with FTSE-listed companies, combined with deep operational and financial knowledge, adds valuable diversity to Pennon's leadership.
Current external appointments Senior Independent Non-Executive Director and Audit Chair of Restore Plc, President and Director of the Institute of Water, Director of Water UK, Director of CREWW (Centre for Resilience in Environment, Water and Waste) and was previously a member of the A4S Accounting for Sustainability CFO leadership network.

Laura Flowerdew Group Chief Financial Officer
Appointment to the Board Laura was appointed to the Board on 19 November 2024. She is a member of the Environmental, Social and Governance Committee and the Health and Safety Committee.
Skills and experience Laura was also appointed Chief Financial Officer of Pennon Group Plc and South West Water Limited in July 2024. Laura held previous positions as Chief Customer and Digital Officer of Pennon Group and Chief Financial Officer of Bristol Water plc from October 2018. Laura previously worked in a number of executive positions in UK utilities and international natural resources business including Anglo American plc, De Beers and Bristol Energy. Prior to that she worked with Deloitte and trained with Arthur Andersen. She is a Fellow of the Institute of Chartered Accountants for England and Wales.
Current external appointments None

Ian Cain Executive Director and CEO of Retail and Customer Markets (from June 2025)
Appointment to the Board Ian was appointed to the Board as Chief Executive Officer in February 2020. Following the acquisition of the SES Group by Pennon, Ian will be joining the Pennon Executive as CEO Retail and Customer Markets.
Skills and experience Ian is an experienced senior leader with a strong track record as a senior executive and CEO of businesses across the utilities, infrastructure, and retail sectors. He joined SES Water in February 2020 and has led the Group through a period of significant transformation. Under his leadership, SES Water has achieved sector-leading outcomes in leakage reduction, water quality, and resilience, while strengthening regulatory relationships and securing multiple national biodiversity awards. At Thames Water, Ian held senior roles including Managing Director for Retail and Chief Customer Officer, leading one of the industry's largest transformation programmes, including the rollout of smart meters and major digital infrastructure upgrades. He was previously CEO of iSupplyEnergy, where he delivered a successful turnaround and sale to EDF. Earlier in his career, he held a series of executive roles at British Gas and Centrica, ultimately serving as Managing Director of its largest consumer business. As a non-executive, Ian previously served as Chair of the advocacy body Consortium for Street Children and currently serves as Senior Independent Non-Executive Director at MHS Homes Group, where he also chairs the Remuneration Committee.
Current external appointments Ian is Company Director of MHS Homes Limited and Chief Executive Officer of Brokes Road Limited.

Iain Evans CBE Senior Independent Director
Appointment to the Board Iain was appointed to the Board on 2 October 2024. He is Chair of the Environmental, Social and Governance Committee and a member of the Audit, Nomination, Remuneration and Health and Safety Committees.
Skills and experience Ian is also Senior Independent Director of South West Water Limited since July 2020, having served on the Pennon Board since 1 September 2018. He became Senior Independent Director on 1 September 2023.Iain has 40 years of extensive global experience in advising companies and governments on issues of complex corporate strategy. In 1983, he co-founded L.E.K. Consulting in London and built it into one of the world's largest and most respected corporate strategy consulting firms with a global footprint active in a wide range of industries. Iain was appointed as a non-executive director of Welsh Water plc in 1989 and served on the board for nearly ten years, including five years as chair.
Current external appointments Iain is a Non-Executive Director of Bologna Topco Limited and HSM Advisory Limited and continues to act as an independent corporate strategy consultant.

Jon Butterworth MBE Independent Non-Executive Director
Appointment to the Board Jon was appointed to the Board on 2 October 2024. He chairs the Health and Safety Committee and is a member of the Nomination and Environmental, Social and Governance Committees.
Skills and experience Jon is also Independent Non-executive Director of South West Water Limited, since September 2017 and Pennon Group Plc since July 2020. He has a distinguished track record and an immense depth of experience and knowledge within the utility sector, having begun his career over 40 years ago as an apprentice at British Gas. Jon was previously Managing Director of National Grid Ventures, driving growth across a range of commercial ventures outside the regulated energy sector in the UK and the US. He has also been the Managing Director of Northwest Gas, Global Environment and Sustainability Manager of Transco, National Operations Director of National Grid, Group safety, Resilience and Environmental Director of National Grid plc and formerly CEO of National Grid Ventures. Jon is an ex-Chair of the CORGI Board, an Ex-Ambassador of the HM Young Offenders Programme and a trustee of the National Gas Museum Trust.
Current external appointments Chief Executive Officer at National Gas. Jon is also President of the Pipeline Industries Guild and a director of E. Tapp & Co Limited, Shopfittings Manchester Limited and TMA Property Limited.

Loraine Woodhouse Independent Non-Executive Director
Appointment to the Board Loraine was appointed to the Board on 2 October 2024. She is Chair of the Audit Committee and a member of the Nomination and Remuneration Committees.
Skills and experience Loraine is also Independent Non-executive Director of Pennon Group Plc and South West Water Limited, since December 2022. She is an experienced finance executive, with her experience focused in the retail and consumer sector, and more recently in real estate and infrastructure through her roles with Intu Properties plc and British Land Company plc. Loraine was the Chief Financial Officer of Halfords Group plc until June 2022, before which, she spent five years in executive and senior finance roles within the John Lewis Partnership, including Waitrose. Prior to that, Loraine was Chief Financial Officer of Hobbs, Finance Director of Capital Shopping Centres Limited (subsequently Intu Properties plc) and Finance Director of Costa Coffee Limited.
Current external appointments Senior Independent Director and Chair of the Audit Committee for the British Land Company plc, non-executive director for Associated British Foods plc and a Trustee and Audit Committee member at the Zoological Society London.

Dorothy Burwell Independent Non-Executive Director
Appointment to the Board Dorothy was appointed to the Board on 2 October 2024. She is a member of the Environmental, Social and Governance, Nomination, Health and Safety and Remuneration Committees.
Skills and experience Dorothy is also Independent Non-executive Director of Pennon Group Plc and South West Water Limited, since December 2022. She has over 20 years of experience in Banking and Communications, specialising in natural resources and advising clients around issues on sustainability, strategy, and corporate communications. She is well known for driving substantive diversity and inclusion agendas. Between 2002 and 2006, Dorothy held analyst and senior roles at Goldman Sachs in the Investment Banking Division in both London and New York as well as in the firmwide Strategy group, where she focused on proprietary mergers and acquisitions and new business development. Dorothy graduated from the Florida Agricultural and Mechanical University, USA with a Bachelor and Master of Business Administration, Finance and Management.
Current external appointments Partner and Global Partnership Board member of FGS Global, non-executive director at Post Holdings, Inc.

Andrea Blance Independent Non-Executive Director
Appointment to the Board Andrea was appointed to the Board as an Independent Non-Executive Director on 8 April 2025. She is Chair of the Remuneration Committee and is also a member of the Nomination Committee.
Skills and experience Andrea is also Independent Non-executive Director of Pennon Group Plc and South West Water Limited, since April 2025. She brings extensive risk and regulation expertise gained within the financial services sector and works with businesses to develop customer focused commercial strategies. Andrea spent her executive career at Legal & General Group plc where she held a range of senior leadership roles including Group Chief Risk Officer and Strategy & Marketing Director. More recently, Andrea has been Risk Committee Chair at Hargreaves Lansdown plc, Senior Independent Director and Remuneration Committee Chair of Vanquis Banking Group plc, Senior Independent Director and Audit Committee Chair of ReAssure plc, and Risk Committee Chair of Scottish Widows plc and Lloyds Banking Group Insurance.
Current external appointments Non-Executive Director and Risk Committee Chair at Aviva plc.

Andrew Garard Executive Director
Appointment to the Board Andrew was appointed to the Board as an Executive Director on 14 June 2024.
Skills and experience Andrew is also Group General Counsel and Company Secretary of Pennon Group Plc and South West Water Limited, since December 2022. He is a very experienced General Counsel having joined from Meggitt plc, where he was Group General Counsel and Director of Corporate Affairs, and member of the Group Executive responsible for legal, commercial, trade compliance, government relations, ethics and contract management. Previously, he was Group General Counsel and Company Secretary at ITV plc where he was a member of the Executive Board and led a global team responsible for legal and business affairs, secretariat, compliance, insurance, health & safety, rights management and corporate responsibility. Prior to this he was Group General Counsel at Cable & Wireless plc and Head of Legal at Reuters Group plc.
Current external appointments Non-Executive Director at Zinc Media Group plc where he is Chair of the Remuneration Committee, co-founder and Chair of the Board of Trustees of the Social Mobility Business Partnership.

David Harris Managing Director of Water Services
In attendance only.
Skills and experience David joined the Group as Group Drought and Resilience Director in 2022. He was appointed as Managing Director, Water Services (National) in July 2024. With over 25 years of executive experience, he has successfully led the performance and growth of large infrastructure businesses, in both the regulated water market and the competitive energy market in Australia. David brings experience from his time leading one of Australia's largest and fully vertically integrated water companies through the worst droughts in the country's history, ensuring a constant supply of water and the building of additional water resources.

BOARD MEMBERS WHO STEPPED DOWN IN 2024/25:

- **Gill Rider**: stepped down from the Board on 24 July 2024
- **Murray Legg**: stepped down from the Board on 2 October 2024
- **Jonathan Woods**: stepped down from the Board on 2 October 2024
- **David Shemmans**: stepped down from the Board on 2 October 2024
- **Rebecca Wiles**: stepped down from the Board on 2 October 2024
- **Claire Ighodaro:** stepped down from the Board on 31 December 2024
- **Paul Kerr**: stepped down from the Board on 28 February 2025

MONITORING PURPOSE AND CULTURE

PURPOSE, VALUES AND CULTURE

Our Group purpose, ***Bringing water to life – supporting the lives of people and the places they love for generations to come*** underpinned by our Group values that we live by:

Be YOU | Be ROCK SOLID | Be the FUTURE

As a purpose-led business, committed to the effective stewardship of the environment and our communities, we are shaped by our values and culture. We are a dedicated business, working 24 hours a day, 365 days a year to deliver our essential water services for our customers. We know that it's not only what we do, but how we do it that is really important for our customers, communities and ourselves. That's why we will keep our focus on living our values across SES Water, every day.

We want these values and our behaviours to be the golden thread across the Group - all businesses within the Group have the same values and therefore the same way of being.

The Group values were developed after intensive involvement and listening sessions with the Pennon Group Executive Board (PEx), the larger leadership group, colleague organisations such as the employee forum, and comprehensive colleague listening groups.

HOW THE BOARD MONITORS CULTURE

The Board plays a vital role in monitoring and assessing the culture of the Company and its alignment with our purpose, values and strategy. During the year, the Board considered a number of areas that helped them to assess the development of the Company's culture.

Area assessed	How the Board monitors the culture
Employee engagement	Great Place to Work survey - The Board reviews the results and feedback from the quarterly employee engagement survey and monitors how the areas of employees' focus are being addressed. Big Chat - The Pennon Group Executive team engages with all employees on all business topics and ensures that their views and opinions are shared with the Board.
Workforce policies and practices	The Board formally reviews the workforce policies and practices to ensure these remain consistent with the Company's Purpose and Values and support the Company's long-term sustainable success. Gender and ethnicity pay gap - The Board monitors the culture on gender and ethnicity pay through review, assessment, and approval of the Group Gender and ethnicity pay gap report. Diversity and inclusion - The Nomination Committee monitors diversity and inclusion through regular updates and the Board fosters the Group's culture on diversity and inclusion through the review and approval of the Group's Diversity, Respect and Inclusion policy. General pay conditions - The Board ensures that reward and pay arrangements support a culture that is transparent, fair, and consistent to ensure that employees' trust is maintained, and that talent is attracted and retained.
Whistleblowing	Speak Up - Employees raise concerns anonymously without fear of reprisal. Any significant concerns, following formal investigation, are shared with the Audit Committee through the Ethics Management Committee and ultimately, shared with the Board.

Health and Safety	HomeSafe - This is monitored through regular updates on safety initiatives adopted for the achievement of the Group’s 2025 strategic plan to be health and safety leaders in the water sector. Lost time injuries - Further updates on efforts to reduce injuries of our staff across all Group companies are assessed at the Health and Safety Committee.
Remuneration	The Remuneration Committee is regularly provided with feedback from shareholder consultations and customer engagement which helps the Committee and the Board to monitor the culture on wider workforce pay, and executive and CEO remuneration. The Committee reviews and approves the wider workforce Reward Framework and relevant policies and ensures that incentives and rewards align with culture. CEO pay ratio - The Board ensures that the CEO pay ratio is fair, balancing stakeholder expectations while rewarding leadership success.

BOARD LEADERSHIP

GOVERNANCE STRUCTURE AND FRAMEWORK

Sutton and East Surrey Water Plc - Board of Directors
An independent, separate Board from the Pennon Group plc Board, responsible for decisions relating to the business and strategy of Sutton and East Surrey Water Plc.

The role of the Board is to promote the long-term success of the Company, generating value for all its stakeholders, customers, employees and the communities which it serves, by providing effective leadership and direction to the business as a whole. It sets the Company's strategy and sustainability strategy, having regard to stakeholders, while maintaining a balanced approach to risk within a framework of effective controls. It has also established the Company's purpose and values and monitors culture to ensure alignment. Its sets the tone and approach to corporate governance and is responsible for the overall financial performance of the Company.

The Board Committees
The terms of reference for each Committee are agreed by the Board and can be found at https://www.pennon-group.co.uk/about-us/board-committees.

Audit Committee
Ensure the quality and integrity of the Company's reporting, assesses the application of accounting policies given underlying standards, probes and tests the accounting judgements made in preparing financial reporting and evaluates whether the presentation of the Company's activities is fair, balanced and understandable.

Review and challenge the effectiveness of the internal control environment and risk management processes.

Read more on pages 78 to 85.

Nomination Committee
Regular review of the structure, size and composition (including the skills, knowledge, independence, diversity and experience) required of the Board, compared to its current position and the skills and expertise needed in the future.

Read more on pages 74 to 77.

Remuneration Committee
Ensures remuneration is aligned with the Company's strategy and reflects the values of the Company.

Advises the Board on the framework of executive remuneration for the Company and for the wider workforce.

Read more on pages 91 to 93.

ESG Committee
Ensure robust scrutiny of key aspects of environmental, social and governance (ESG) performance and to oversee performance against our ESG strategy and strategic sustainability objectives.

Read more on pages 86 to 88.

Health and Safety Committee
Provide a 'review and challenge' function to support the Board on all matters connected to health and safety including the deployment of the health and safety strategy, resilience and process safety.

Read more on pages 89 to 90.

Chief Executive Officer
Responsible for defining and driving the business priorities that will achieve delivery of the Company's strategy and ensuring, to the extent of the authority delegated by the Board, the proper and prudent management of Company resources to create and maximise value while protecting the interests of the wider stakeholder group.

DIVISION OF RESPONSIBILITIES

There is a clear separation of responsibilities between the Chair and the Group Chief Executive Officer, divided between managing the Board and the business, while maintaining a close working relationship.

All the Directors are equally accountable for the proper stewardship of the Company's affairs and also have specific roles, which include those set out below:

Position	Director(s)	Role
Chair	David Sproul (from 24 July 2024)	• Leading the Board and promoting a strong culture of openness and debate to facilitate constructive Board relations and effective contribution from all Non-Executive Directors • Promoting the highest standards of integrity and probity and ensuring the Board holds itself to standard of good and effective governance. • Managing Board composition, performance and succession planning, ensuring the Board continues to have the skill set and training it requires. • Setting the agenda and ensuring the timely dissemination of information to the Board, to ensure all relevant information is provided in a timely manner before constructive discussion and decision making. • Representing the high standards and values of the Company and ensuring the views of all stakeholders are understood and considered. • Facilitating an open relationship with the Group Chief Executive Officer by providing advice, support and guidance.
Group Chief Executive Officer	Susan Davy	• Managing the Company and providing executive leadership • Developing, proposing and implementing Company strategy, as agreed by the Board and in line with the strategic framework • Leading on all regulatory and policy decisions • Leading the operation of the Company in accordance with the decisions of the Board • Ensuring financial and operational leadership • Coordinating with the Chair on important and strategic issues of the company and providing input to the Board's agenda • Contributing to succession planning and implementing the organisational structure • Leading on acquisitions, disposals, and business development • Developing and managing relations with all stakeholders
Senior Independent Director	Iain Evans (from 2 October 2024)	• Assisting the Chair with stakeholder communications and being available as an additional point of contact for stakeholders • Being available to other Non-Executive Directors if they have any concerns that are not satisfactorily resolved by the Chair • Ensuring an annual performance evaluation of the Chair, with the support of the other Non-Executive Directors and ensuring effective succession planning for the Board
Group Chief Financial Officer	Laura Flowerdew (from 28 February 2025)	• Managing the Company's financial affairs and supporting the Group Chief Executive in providing executive leadership and implementing the Company strategy • Reporting accurate and detailed financial information to the Board on performance and developments across the business • Managing and balancing relationships with areas of the Company, such as finance and treasury, as well as external stakeholders

Position	Director(s)	Role
Non-Executive Directors	Jon Butterworth Loraine Woodhouse Dorothy Burwell Andrea Blance (all from 2 October 2024)	• Critically reviewing the strategies, operational performance and financial reporting for the Company • Evaluating proposals from management and constructively challenging its recommendations • Contributing to corporate accountability and good governance through being active members of the Committees of the Board • Play a key role in succession planning of the Board and the annual Board and Committees evaluations
Other Executive Directors	Ian Cain, Paul Kerr (to 28 February 2025) and Andrew Garard (from 14 June 2024)	

AN EFFECTIVE BOARD

MANAGING SES WATER

The SES Water Board continues to operate as a separate independent Board, albeit with Board members also serving on the Board of Pennon Group plc, in accordance with its schedule of matters reserved (see below), to ensure compliance with Ofwat's principles on Board leadership, transparency and governance.

The focus on UK water means the interests of the non-regulated and regulated businesses are more closely aligned and provide for more effective leadership and governance. The Company has a conflicts of interest process which safeguards the SES Water Board's ability to set and have accountability for all aspects of the regulated business' strategy, thereby ensuring and strengthening SES Water's regulatory ringfence.

While certain matters may be delegated to the Board Committees and to the Executive Directors, as appropriate, the matters reserved for the Board include:

- The approval of the Annual Report and Financial Statements
- Any acquisitions and disposals
- Major items of capital expenditure
- Authority levels for other expenditure
- Risk management process and monitoring of risks
- Approval of the strategic plan and annual operating budgets
- Company policies, procedures and delegations
- Appointments to the Board and Committees

The Pennon Group Board also endorses certain decisions taken by the SES Water Board, including major capital projects and investments, long-term objectives and commercial strategy, the five-year regulatory plan, annual budgets and certain decisions relating to financing. This approach remains compatible with Ofwat's principles on board leadership, transparency and governance because such decisions are ultimately reviewed and approved by the SES Water Board. Approval of SES Water's dividend policy and the declaration of any dividends to be paid by SES Water to Pennon also remain reserved for the SES Water Board.

AN EFFECTIVE BOARD

The SES Water Board, in discharging its duties, has a clear strategy for growth and ensures that its aims and objectives align with the Company's purpose and values which have been carefully considered. The Board maintains the highest standards of governance alongside taking decisions to ensure the long-term sustainability of the Company.

Thanks to the diverse skillset, independence of thinking and experience of the directors, decisions reached by the Board are fair, focussed and balanced and they demonstrate that constructive debate has occurred. All possible outcomes for the mutual benefit of our shareholders, customers, employees, and the communities we serve, are at the heart of the Board decision making process.

The governance framework for the Board is clearly documented in the Company's Articles of Association, Division of Responsibilities, Schedule of Matters Reserved to the Board and Terms of Reference for each Committee, which are all available on the Pennon Group Plc website - https://www.pennon-group.co.uk/about-us/board-committees.

The culture of the Board is one of openness and constructive dialogue with the senior management team. Regular and effective flow of information between the non-executive directors and senior management, both in and out of the Boardroom, ensures that there is good understanding of the Company's business. Further information on the effectiveness of the Board is detailed in the 2025 Board performance review on page 78. As detailed on page 64, there is a clear division of responsibilities between roles of the Chair and Group Chief Executive Officer; however, to ensure that their responsibilities are discharged effectively, there is consistent communication on all areas of the business between them.

The Board held seven scheduled meetings during the year, four before SES Water's incorporation into Pennon Group's governance structure and three after. Directors' attendance at scheduled Board meetings held during the year is set out on page 54. 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.

Agendas for each scheduled Board and Committee meeting are prepared in advance and are aligned with the annual Board and Committee programmes. For each scheduled Board meeting there are a number of standing items such as the performance reports from the Group Chief Executive Officer and Group Chief Financial Officer, operational reports, deep dives, and legal and governance updates. All matters are given due consideration by the Board and are reviewed at the appropriate point in the regulatory and financial cycles. Flexibility is retained in the programmes to include additional items requested by the Board, Committees, or senior management. The key activities of the Board can be found on pages 69 to 70 and the key activities of the Committees during the year can be found in the Committee Reports.

Directors are provided with papers at least five business days in advance of each Board or Committee meeting and meeting packs are provided on a secure Board portal.

The Chair has calls with each of the Non-Executive Directors in advance of each scheduled Board meeting to discuss the papers and the business of the meeting. If a Director is unable to attend a meeting because of exceptional circumstances, they will continue to receive all the material for the meeting and have an opportunity to have a briefing discussion with the Chair in advance. Feedback is provided to the Directors unable to attend on the decisions taken at the meeting.

Non-Executive Directors communicate directly with senior management between Board and Committee meetings, where required. Members of the Executive Board also present at the annual strategy Board meeting and at other times during the year on their areas of responsibility, along with members of their teams.

During the year, the Chair had catch-ups with the Group Chief Executive Officer and regular catchups with the Pennon Group General Counsel and Company Secretary, and Group Chief Financial Officer.

Meetings of the Non-Executive Directors, without the presence of the Executive Directors, are scheduled in the Board's annual programme. During the year, Non-Executive Directors met without the Executive Directors after every Board meeting. These meetings provide the Non-Executive Directors with the opportunity to share experiences and discuss wider business topics, fostering debate in Board and Committee meetings and strengthening working relationships.

SCHEDULE OF MATTERS RESERVED TO THE BOARD

The Board maintains oversight of the areas material to the delivery of the Company's strategy and purpose, and acts as the main governing body for the purpose of oversight for the Company. The Board undertakes a regular review of the Matters Reserved to the Board, with the latest review taking place in September 2023.

COMMITTEES

In accordance with the Code, the Board delegates certain responsibilities to core committees, which monitor various subject matters in depth and gain greater understanding in detail. The Committees' responsibilities and mode of operation are guided by their respective terms of references which have been agreed by the Board and summarised on the Committee Report pages. In addition, each committee considers its calendar of business at every meeting to ensure responsibilities continually remain clear. Each Committee Chair provides an update on matters discussed at each Board meeting, reporting on decisions taken and where appropriate provides a recommendation to the Board on matters requiring its approval. The reports from each committee of the Board can be found on pages 75 to 94.

STRATEGY

The Board recognises its responsibility to create and oversee the framework for the delivery of the Company's strategic model, ensuring that the strategy and purpose continually deliver for our stakeholders. At the meetings the Board receive presentations from senior management, deep diving into performance, including reviews into the financial outlook and opportunities for growth.

WORKFORCE ENGAGEMENT

The Board has decided, at this time, not to adopt any of the three specific employee engagement methods referred to in the UK Code. Instead, our chosen method, in line with Pennon Group, is to adopt a more enhanced approach which includes the conduct of a periodic 'Great Place to Work' engagement survey (including related management feedback sessions) and continuous employee feedback through our own in-house forums. These comprise our RISE people panel, a forum for employee engagement, and the 'Big Chat', hosted on a monthly basis by the Pennon Group Executive team. These forums not only give employees access to important up-to-date information on key business events; they also provide the opportunity to hear from the Directors, give feedback and ask questions. The Board believes SES Water's chosen approach is an effective way of communicating with employees and gathering essential feedback from across the business. This empowers the Board to consider the interests of all employees in its discussions and decision-making. There is further information on employee engagement on pages 9 to 11.

STAKEHOLDER ENGAGEMENT

In delivering our strategy and ensuring sustainable, long-term success of the Company, the Board places utmost importance on the interest of our stakeholders in its decision-making process. Further details on how the Board has fulfilled its duties under section 172(1) of the Companies Act 2006, to consider all stakeholders in its discussions and decisions and that each decision reached is in line with the company's purpose and culture, is set out on pages 73 to 74 and an explanation as to how we engaged with our different stakeholders during the year can be found on page 71.

WORKFORCE POLICIES AND PRACTICES

CONFLICTS OF INTEREST

In accordance with the Directors' interest provision of the Companies Act 2006 and the Company's Articles of Association, the Board has in place a procedure for the consideration and authorisation of Directors' conflicts or possible conflicts with the Company's interests. The Board considers this has operated effectively during the year. Each Director has a duty under the Companies Act 2006 to avoid a situation in which they have or may have a direct or indirect interest that conflicts or might conflict with the interests of the Company.

This duty is in addition to the duty owed to the Company to disclose to the Board any interest in a transaction or arrangement under consideration by the Company. A register of Directors' conflicts is maintained, with conflicts of interests reviewed and noted at each Board meeting.

WHISTLEBLOWING

The Board maintains overall responsibility for the Company's Whistleblowing Policy (the Policy). The Policy provides a clear procedure for employees and suppliers to report concerns, through the Speak Up service, either to their line manager or through a third-party whistleblowing hotline. The Policy is well communicated to employees across the Company. All whistleblowing cases are investigated by the Ethics Management Committee. The Board, through its Audit Committee, receives yearly whistleblowing updates which set out any whistleblowing issues raised during the period and interim updates on any significant matters. The updates provided are anonymous and summarise the result of any investigation. The Pennon Board is satisfied that the Policy and the work of the Ethics Management Committee remain effective.

KEY ACTIVITIES OF THE BOARD

In 2024/25, the Board considered a wide range of matters and the key activities that were carried out by the Board during the year, together with an indication of the stakeholders affected and whose interests the Board considered in its discussions and decision-making are set out below.

- **Inform** – the agenda for each meeting is discussed and agreed in advance with the Chair in conjunction with the Group Chief Executive Officer, along with the matters arising from the previous meeting. Senior leaders and management prepare written reports for the Board meetings, based on the annual calendar of business, as well as deep-dive presentations on key areas of the business, to inform and make recommendations for the Board's consideration. In addition, regular performance reports are shared with the Board to ensure they are continuously informed.
- **Recommend and consider** – Recommendations and deep-dives from senior leaders, as well as external advisors to facilitate decision-making and accounting for stakeholder impact are presented to the Board for consideration.
- **Approve and action** – The Board will consider matters and agree and approve actions to take forward.

Area	Activity	Outcome	Stakeholders affected
Strategic	**PR24 Business Plan** Approved our PR24 business plan	Investments will benefit our customers, the environment and community.	**Customers** **People** **Suppliers** **Policy makers** **Regulators** **Environment** **Communities**
	Delivery of capital projects Reviewed and approved the delivery of capital projects in line with the framework model for capital delivery	Successfully deliver capital projects for the benefit of all stakeholders and foster long-term relationship with our suppliers.	**Suppliers** **Customers** **Communities**
Operational	**ODI improvements** Monitored our ODI improvements to meet regulatory requirements, ongoing regulatory/ innovation initiatives were monitored via ESG, and H &S reports and adapted plans where needed.	Successful regulatory outcomes, safe customer and employee experience, enhancing day to day operations.	**Customers** **People** **Regulators** **Environment**
	Water quality and resilience Approved the projects to upgrade treatments works and expanded capacity of our reservoir across the regions.	Successfully maintaining bathing water quality all year round. Reduction in pollution levels to industry leading low levels.	**Customers** **Regulators** **Environment**
Financial	**2023/24 Annual Report and Accounts** Reviewed and authorised the Annual Report and Accounts	Delivery against objectives to return capital where appropriate.	
Environmental	**Net Zero strategy plan, Green Recovery investment programmes** Implementation and alignment of plans with our strategic priorities by engaging in projects and schemes.	To accelerate our net Zero plans and the delivery to achieve more sustainable future for all.	**Customers** **People** **Suppliers** **Regulators** **Environment**
Social	**Supporting customers on low income** Monitored customer service levels and plans to deliver improved diversity mix and adapting where needed.	Continued alignment of plans to achieve ever more stringent targets as well as greater public/regulatory scrutiny.	**Customers**
	Investment in job opportunities and apprenticeships for local communities Reviewed and approved investments towards the benefit of the communities.	Create job opportunities and improving career of our people and retaining talent.	**Customers** **Communities**

Area	Activity	Outcome	Stakeholders affected
Risk	**Mitigation of key risks** Ongoing focus on key risks, with deep dives at Audit Committee meetings.	Continued alignment of plans to ensure appropriate risk mitigation.	**People**
	Deep dive on cyber security risk Reviewed our information security systems and assessed mitigating measures to avoid cyber attacks	Continued protection of sensitive data of our customers and our people and ensure business preparedness to tackle this risk.	**Customers** **People** **Suppliers** **Regulators** **Environment** **Communities**
Compliance, Governance, Legal and Regulatory	Regular updates on Corporate Governance and key legal developments during the year	Continued alignment of plans to ensure appropriate compliance/ best practice governance.	**Customers** **People**

HOW THE BOARD ENGAGES WITH STAKEHOLDERS

The Board understands the role the Company has to play in creating a more sustainable East Surrey, West Kent, and South London, and UK as a whole. We are committed to carrying out our business in a responsible way and to continuously improving how we provide all our services for the benefit of all our stakeholders.

Our section 172(1) statement describes in more detail how the Board considers the interests of all our stakeholders when carrying out its duties. SES Water is committed to ensuring that its decision-making process takes into account the interests of all key stakeholders, including our customers, communities, people and suppliers. Our directors take their duties under this section seriously and carefully consider the long-term impact of their decisions.

In fulfilling their duties, our Board engage with stakeholders through a variety of channels to understand their views and priorities. This includes direct engagement with customers, employee feedback mechanisms, consultations with regulators, and community outreach programs. By integrating these perspectives into our decision-making, we aim to create value for both our shareholders and society, while also ensuring the sustainable use and protection of our water resources.

ENGAGING WITH OUR CUSTOMERS AND COMMUNITIES

The Group Chief Executive Officer's report, which is presented to the Board and discussed at every meeting, included updates on customer engagement sessions conducted as part of the PR24 Business plan process.

ENGAGING WITH OUR PEOPLE

The Board receive regular updates on our people from the Pennon Group Chief People Officer at its meetings. The feedback from the Great Place to Work survey provided to the Board ensure that the decisions made consider employee interests and include what is of priority to our people. Further details on the engagement with our people can be found on pages 9 to 10.

ENGAGING WITH OUR REGULATORS AND POLICY MAKERS

The Board receives regular updates on our regulators and policy makers. The Board proactively engages with our regulators, particularly Ofwat and the Environmental Agency, and Government, both at a local and national level, including sharing platforms with local MPs at constituency meetings, and face-to-face discussions with Defra throughout the year.

Regular 1-2-1 meetings are held with regional MPs in Westminster to discuss strategic and overarching issues around performance and our plans for investment.

ENGAGING WITH ENVIRONMENTAL ORGANISATIONS

The Board regularly receive updates at meetings on our engagement with environmental organisations particularly Defra, DWI and Water UK.

As we head into K8 and reflect on what was achieved in K7, we are committed to continued engagement with the Environmental Agency.

Updates were given to the Board on engagements and collaborations with Water UK, and its Board, ensuring that the water industry's position on increased investments to improve the sector for the benefit of our stakeholders, remains a key government focus.

ENGAGING WITH OUR SUPPLIERS

The Board receives updates at Board meetings on our engagement with suppliers which is conducted through formal Request for Purpose processes and periodic supplier review meetings to ensure that our suppliers deliver outcomes that benefit all our stakeholders.

The Board is regularly informed and involved through the stages of tender processes which are undertaken to ensure that suitable and experienced suppliers are contracted to deliver our capital projects.

During the year, the Board received updates on our engagement with the Cabinet Office on the drafting of the Procurement Act 2023 which is geared towards making procurement simpler, quicker and more transparent given the criticality of supply chain in the future delivery of our business.

As a Group we are actively engaging the wider industry supply chain directly and indirectly through organisations such as British Water, Future Water and the Civil Engineering Contractors Association to both understand and influence emerging trends and mobilise the best suppliers and innovation for the benefit of the Group.

COMPOSITION, SUCCESSION AND EVALUATION

TRAINING AND DEVELOPMENT

In fulfilment of the Directors' duties the Board has been supported by the advice and services of the Pennon Group Company Secretary and other functions of the business. An established procedure whereby Directors can seek independent professional advice at the Company's expense to fulfil their duties is in place. The Pennon Group Company Secretary is responsible for ensuring that the Board operates in accordance with the governance framework and that information flows effectively between the Directors and the Committees and between senior management and non-executive directors.

The training needs of Directors are reviewed as part of the Board's performance review process each year. Training may include attendance at external courses organised by professional advisors and internal presentations from senior management.

During the year, updates were provided to the Board and Committees via the Pennon Group General Counsel and Company Secretary and/or the Company's external advisors. These included updates on mandatory reporting and recent legal or governance changes. Specifically, the Board received updates on the Water (Special Measures) Act and Directors Duties under the Companies Act 2006.

BOARD INDUCTIONS

On their date of appointment to the Board, any Directors , who are new to the Group, receive a comprehensive and tailored induction programme coordinated by the Pennon Group General Counsel and Company Secretary.

BOARD COMPOSITION, INDEPENDENCE AND EXPERIENCE

As at the date of this report, our Board comprises the Chair, five Non-Executive Directors, four Executive Directors (one being the Pennon Group General Counsel and Company Secretary). As at the date of this report, female representation on the Board was at 50%, exceeding the Board's target of 33%.

All of the Non-Executive Directors are considered by the Board to be independent and are subject to re-election each year. All the Non-Executive Directors are considered to have the appropriate skills, experience in their respective disciplines and personality to bring independent and objective judgement to the Board's deliberations. Their biographies on pages 57 to 60 demonstrate collectively a broad range of business, financial and other relevant experience.

Loraine Woodhouse is Chair of the Audit Committee and, in accordance with the UK Code and FCA Disclosure Guidance and Transparency Rule 7.1.1A, has recent and relevant financial experience and competence in accounting and auditing (as set out in her biography on page 59. The Board is satisfied that the Audit Committee has financial literacy and competence relevant to the sector in which the Company operates.

TIME COMMITMENT

All Non-Executive Directors are required to devote sufficient time to meet their Board responsibilities and demonstrate commitment to their role. During the year, the Nomination Committee considered the time commitment of all the Non-Executive Directors and was satisfied that the required time dedicated by each of them remains appropriate.

EXTERNAL APPOINTMENTS

All Directors are required to consult with the Chair and obtain Board approval before taking on any additional appointments. Executive Directors are not permitted to take on more than one non-executive directorship of a FTSE 100 company or other significant appointment. As part of the selection process for any new Board candidates, any significant external time commitments are considered before an appointment is agreed.

Susan Davy was a non-executive director of Restore plc and Chair of Water UK throughout 2024/25. The Board is of the opinion that the experience gained from external appointments provides additional and different business experience and a fresh insight into the role of an Executive Director.

Further information on the other business commitments of the Chair and SES Water's Non-Executive Directors is on pages 57 to 60.

BOARD PERFORMANCE REVIEW

The Board undertakes a formal and rigorous review of its performance and that of its Committees and Directors each year. Having carried out an externally facilitated evaluation in 2023, this year the evaluation was carried out by means of an internally facilitated online questionnaire, prepared by the Pennon Group General Counsel and Company Secretary and in consultation with the Chair. Further information on the outcomes from the 2024 Board performance review and the recommendations from the 2025 review can be found on page 78.

SECTION 172(1) STATEMENT

All of the Board's decisions are considered against the importance of acting in a sustainable, ethical and collaborative way, understanding the views of our different stakeholders and weighing their competing interests, whilst being mindful of regulatory obligations.

Our Board leads and sets the tone by carefully noting the priorities of our stakeholders during its discussions and when it makes decisions. We also know the importance of continually assessing the long-term impacts of our decisions, not only at Board level, but across the Company, this is embedded as part of our culture. This helps us live our purpose and our values, as a responsible, trusted and sustainable business acting in a way which benefits all our stakeholders as much as possible. Properly understanding the impact of what we are doing has become part of how we operate, and it permeates in everything we do at SES Water.

Each Director has a duty under section 172 (1) of the Companies Act (s.172), to act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of members and stakeholders as a whole, and in doing so, must have regard to a range of broader issues. Therefore, in performing their duties during the year, the Directors had regard to the each of the s.172 matters set out below:

s.172 duties	Read more	Page(s)
The long-term consequences of our decisions	Strategic report Our business model Principal risks Our integrated approach to ESG Sustainability reporting Viability statement Key activities of the Board	3 to 51 7 32-48 24 25-26 49-51 69-70
The interests of our employees	Strategic report Investing in our people Diversity, equity and Inclusion Whistleblowing policy and speak up Purpose, values and culture	3 to 51 14-18 16 68 61 to 62
The importance of having excellent business relationships with suppliers, customers and anyone else who we impact	Our operational review How the Board engages with stakeholders	19-22 71
The impacts our operations have on our communities and our environment	Our approach to ESG and Net Zero Climate risks and opportunities ESG Committee Report	24-26 46-48 87-89
Ensuring we maintain our reputation for the highest standards of business conduct	Purpose, values and culture Modern Slavery Anti-financial crime framework Whistleblowing policy and speak up	61-62 101 85 68
The need to act fairly between our stakeholders	Stakeholder Engagement	71

HOW THE BOARD FULFILS ITS S.172 DUTY

To be able to fulfil their s.172 duty when making decisions, the Board is supported in carefully considering all the relevant factors to ensure the long-term success of the Company.

- **Board information** – all Board papers contain a s.172 information section to enable the Board to consider stakeholder interests as part of their discussions and decision-making. Our Board directly and indirectly engages with our stakeholders. Read more on page 71.
- **Board strategic Discussion** – s.172 factors are considered in the Board's discussions on strategy, including how they underpin the Company's long-term success. The Company's culture helps ensure there is proper consideration of the impact of Board decisions on our stakeholders and the Board considers the quality of information it has received and seeks assurance where appropriate.
- **Board decision** – outcomes of the Board decision are assessed and further engagement with stakeholders is undertaken, where appropriate. As a result of the Board's engagement, the necessary actions are taken.

KEY STRATGIC DECISIONS CONSIDERED BY THE BOARD

Below are some of the key strategic issues considered and decisions made by the Board during the year and an explanation of how the Board considered the matters in Section 172(1) (a) – (f) when taking those decisions and how they link to our strategy.

Key decision	Board discussion and s.172 considerations	Outcome	Link to strategy
Acceptance of the Final Determination	As part of their considerations, the Board discussed the investment plan, which involved engaging with our stakeholders over a three-year period. The investment will be across a range of transformational projects that are focused on areas like bolstering water resources and expanding our programme of nature recovery. **Our People** The Board considered the impact of the Final Determination on the workforce. Additional jobs will be created, providing local people with rewarding careers in their home region, either directly employed by SES Water or within the wider supply chain. **Our Customers** The Board considered the relationship between the cost of the scheme, the impact on bills, and the need to ensure that these remain affordable for customers, particularly in the cost-of-living crisis. The Board judged that the impact on our priorities within the plan would boost water resources for customers across the region. Positive impact from expanding WaterShare+ through a third issuance incorporating SES customers. **Our Environment** The Board considered the impact of the plan on the environment, and the need to ensure that investments create a sustainable future and accelerate net zero and environmental gains through creation of climate-independent water sources, and restoration schemes to boost natural habitats and nurture healthier rivers and seas. **Our Regulators** As part of their discussions, the Board engaged and considered our regulators and was pleased to accept Ofwat's Final Determination for SES Water (SES) following the good business plan assessment.	Following Ofwat's PR24 Final Determinations in December 2024 in respect of the K8 period (2025-2030) for SES, in January 2025 the Company accepted Ofwat's Final Determination.	**Water Quality and Resilience** **Net Zero and Environmental Gains** **Addressing Affordability and Delivering for our Customers**

THE NOMINATION COMMITTEE REPORT

THE NOMINATIONS COMMITTEE IS A CORNERSTONE OF THE CORPORATE GOVERNANCE, SAFEGUARDING THE BOARD'S INTEGRITY AND EFFECTIVENESS.

Following incorporation into Pennon Group's Governance framework

Membership	Role	Attendance
David Sproul (Chair)[1]	Chair	2/2
Iain Evans	Non-Executive Director	2/2
Jon Butterworth	Non-Executive Director	2/2
Dorothy Burwell	Non-Executive Director	2/2
Loraine Woodhouse	Non-Executive Director	2/2
Claire Ighodaro[2]	Non-Executive Director	1/1
Andrea Blance[3]	Non-Executive Director	0/0

Before incorporation into Pennon Group's Governance framework

Membership	Role	Attendance
David Sproul (Chair)[1]	Chair	0/0
Dave Shemmans[4]	Chair	1/1
Ian Cain[4]	Executive Director	1/1
Rebecca Wiles[4]	Non-Executive Director	1/1
Murray Legg[4]	Non-Executive Director	1/1
Jon Woods[4]	Non-Executive Director	1/1

From 8 April 2025 Andrea Blance will be a member of the Nomination Committee

1. Appointed 24 July 2024
2. Appointed 2 October 2024 and stepped down 31 December 2024
3. Appointed 8 April 2025
4. Stepped down 2 October 2024

THE COMMITTEE'S FOCUS FOR 2024/25

- Ensured that the Board has the appropriate mix of skills, experience and diversity and oversaw the effectiveness of the Board's succession plan.
- Conducted the annual review of Board effectiveness and Board composition.
- Oversaw the annual review and approval of the business policy on Diversity, Respect and Inclusion and the progress on diversity, in line with the Parker Review, including the outcome of the FTSE Women Leaders Review, and the position on Gender and Ethnicity Pay.

ROLE OF THE NOMINATION COMMITTEE

- Regularly review the structure, size and composition (including skills, knowledge, independence, diversity and experience) required of the Board.
- Consider succession planning for the Board and Senior Management, overseeing the development of a diverse pipeline.
- Identify and nominate candidates to fill Board vacancies.
- Assist in the annual Board evaluation process to assess performance and effectiveness of the Board and its Committees.
- Evaluate the balance of skills, knowledge, independence, diversity and experience on the Board.
- Review the leadership needs of the Company, both executive and non-executive, with a view to ensuring the continued success of the Company.
- Review the Group's policy on Diversity, Respect and Inclusion (see www.pennon-group.co.uk/about-us/governance-and-remuneration), including gender, and the progress against objectives.
- Review membership of the Board Committees.

This year, the Committee oversaw a number of planned changes to the Board. On 10 January 2024 Pennon Group plc announced that it had acquired the Company, which meant a change in the shareholder representatives on the Company's Board, following the acquisition and subsequent CMA clearance.

As the new Chair, together with my other newly appointed Board colleagues, I would like to thank Paul, Rebecca, Dave, Jon and Murray for their contributions and wish them all well for the future.

Changes in the year included the retirement of our intermediate Chair, Dr Gill Rider. It has been a great privilege to have taken on the role from Gill.

We also appointed Laura Flowerdew to the role of Group Chief Financial Officer. Laura was perfectly placed to take on the role, with a strong understanding of the industry, with her time at Bristol Water as Chief Financial Officer and at Pennon Group as Chief Customer and Digital Officer and more recently to present time, as Pennon Chief Financial Officer.

We also saw Claire Ighodaro, retire at the end of December 2024. We thank Claire for her dedication and wise counsel, and were delighted to welcome Andrea Blance as Remuneration Chair, bringing extensive risk and regulation expertise. Andrea joined from 8 April 2025, in line with her joining the Pennon Group. The Group were supported during this search by the Lygon Group, experts in Board Advisory and Executive search, and with no previous association with the company.

Finally, as we look ahead in 2025, we will be bidding farewell to Iain Evans, Senior Independent Director and Chair of ESG, as he plans to retire. Iain has been a valued Board colleague. In preparation for this, as a Group we have appointed Heidrick and Struggles, as independent consultants, following a robust procurement process, to support the Nominations Committee with this appointment.

The Committee held three scheduled meetings during the year, one before SES Water's incorporation into Pennon Group's governance structure and two after. We also held a number of ad-hoc meetings, in person and by Teams call, to fulfil the duties set out in its terms of reference.

Only the members of the Committee are entitled to attend the Committee meetings, but other regular invitees to Committee meetings during the year included the Group Chief Executive Officer, the Group General Counsel and the Pennon Group Company Secretary and the Pennon Group Chief People Officer. Committee members are also excluded from participating when their own positions are under discussion.

BOARD DIVERSITY

Building a diverse and inclusive culture is a strategic imperative for SES Water. The Committee maintains its strong interest in the Company's progress in championing diversity, whether in relation to gender, ethnicity, or social mobility, and regularly reviews the demographics of the workforce as well as the leadership.

We believe having a diverse mix of minds has helped to deliver a step change in our culture, as a more caring and considerate business, that places significant focus on wellbeing.

At the time of signing this report, female representation on the Board stood at 50%. In the 2025 edition of the FTSE Women Leaders Report, our parent company, Pennon, emerges as a leader, proudly showcasing its commitment to diversity, and ranked as 3rd in the FTSE 250 for representation on boards, for the second year running. The report, independently conducted and backed by the Government, is a ringing endorsement of our relentless efforts to lead the charge in fostering equality and inclusivity. Despite progress across the FTSE, our parent company, Pennon, is still one of only a few businesses in the UK to have both a female Chief Executive Officer and Chief Financial Officer.

The Group is an advocate of Sir John Parker's review of ethnic board diversity, meeting the external targets required of a responsible and inclusive business ahead of the required dates. For the second year running, in line with Pennon Group's commitment to the Change the Race Ratio campaign, the Group have also voluntarily published its ethnicity pay gap of 11.72% (mean). The Committee will continue to monitor pay gaps. Building our representation across the Company is a focus.

BOARD DIVERSITY, RESPECT AND INCLUSION POLICY

The Board requires the Committee to review and monitor compliance with the Board's diversity policy and report on the targets, achievement against those targets and overall compliance in the Annual Report each year. The policy was reviewed in March 2025.

The Board's diversity and inclusion policy confirms that the Board is committed to the search for Board candidates being conducted, and appointments made, on merit, against objective criteria whilst promoting the widest forms of diversity, including gender, social and ethnicity. In this context, the Board with endeavour to achieve and maintain:

- A minimum of 33% female representation on the Board
- Maintain one Board member as a minimum who is racially or ethnically diverse
- A minimum of 33% female representation on the Company's senior management team
- Satisfying itself that plans are in place for orderly succession of appointments of appointments to the Board and to senior management maintain an appropriate balance of skills and experience within the Company and on the Board and to ensure progressive refreshing of the Board.

The approach to Company-wide diversity is detailed on page 17 and is also fully applicable to our Remuneration, Audit and Nomination Committees, and as each Committee is comprised of members of the Board, the Board's Diversity, Respect and Inclusion policy detailed above, similarly applies. We exceed the policy.

Colleagues, including our Board and leadership, are asked to provide personal information for the purposes of monitoring equality and for statutory reporting purposes, including the FCA diversity disclosures and gender and ethnicity pay gap report. This is collected during recruitment and on-boarding and colleagues are asked to periodically review and update as necessary. Information is stored on the Company's HR management system, including the data used to populate the table below. Employees are encouraged to provide information on a voluntary basis.

TALENT MANAGEMENT AND SUCCESSION PLANNING

The Committee, supported by the Pennon Group Chief People Officer, regularly reviews both the executive and non-executive leadership as part of its standing agenda, reviewing both short-and long-term skills requirements, opportunities for positive support to minority groups, and early identification of high potential. In line with our commitment to Change the Race Ratio, we have renewed stretching targets to develop diversity in our leadership levels below Executive Committee level, and the Committee will continue to review progress on this important goal. As part of the regular reports received by the Committee, rates of participation analysed by many characteristics are provided, noting however that this is also subject to employees' willingness to disclose certain characteristics or sensitive information.

THE ETHNIC REPRESENTATION OF OUR BOARD

	Number of Board Members	% of the Board	Number of senior Board positions (CEO, CFO, SID, Chair)
White, British or other White (incl. minority white groups)	9	90	4
Mixed / multiple Ethnic Groups	-	-	-
Asian / Asian British	-	-	-
Black / African / Caribbean / Black British	1	10	-
Other ethnic group including Arab	-	-	-
Not specified / prefer not to disclose	-	-	-

THE GENDER REPRESENTATION OF OUR BOARD

	Number of Board Members	% of the Board	Number of senior Board positions (CEO, CFO, SID, Chair)
Men	**5**	**50**	**3**
Women	**5**	**50**	**1**
Other categories	**-**	**-**	**-**
Not specified / prefer not to disclose	**-**	**-**	**-**

BOARD PERFORMANCE REVIEW

The Board undertakes a formal and rigorous review of its performance and that of its Committees and Directors each year. This ensures that they continue to operate effectively and are identifying opportunities for improvement and best practice, as well as helping to inform future agenda items and areas of focus.

2024 BOARD PERFORMANCE REVIEW

The Board's 2024 internal evaluation concluded in May 2024. The Board concluded during this recent review that it remained satisfied that the Nomination Committee continued to perform its duties in line with its terms of reference.

The Board Chair reviews individual Non-Executive Director performance annually and in turn the senior independent Non-Executive Director undertakes a review of the Chair's performance annually. All 2024 reviews concluded that the Chair and Non-Executive Directors performed strongly during the year ended 31 March 2024, providing effective strategic guidance, management challenge and support and ensuring strong governance across the Company.

2025 BOARD PERFORMANCE REVIEW

This year the evaluation was carried out in March 2025 via questionnaires created internally by the Pennon Group General Counsel and Company Secretary in consultation with the Pennon Group CEO and Pennon Group Chair.

The questionnaires focused on the ongoing effectiveness of the Board during the year in setting the business' strategy for the next AMP, the Board dynamics, ensuring that the Board has a clear understanding of the views of its stakeholders, ensuring the Board takes the lead in promoting a strong health and safety culture throughout the business, and ensuring the Board has an appropriate level of focus on risk appetite and the internal control framework, and ensuring that the processes are in place to identify risk.

The review concluded that:

- There is an appropriate current focus on the operational performance, with the agenda developing to reflect the current stakeholder environment.
- The Board dynamics are developing but work well, with open, effective debate and appropriate challenge and good meeting preparation. There is good support for the senior management and a feeling the Board functions best when being totally transparent about the challenges the organisation is facing.
- The Board Committees are well run and have sufficient independent membership to ensure that they can make high quality decisions that address the diverse customer and stakeholder needs of the business.

The 2025 Board and Committee performance reviews identified several recommendations and action points for the Board to consider, which were presented to the Board for discussion at its meeting in May 2025.

An update on the outcomes of the Board's discussions of the 2025 Board and Committee performance reviews will be provided in the 2025/26 Annual Report and Financial Statements.

AUDIT COMMITTEE REPORT

THE AUDIT COMMITTEE IS FOCUSSED ON ENSURING SOUND FINANCIAL AND RISK MANAGEMENT TO SUPPORT THE COMPANY'S STRATEGY

Following incorporation into Pennon Group's Governance framework

Membership	Position	Attendance
Loraine Woodhouse	Chair	2/2
Iain Evans	Non-Executive Director	2/2
Claire Ighodaro[1]	Non-Executive Director	1/1
Andrea Blance[2]	Non-Executive Director	0/0

Before incorporation into Pennon Group's Governance framework

Membership	Position	Attendance
Murray Legg[3]	Chair	1/1
Rebecca Wiles[3]	Non-Executive Director	1/1
Jon Woods[3]	Non-Executive Director	1/1

1. Appointed 2 October 2024 and stepped down 31 December 2024
2. Appointed 8 April 2025
3. Stepped down 2 October 2024

For the period between Claire Ighodaro stepping down to the appointment of Andrea Blance, the committee composition was not in compliance with Provision 24, however for meetings during the relevant period another independent Non-Executive Director was in attendance along with the Chair, to ensure all decisions were made with the correct oversight of the institution's control, governance and risk management

ROLE OF THE AUDIT COMMITTEE

- Ensure the quality and integrity of the business' financial and regulatory reporting.
- Monitor and review the effectiveness of the internal control environment.
- Challenge the scope and adequacy of the business' risk management processes.
- Review the policies on Risk Management, Treasury, Tax and Delegated Authorities schedule.
- To monitor the independence, effectiveness and remuneration of the external auditor.

THE COMMITTEE'S FOCUS FOR 2024/25

- Ensure the 2025 Annual Report and Financial Statements are fair, balanced and understandable.
- In depth review of the key financial reporting judgements.
- Oversight of the transition of the Group External Audit to PwC.
- Ensuring readiness for UK Corporate Governance Code reforms.
- Stewardship of the Assurance Framework and Data Assurance Plan.
- Oversight of cyber security risks, priorities and planned actions.
- Risk "deep-dive" in key focus areas.
- Approval of revised Group Internal Audit Charter.

This report is intended to provide shareholders with an insight into the work of the Audit Committee ('the Committee') together with details of how the Committee has discharged its responsibilities throughout the year and overseen the process of assurance over the integrity of the 2025 Annual Report and Financial Statements ('the 2025 Annual Report').

We have focused on the following key priority areas:

- Ensuring the quality and integrity of the Company's financial reporting through the assessment of the application of accounting policies given underlying standards, challenging management through the review of the use of accounting judgements made in preparing financial reporting and the Committee's assessment of whether the financial reporting of the Company is presented in a fair, balanced and understandable manner
- Ensuring the 2025 Annual Report is aligned with the requirements and guidance from regulators, and that all matters reported on and disclosed meet the needs of our various stakeholders.

- Oversight of the transition of the Group External Audit to PwC following the tender of the External Audit in 2023/24.
- Monitoring and reviewing the ongoing effectiveness of the Group's risk management and internal control environment, including the effectiveness and independence of the Internal Audit function.
- Challenging the scope and adequacy of risk management processes across the Group. In doing this, we monitor the expression of the Group's risk appetite and undertake "deep dive" reviews of higher risk areas.
- Approval of revised Group internal audit charter.

The Committee uses its collective expertise, with input from the External Auditor, to provide a robust challenge to the approach and judgements made by management in the treatment of financial matters and their resulting disclosures within the financial statements. PwC continued as External Auditors for the current financial year. Throughout the year the Committee and management maintained positive engagement with them.

One of our key roles is to advise the Board that we are satisfied that the 2025 Annual Report is fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's position, trends in performance, business model and strategy. In doing so, we ensure that management's disclosures reflect the supporting detail or challenge them to explain and justify their explanation and, if necessary, re-present the information. As part of fulfilling these commitments, we carefully consider the key financial reporting judgements of management as set out on pages 82 to 83. Significant matters considered by the Committee both during the year and in relation to the year end financial statements are laid out in this report. The External Auditor supports this process in the course of the statutory audit.

The Committee discharges its responsibilities throughout the year in accordance with a schedule of business reflecting the annual external reporting cycle of the Company, allowing for appropriate consideration at the right point. This scheduling also allows for consideration on an ad-hoc basis of events as they have arisen.

The Committee formally considers the effectiveness of the Company's risk management and internal control systems. This is achieved through updates on the operation of risk management processes during the year and the outcomes of key assurance activities, including from the Company's independent internal audit function. Additionally, the Audit Committee undertake risk deep dives focused on aspects of the Company's principal risks.

During 2024/25, the Audit Committee have performed risk deep dives on the following areas:

- Incident Management
- Cyber Security

More detail on our risk management processes, principal risks and their associated mitigations can be found on pages 32 to 45.

The Audit Committee has also been actively engaged and received regular updates during the year on the preparations for meeting the enhanced requirements set out within the 2024 UK Corporate Governance Code, in particular those aspects in respect of Audit, Risk and Internal Control. Good progress has been made with the initial phase focused on financial reporting related processes and controls. The scope of these preparations during 2025/26 will expand to cover non-financial elements alongside the financial reporting related processes and controls.

Alongside this focus on our risk processes, we formally reviewed the output of the Company's financial resilience and health assessments throughout the year: with the receipt of the Final Determination providing greater clarity on the next five years, this activity was critical for the long term success and viability of the business. The Audit Committee considers an 18-month 'look forward' period through our assessment of the Company's going concern status, and over a period of seven years to assess the Company's continuing viability. This viability assessment has considered a range of financial projections arising from the current challenging and complex external environment with ongoing uncertainties in relation to economic growth, inflation prospects and the impact of the PR24 Final Determination on our water businesses. These are modelled through internal scenarios around the deployment of Company cash reserves across the full scope of the Company. The Company maintains a seven-year viability assessment period, which in the current year aligns with the confidence provided through the PR24 Final Determination for our water businesses, given the visibility of future cash flows it brings to our regulated businesses. Our viability statement is reported on pages 49 to 51.

Throughout the year, the Company has remained focused on delivering a resilient performance in UK water, despite a difficult period of cost inflation and scrutiny of the water industry as a whole. We are focused on delivering sustainable results for all stakeholders.

AUDIT COMMITTEE COMPOSITION

All members of the Committee are Independent Non-Executive Directors of the Board. In accordance with the UK Code, the Board is satisfied that Loraine Woodhouse and Claire Ighodaro, both of whom served on the Committee during the year under review, have recent and relevant financial experience and also have competence in accounting or auditing.

Only members of the Committee have the right to attend Committee meetings. Other regular attendees at meetings, at the invitation of the Committee, include the Chair of the Board, the Group Chief Executive Officer, the Group Chief Financial Officer, the Group General Counsel and Company Secretary, Group Director of Risk and Assurance, Group Financial Controller and the External Auditors.

The Committee regularly holds private discussions with the External Auditor without management present. Further, the Committee Chair regularly communicates with the Group Chief Financial Officer, the External Auditor and with Committee members outside the meetings to better understand any issues or areas for concern.

MATTERS OF SIGNIFICANCE IN 2024/25

Financial reporting	• Reviewed and discussed reports from management on the financial statements, considered managements significant accounting judgements and policies being applied, and assess the findings of the statutory audit in respect of the integrity of the financial reporting of full and half year results and as subsequent interim review of the results to November to support our parent company, Pennon Group plc's, rights issue. • Reviewed the internal assessment of Going Concern and longer-term viability on behalf of the Board. • Reviewed in detail the 2025 Annual Report and advised the Board that the presentation of the 2025 Annual Report is fair, balanced and understandable in accordance with reporting requirements, including the consideration of climate risk in the preparation of the financial statements, and recommended the Board give approval for publication.
External auditor	• Oversaw the 2024/25 statutory audit, including the key audit risks and level of materiality applied by the External Auditors. • Agreed the statutory audit fee for the year ending 31 March 2025. • Reviewed and approved the non-audit services and related fees provided by the External Auditors for 2024/25. Note, in line with the structure of the Group, certain activities such as recommending reappointment of the External Auditor and assessment of effectiveness of the External Auditor are performed by the Pennon Group Audit Committee. The responsibilities of the Pennon Group Audit Committee are described in the 2025 Pennon Group annual report and Accounts (pages 151 to 155).
Internal Controls and Risk management	• Reviewed the effectiveness of the business' risk management framework and its integration into Board and Committee Reporting. • Reviewed the Risk Appetite statement prior to making a recommendation to the Board. • Monitored fraud reporting and incidents of whistleblowing, including a review of the Group's whistleblowing processes and procedures and reporting to the Board on this. • Reviewed the risk register as part of the Annual Report process and considered appropriate areas of focus and prioritisation for the internal audit work programme for the financial year. • Carried out deep dives at Committee meetings on principal risk areas • Approved the revised Group Internal Audit Charter in line with latest guidance and updated standards. • Reviewed updated Legal Compliance Policies to progress for approval.

Governance	• Considered and approved accounting policies, including the impact of new accounting standards, used in the preparation of the financial statements including any required alignments. • Reviewed and considered internal financial policies. • Confirmed compliance with the UK Corporate Governance Code. • Held regular meetings with the external auditor without members of management being present. • Reviewed updates on the Company's preparations for the UK Corporate Governance Code reforms.

Regarding monitoring of the integrity of the financial statements, which is a key responsibility of the Committee identified in the UK Code, the significant areas of judgement considered in relation to the financial statements for the year ended 31 March 2025 are set out in the following table, together with details of how each matter was addressed by the Committee.

At the Committee's meetings throughout the year the Committee and the external auditor have discussed the significant matters arising in respect of financial reporting during the year, together with the areas of particular audit focus, as reported on in the independent auditors' report on pages 115 to 121. In addition to the significant matters set out in the table below, the Committee considered presentational disclosure matters including the use on non-underlying performance metrics disclosures, and ensuring a fair presentation of statutory and non-statutory performance and financial measures.

During the year, the Committee's areas of focus included:

Area of focus	How the matter was addressed by the Committee
Revenue recognition	Given the nature of the Company's revenue, the key areas of income statement judgement for SES Water continue to be in respect of revenue recognition relating to income from water services. The Committee undertook a deep dive into the measured income accrual to ensure a robust and accurate position in the current year, as well as a further streamlining of the methodologies and judgements applied. The Committee continues to scrutinise the track record of accuracy by comparing actual outturns with accruals at previous year ends to form a judgement about the quality of decision making and to ensure any learnings are further embedded in the calculation to improve accuracy going forward. The Committee also closely considered the work in respect of these areas at year end by the external auditor as well as reviewing disclosures around revenue recognition accounting policies.
Bad and doubtful debts	Regular updates on progress against debt collection targets and other contractual payments due are received by the Board. Performance is monitored regularly across the Company against historical standards and compared to the track records of other companies in the relevant sectors. The Committee was particularly mindful of the ongoing impacts of affordability on the assessment of expected credit losses in determining the bad debt provision, noting the significant increases in inflation arising from macroeconomic developments. At the year end, the external auditor reported on the work it had performed, which, together with the detailed analysis reported, enabled the Committee to conclude that management's assessment of the year-end position and its provisions for expected credit losses were reasonable.
Going concern basis or the preparation of the financial statements and viability statement	A report from the Group Chief Finance Officer on the financial performance SES Water, including forward-looking estimates of covenant compliance and funding levels under different scenarios, including inflationary scenarios, is provided to the Committee on a periodic basis. Rolling seven-year strategy projections, and the resultant headroom relative to borrowings, are also regularly reviewed by the Committee, including the application of scenarios to enable the Committee to better understand the potential range of outcomes. At the end of each six-month period the Committee receives for consideration a report focusing on the Company's liquidity over the 15-month period from the date of signing of either the Annual Report or half-year results. The Committee also reviewed a report on the Company's financial viability over an appropriate period, in connection with the UK Corporate Governance Code's requirement for a viability statement to be given by the Board. The Board regularly considers the appropriate period for the viability assessment to be performed in line with the UK Corporate Governance Code. The Board considers the appropriate period to assess the Company's viability should be increased to seven years, previously until the end of

	K8, which recognises the longer-term visibility in the regulatory environment of the Water business. Similarly, this report also considered the viability of the Company, taking into account the potential manifestation of other adverse events modelled from the Company's principal risks and resultant sensitivity scenarios. Consideration of these reports and constructive challenge on the findings of the reports, including the scenario testing carried out by management, has enabled the Committee to form its assessment and satisfy itself that it remains appropriate for the Company to continue to adopt the going concern basis of accounting in the preparation of the financial statements and in addition advise the Board on providing the viability statement set out on pages 49 to 51.

EXTERNAL AUDITOR

A tender for the external auditor of the Company was conducted in 2018/19 with PwC appointed external auditor for the year ended 31 March 2020. The audit partner from appointment to 2023/24 was Richard French. In February 2024 the Pennon Group Audit Committee conducted a formal tender process, as reported in the Pennon Group Plc Annual Report and Accounts 2024. 2024/25 year end audit was Pennon Group's first year with PwC in office as auditor. As a consequence of this change, the Directors have assessed the tender process that was performed for the Pennon Group and have concluded that the process was sufficient to also meet the tender requirements for the Company in respect of 2024/25 year end audit. In accordance with best practice and professional standards, the Company requires its external auditor to adhere to a rotation policy whereby the audit partner is rotated after five years. Colin Bates became the audit partner of the Company on 1 April 2024, and also became the audit partner of Pennon Group from 1 April 2024.

EFFECTIVENESS OF THE EXTERNAL AUDIT PROCESS

Receiving high-quality and effective audit services is of paramount importance to the Committee. We continue to monitor carefully the effectiveness of our external auditor as well as their independence, while recognising there is a need to use our external auditors' firm for certain non-audit services. We have full regard to the FRC's Ethical Standard and ensure that our procedures and safeguards meet these standards.

The External Auditor produced a detailed audit planning report in preparation for the year-end financial statements, which has assisted the auditor in delivering the timely audit of the Company's Annual Report and which was shared with, and discussed by, the Committee in advance.

The effectiveness review of the External Auditor is considered as part of the Committee's annual performance evaluation, which also examines the relationship and communications between the Committee and the external auditor. The evaluation will take place in due course, after completion of the current year audit.

The Committee Chair has also met privately with the External Auditor to discuss key matters on a number of occasions.

AUDITOR INDEPENDENCE

The Committee regards independence of the External Auditor as absolutely crucial in safeguarding the integrity of the audit process and takes responsibility for ensuring the three-way relationship between the Committee, the External Auditor and management remains appropriate.

The External Auditor reported on their independence during the year and again since the year end, confirming to the Committee that, based on their assessment, they were independent of the Company.

PROVISION OF NON-AUDIT SERVICES

The Committee continues to have a robust policy for the engagement of the external auditors' firm for non-audit work. The Committee receives a regular report covering the auditors' fees including details of non-audit fees incurred.

Recurrent fees typically relate to agreed procedures in relation to annual regulatory reporting obligations to Ofwat; work which is most efficiently and effectively performed by the statutory auditor. The policy is for non-audit fees not to exceed 70% of the audit fee for statutory work and for the Committee chair to approve all non-audit work performed by the statutory auditor.

The Committee carefully reviews non-audit work proposed for the statutory auditor, taking into consideration whether it was necessary for the auditors' firm to carry out such work, and only grants approval for the firm's appointment if it was satisfied that the auditors' independence and objectivity would be safeguarded. If another accounting firm could provide the required cost-effective level of experience and expertise in respect of the non-audit services, then such firm would be chosen in preference to the External Auditor.

The level of non-audit fees payable to the external auditor for the past year is 28.2%, which is within the Company's 70% non-audit fee limit.

The Group Chief Financial Officer regularly reports to the Committee on the extent of services provided to the Company by the External Auditor and the level of fees paid. The fees paid to the External Auditors' firm for non-audit services and for audit services are set out in note 6 to the financial statements on page 142.

INTERNAL AUDIT

The internal audit activities of the Company are a key part of the internal control and risk management framework. There is a long-standing and effective centralised internal audit service at Pennon Group plc which supports the Committee in delivering its responsibilities and has continued to operate effectively. The Group internal audit charter was updated during the year to reflect the requirements of the new Global Internal Audit Standards. The Internal Audit Plan is set on a rolling six-month basis and was approved in March 2024 and September 2024, following a thorough review to ensure it provided adequate coverage over the business' key risks for the year ahead and was sufficiently flexible to respond to emerging risks. In developing the plan, account is taken of the principal risks, the activities to be undertaken by the External Auditor, and the business' annual and ongoing risk management reviews. This approach seeks to ensure that there is a programme of internal and external audit reviews focused on identified key risk areas throughout the business.

The Group Director of Risk and Assurance reported regularly through the year to the Committee on the outcomes and findings of internal audit activity. There were regular discussions, correspondence and private meetings between the Group Director of Risk and Assurance and the Committee Chair. The Committee continues to monitor the performance of the internal audit function as part of its annual assessment of the effectiveness of the function. As required by IIA standards, the next cyclical external review of the internal audit function will take place before the end of 2026/27 (the last having been undertaken in 2021/22).

FAIR, BALANCED AND UNDERSTANDABLE ASSESSMENT

To enable the Committee to advise the Board in making its statement that it considered that the Company's annual report is fair, balanced and understandable (FBU) on page 81, the Committee has applied a detailed FBU review framework that takes account of the Company's well-documented verification process undertaken in conjunction with the preparation of the 2025 annual report. This is in addition to the formal process carried out by the external auditor to enable the preparation of the independent auditors' report, which is set out on pages 115 to 121.

In preparing and finalising the 2025 Annual report, the Committee considered a report on the actions taken by management in accordance with the FBU process and an FBU assessment undertaken by the Pennon Group Executive. This assisted the Committee in carrying out its own assessment and being able to advise the Board that it considered that the annual report & accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

LOOKING FORWARD

During the forthcoming year, the Committee will remain focused on the key areas of responsibility delegated to it by the Board, ensuring that standards of good governance are maintained and that appropriate assurance is obtained across all areas of the business Particular focus will be given to the business' principal risks, internal control environment and approach to financial reporting, noting the start of the new regulatory period, special measures Bill and ongoing volatility in the global economy. Developments in reporting responsibilities, the consideration of climate risk in preparation of the financial statements and the changes in the UK Corporate Governance Code, including the pending requirements of provision 29, will be considered throughout the year.

AUDIT, RISK AND INTERNAL CONTROL

RISK MANAGEMENT AND THE COMPANY'S SYSTEM OF INTERNAL CONTROL

The Board is responsible for maintaining the Company's system of internal control to safeguard the Company's assets and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. An ongoing process for identifying, evaluating and managing the significant risks faced by the Company has been in place throughout the year and up to the date of the approval of this Annual Report and Financial Statements, and is regularly reviewed by the Board.

The Company's system of internal control is consistent with the FRC's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' (FRC Internal Control Guidance).

The Board confirms that it applies procedures in accordance with the UK Code and the FRC Internal Control Guidance which brings together elements of best practice for risk management and internal control by companies. The Board's risk framework described on pages 32 to 36 of the strategic report provides for the identification of key risks, including ESG risks, in relation to the achievement of the business objectives of the Company, monitoring of such risks and ongoing and annual evaluation of the overall process. Details of the key risks affecting the Company are set out in the strategic report on pages 37 to 45.

Key Performance Indicators are in place to enable the Board to measure ESG performance on. A full breakdown of performance during the year against these KPIs is provided in SES Water's Annual Performance Report, which will be published in July (see https://seswater.co.uk/about-us/publications/our-annual-performance-report).

As part of the review of the effectiveness of the system of risk management and internal control under the Company risk management policy, all Executive Directors and senior managers are required to certify on an annual basis that they have effective controls in place to manage risks and to operate in compliance with legislation and Company procedures.

The Company's processes and policies serve to ensure that a culture of effective control and risk management is embedded throughout the Company and that the Company is in a position to react appropriately to new risks as they arise. New and emerging risks are identified in further detail in the risk management section on page 35.

CODE OF CONDUCT AND POLICIES

SES Water has adopted the Pennon Group's Code of Conduct. The Code of Conduct and related policies set out the Company's commitment to promoting and maintaining the highest level of ethical standards. Areas covered in the Code of Conduct include our impact on the environment and our communities, our workplace and our business conduct.

The Code of Conduct sets out the values and principles by which we operate and provides a framework for ethical business practices. It is further supported by a number of policies that guide our workforce and suppliers, so that we may identify and deal with suspected wrongdoing, fraud or malpractice, maintain the highest standards of compliance, and to apply consistently high standards of ethics. We aim to maintain a culture that fosters the reporting of any concerns and trust that we will act on them.

Our Code of Conduct and other key compliance policies can be found here: https://www.pennon-group.co.uk/about-us/policies.

ANTI-FINANCIAL CRIME POLICY

The anti-financial crime policy outlines the requirements of the Company comply with relevant legislation, ethical standards and best practice on preventing financial crime (including acts of bribery, fraud, money laundering and tax evasion) and provides information and guidance to those working for and on the Company's behalf on how to spot 'red flags' that could indicate a risk of financial crime.

The policy is at the heart of the new Code of Conduct published in February 2025. The Code of Conduct was launched to employees together with a bespoke interactive e-learning module which steps employees through different financial crime scenarios asking the learner to identify red flags which are set out in the policy. The training is mandatory for all employees and is delivered through the Company's learning management platform to track completion. Employees will be obligated to complete an annual refresher, and the course is part of the induction of all new employees irrespective of job function.

The Legal Compliance function ensures compliance with the policy and Code of Conduct in line with our risk-based approach by conducting ad hoc checks on completion of the mandatory training set out above, providing specific training to areas of potential higher risk as part of our Bribery and Fraud Risk Assessment programme (e.g. Procurement and Commercial & Estates), and carrying out detailed investigations into allegations of potential wrongdoing (whistleblows) received from employees, customers and suppliers.

The potential consequences for colleagues and the Company itself are clearly set out in the policy as are the processes for raising concerns. Any breaches or failure to adhere to the Company's strict standards of integrity and honesty will be subject to disciplinary action, up to and including dismissal from the Company. All employees are required to report any circumstances or any suspicions of fraud, bribery, corruption or other irregularities, either to a line manager or by using the Group's confidential whistleblowing service Speak Up.

The Legal Compliance team (in conjunction with the Internal Audit function and Group Tax team) created a revised financial crime risk assessment framework in April 2024. This was delivered in 24/25 and included:

- Combined business-wide bribery and fraud risk assessment process, which included a training session on the law governing financial crime and a risk assessment completion workshop.
- Tax evasion risk assessment.

The framework is complemented by the regular review of corporate policies relating to financial crime prevention. In addition to the Code of Conduct, a new simplified Gifts and Hospitality policy was introduced and approved by the Board at their September meeting.

Allegations of financial crime are reported to the Audit Committee together with investigation outcomes and details of any action taken, which are disclosed to our external auditors. There were no confirmed cases of bribery, corruption, fraud, or business ethics violations during the year.

TRAINING AND COMMUNICATIONS

Our comprehensive programme of training and internal communications continues with targeted messaging and interactive training sessions. This programme addresses the business's key compliance risk areas and has been designed to increase resilience, heighten awareness and promote a culture of doing the right thing. From 2024, colleagues are required to complete a refresher compliance training (focussed on the Code of Conduct which sign posts to all Company policies) on a yearly basis to ensure that continuous knowledge and understanding of our policies are maintained.

WHISTLEBLOWING POLICY – SPEAK UP

The Speak Up service encourages employees to raise concerns about suspected wrongdoing or unlawful or unethical conduct, explains how any such concerns should be raised and ensures that employees are able to do so without fear of reprisals. The Company's whistleblowing policy specifically includes and encourages reporting of:

- Endangering someone's health and safety
- Anything that is against the law
- Stealing or fraud
- Corrupt or dishonest activity
- Damage to the environment
- Covering up wrongdoing
- Abuse of authority
- Intentionally misreporting to a regulatory body
- Bullying, harassment and/or victimisation
- Tax evasion or the facilitation of tax evasion

The Speak Up service comprises telephone and web-based reporting channels operated by independent provider NAVEX Global.

Following receipt of a report, the allegation will be triaged to assess if the issue is a personal grievance or has a wider public interest element, and an investigation started promptly if in the public interest to do so. The investigation process is overseen by the Ethics Management Committee and will be undertaken fairly, impartially, and thoroughly by appropriately trained investigators, with strict confidentiality being maintained at all stages of the investigation.

After each investigation, a confidential review is undertaken to identify any lessons learnt, or organisational improvements or training requirements. Other improvements identified are always acted upon, while ensuring the paramount requirement of operating a whistleblowing process that protects the identity of individuals and the independence and integrity of the process. Our whistleblowing process is designed to support our staff, reflect shared responsibility, promote a positive culture and provide unique insights, and is central to our system of checks and balances.

To emphasise our commitment to transparency and continuous improvement, we have led on the creation of a Water Industry Whistleblowing Best Practice Forum consisting of 12 water and waste companies across England and Wales.

THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT

The ESG committee (the committee) supports the company's ongoing commitment to environmental stewardship, social responsibility, and strong governance, ensuring that sustainability remains embedded across the company.

Following incorporation into Pennon Group's Governance framework

Membership	Role	Attendance
Iain Evans (Chair)	Chair	2/2
David Sproul[1]	Non-Executive Director	2/2
Jon Butterworth	Non-Executive Director	2/2
Dorothy Burwell	Non-Executive Director	2/2
Susan Davy	Group Chief Executive Officer	2/2
Laura Flowerdew[2]	Group Chief Finance Officer	2/2
Andrea Blance[3]	Non-Executive Director	0/0

Before incorporation into Pennon Group's Governance framework

Membership	Role	Attendance
Jon Woods[4]	Chair	1/1
Ian Cain[4]	Chief Executive Officer	1/1

From the 1 April 2025 Dorothy Burwell will be Chair of the ESG Committee and membership will be Jon Burwell. Loraine Woodhouse, Susan Davy and Laura Flowerdew.

1. Appointed 24 July 2024
2. Appointed 19 November 2024
3. Appointed 8 April 2025
4. Stepped down 2 October 2024

ROLE OF THE ESG COMMITTEE

- Review the policies, management, initiatives and performance of the Company with respect to the environment, workplace policies, Company governance and corporate policies relating to responsible and ethical business practices, the role of the Company in society and customer service and engagement.
- Review the overarching environmental performance of the business, ensuring a focus on key areas of improvement.
- Review the actions of the Company to determine the suitability of the workplace environmental policies and practices of key suppliers and contractors.
- Review the extent and effectiveness of the Company's external reporting of sustainability performance and its participation in relevant external benchmarking indices.
- Regularly report to the Board.
- Advise the Audit Committee of any material non-financial risks.

THE KEY SUCCESS OF THE COMMITTEE'S FOCUS FOR 2024/25

- Achieved 13 out of 16 of our Group ESG targets for 2025.
- Refreshed our materiality assessment, following double materiality principles in line with best practice to complete our first Double Materiality Assessment (DMA) to highlight the priority ESG topics areas.
- Established new ESG targets for 2025-2030 informed by the outputs of our DMA.
- Enhanced our social strategy informed by a deep dive into our Social Performance.
- Continued to successfully integrate ESG principles across the Group, with a strong focus on our supply chain leading to an exciting partnership with the Supply Chain Sustainability School.
- Successful progress made against our four priorities for 2024/25, including greenhouse gas emissions reductions and water quality and resilience.
- Reviewed our ESG reporting and assessments in line with incoming legislation - including UK Sustainability Reporting Standards (UK SRS).

Our approach to ESG ensures that everything we do supports our commitment to providing environmental stewardship and supporting our local communities and customers. A broad range of ESG topics were considered by the Committee during the year while fulfilling its duties in accordance with our latest terms of reference and governance structures. The Committee closely monitored its wide range of ESG measures, targets and environmental KPIs alongside compliance and assurance activities, which showed strong performance throughout the year. This performance has been underlined by our continued improvement on greenhouse gas emissions reduction targets, achieving our Group 2025 target for Scope 2 market-based emissions.

A strategic leadership approach has been implemented to address areas of improvement, particularly across renewable energy generation, pollution, and water quality. Remediation activities are currently underway to ensure continued improvements in performance for 2025/26. Our strong progress on existing regulatory commitments and Group ESG targets to 2025 have been further identified in “Our Integrated Approach to ESG” on page 24, and the key focus areas for the Committee in 2025/2026 are noted in the “Focus areas for 2025/26” below.

As we conclude our 2025 Group ESG targets, this year has provided a valuable opportunity to reflect on our performance and shape our future ambitions. The Double Materiality Assessment (DMA) conducted in alignment with best practice has provided critical insights into stakeholder views, building on our four strategic priorities as a business. This assessment has formed the foundation of our next phase of ambitious ESG targets, spanning 2025-2030. These refreshed targets take into account our ever-changing environment and ensure focus on the highest-priority issues for our stakeholders, driving performance above and beyond our current regulatory commitments. As we enter this next chapter, we remain committed to driving our performance against these targets, driving long-term value for our stakeholders and environment, enhancing our sustainability performance.

Following on from our supply chain deep dive in 2023/24, we remain committed to ensuring that ESG principles are inherent within the business activities and across our supply chain. Driven by our ESG improvement programme, we are partnering with the Supply Chain Sustainability School (SCSS) to upskill both suppliers and internal colleagues across all sustainability-related topics. This is part of our wider commitment to continue endorsing the assessment of supplier ESG measures against stakeholder, regulatory, and investor requirements to ensure alignment with our sustainability ambitions activities.

ESG PERFORMANCE

The ESG Committee continues to provide assessment and oversight of the Group’s entities’ performance against sustainability-related targets that are core to the successful delivery of its five-year business plan. This is consistent with Ofwat’s requirement for independent governance of the regulated business.

As of 31 March 2025, we have achieved 13 out of 16 Group ESG targets, representing strong progress against our challenging ESG goals. Whilst we continue to consistently outperform in our greenhouse gas reductions, renewable energy generation as a proportion of total usage is lower than our target for the year. This is due to increased energy usage driven by reinforced pumping and treatment in response to extreme wet weather throughout the year.

As detailed above, we have now set ambitious Group ESG targets to drive sustainable outcomes for the period 2025-2030. This have been disclosed in our parent company, Pennon’s 2025 Annual Report and Accounts on page 87.

ENHANCED REPORTING AND ASSURANCE

As a key topic identified in this year’s Double Materiality Assessment, we continue to evolve our ESG reporting and disclosures with our integrated reporting found throughout our parent company Pennon’s 2025 Annual Report and Accounts, alongside a refreshed ESG Data Book to drive transparency throughout our ESG data. Our Group SASB disclosures can now be found within our ESG Data Book which is available to view at www.pennon-group.co.uk/sustainability.

Other related reporting including our Group Gender Pay Gap report, Climate Change Adaptation Report and Net Zero plan can be found on our parent company’s website www.pennon-group.co.uk/sustainability.

Our Group ESG performance and reporting is now assured by Jacobs, an independent consultancy with expertise in technical assurance for the utility sector. Jacobs uses a controls-based approach, assessing the processes, systems, and governance frameworks that underpin ESG data to ensure accuracy, consistency, and reliability. The assurance statement can be found on our parent company’s website at www.pennon-group.co.uk/sustainability.

Jacobs are engaged to independently audit SES Water's technical (non-financial) data relating to our Outcome Delivery Incentives published in its Annual Performance Report (APR), this includes all regulatory targets, including a suite of environmental performance indicators. This year, Turner and Townsend have conducted an independent audit of other non-financial also included in the APR. This includes all SES Water regulatory targets, including the suite of environmental performance indicators. Jacobs provide a report on this audit within SES Water's APR.

As we enter the new regulatory period to 2030, we are reassessing our assurance requirements and will retender for technical (non-financial) audit activities to be consistent across all of the Companies and regions.

BENCHMARKING

It's important to us to ensure we are regularly benchmarked against the expected industry standards. This ensures we are continuing to provide up to date disclosure for our stakeholders. Certain leading indices assess companies on their disclosures relating to stringent environmental, social and governance criteria, and their capacity to capitalise on the benefits of responsible business practice. Pennon Group is a constituent within the FTSE4Good Index, Sustainalytics, CDP Climate and Water, GRESB, S&P Global CSA, and a number of other leading external ESG assessments.

Our latest external assessment scores as of 31 March 2025, in our parent company, Pennon's 2025 Annual Report and Accounts on page 86, show our improved performance across all assessments, building on our status as an ESG leader within our industry.

FOCUS AREAS FOR 2025/26

- Embed and progress against our refreshed ESG targets for 2025-2030.
- Develop our Social approach to embed social value within our community investment.
- Continue to review our ESG assessments in line with incoming legislation - UK Sustainability Reporting Standards (UK SRS).
- Development of supply chain improvements, embedding benefits through our partnership with the Supply Chain Sustainability School (SCSS).
- Engage in diverse deep dive sessions across the ESG areas.
- Review of external ESG benchmarking to refocus reporting to channels used most by our stakeholders.

HEALTH AND SAFETY COMMITTEE REPORT

THE HEALTH AND SAFETY COMMITTEE PROMOTES A CULTURE OF SAFETY WITHIN THE COMPANY.

Following incorporation into Pennon Group's Governance framework

Membership	Role	Attendance
Jon Butterworth	Chair	1/1
Iain Evans	Non-Executive Director	1/1
Dorothy Burwell	Non-Executive Director	1/1
Susan Davy	Group Chief Executive Officer	1/1
Laura Flowerdew	Group Chief Financial Officer	1/1

Before incorporation into Pennon Group's Governance framework

Membership	Role	Attendance
Rebecca Wiles[1]	Chair	2/2
Ian Cain[1]	Chief Executive Officer	1/2

From April 2025, membership of the Health and Safety Committee will be Jon Butterworth, Iain Evans, Loraine Woodhouse, Susan Davy and Laura Flowerdew.

1. Stepped down 2 October 2024

THE COMMITTEE'S FOCUS FOR 2024/25

During the year, the Committee considered a wide range of matters in the course of fulfilling its duties in accordance with its terms of reference:

- Half yearly comprehensive reviews of the Company's Health & Safety performance.
- A review of the tactical interventions to deliver in year improvements in incident reduction.
- A review of the HomeSafe 2025 strategy and evolution to HomeSafe 2030.
- A review and challenge of high potential near-miss events to ensure themes are identified and pragmatic solutions implemented.
- Visiting operational sites to engage with front-line colleagues and the wider Health and Safety teams.

ROLE OF THE HEALTH & SAFETY COMMITTEE

- Review and challenge to support the Board and Executive on all matters connected to Health and Safety
- Review the extent and effectiveness of the business' reporting of health and safety performance and compare to external benchmarks
- Regularly report to the Board
- Advise the audit committee of any material non-financial risks

We are passionate about health and safety. Everyone is empowered to take responsibility for both safety and wellbeing, feeling able to call out anything that makes us better. Safety is about taking accountability and brave leadership, which leads to the journey of a world-class culture.

HomeSafe - our flagship initiative to drive enduring and sustained change - has played a pivotal role across the Company. Our dedicated Board Committee, focused purely on H&S, ensures the Board continues to support our HomeSafe strategy and the business' vision that everyone goes home safe every day. We continue to strive to improve our health and safety performance, and leadership from the top is critical. The Board has dedicated time to visit operational sites, discuss and review performance, offer support, encourage learning, and meet department and site leaders and employees from across the business.

The Board recognises the improvements across the business through HomeSafe and supports the evolution of the strategy to drive improvements across all aspects of health, safety and wellbeing through to 2030.

I was delighted that the Committee was able to support the HomeSafe live event this year and visit multiple operational sites. The interactive workshops had core health and wellbeing messages featured throughout and allowed employees to engage directly with senior leadership.

Importantly, the Committee reviews deep dives of High Potential Incidents with a particular focus on lessons learned, getting to the root cause, encouraging a learning mindset. These reviews highlight the improvements in culture, leadership and accountability through open and honest investigations seeking to learn and improve whilst deliver pragmatic solutions.

H&S COMMITTEE COMPOSITION

All Board members are attendees and served throughout the year, with support from the Group Chief People Officer and the Group's Health and Safety Director.

REPORTING

In addition to the regular Board report by the Group Chief Executive Officer, detailed performance is reviewed quarterly by the Pennon Group Executive team, and six-monthly by this Committee, focusing on performance, benchmarking, and lead activities such as leadership and engagement, hazard rectification, asset health, critical safety controls and working environment.

Engagement through all levels of the organisation has demonstrably increased and has supported the incremental improvements, and we saw the lowest ever Group Lost Time Injury Frequency Rate (LTIFR), for employees and agency, excluding contractors, achieving the original HomeSafe ambition of 0.25.

The evolution of HomeSafe will continue to drive improvements and will be regularly reviewed to ensure it drives us towards our 2030 aims, and beyond.

The Committee will continue to review and challenge plans and performance to support our HomeSafe ambitions.

HOMESAFE STRATEGY

The Group's flagship H&S programme, HomeSafe, continues to provide the framework for driving significant improvements in all health and safety activities and impacts. The evolution of HomeSafe is an important progression to deliver continuous improvement throughout K8, and is focused on the four cornerstones of:

- **Occupational Safety**: focusing on the Individual
- **Process Safety**: focusing on the high consequence processes within our water and wastewater treatment process.
- **Occupational Health and Wellbeing**: focusing on physical and mental health
- **Security**: focusing on physical and personnel security

REMUNERATION COMMITTEE REPORT

THE ROLE OF THE REMUNERATION COMMITTEE IS TO SET AND IMPLEMENT EXECUTIVE PAY IN A FAIR AND SOCIALLY RESPONSIBLE MANNER.

Following incorporation into Pennon Group's Governance framework

Membership	Role	Attendance
Andrea Blance[1]	Chair	0/0
Claire Ighodaro[2]	Chair	1/1
Iain Evans[3]	Non-Executive Director	2/2
Dorothy Burwell	Non-Executive Director	2/2
Loraine Woodhouse[4]	Non-Executive Director	2/2

Before incorporation into Pennon Group's Governance framework

Membership	Role	Attendance
Jon Woods[5]	Chair	1/1
David Shemmans[5]	Non-Executive Director	1/1
Murray Legg[5]	Non-Executive Director	1/1
Rebecca Wiles[5]	Non-Executive Director	1/1

1. Andrea Blance was appointed to the Board as Remuneration Chair on 8 April 2025.
2. Claire Ighodaro resigned from the Board as at 31 December 2024
3. Iain Evans acted as Chair of the Committee for the March meeting
4. Loraine Woodhouse stepped down from the Remuneration Committee on 1 April 2025
5. Jon Woods, David Shemmans, Murray Legg and Rebecca Wiles stepped down on 2 October 2024

ROLE OF THE REMUNERATION COMMITTEE

- Ensure remuneration is aligned with the Company's strategy and reflects the values of the Company.
- Determine the Remuneration Policy to ensure it remains appropriate, considering shareholders' views and best practice and supports attraction, retention and motivation of Executive Directors.
- Advise the Board on the framework of executive remuneration for the Company.
- Set the remuneration for the Executive Directors and senior executives of the Company and reviewing the remuneration arrangements of the wider workforce.
- Approve the design and determine targets for any performance-related pay schemes.
- Determine the appropriate outturn of any incentive arrangements.

THE COMMITTEE'S FOCUS FOR 2024/25

- Considered the remuneration and terms of engagement of the Executive Directors, senior executives and Chair of the Company and the remuneration of the wider workforce post the acquisition of SES by the Pennon Group.
- Determined targets that remain stretching, relevant to the Company's strategy and values and reflect best practice and wider stakeholders' views.
- Considered incentive arrangements for 2025-30 reflecting Ofwat guidance and expectations for K8.

Long term stewardship is at the heart of our strategy. Our values and culture shape how we act in a way that supports the interests of our various stakeholders. This applies at all levels of the organisation, including the activity of the Remuneration Committee.

All of our stakeholders – customers, communities, employees and the environment in which we operate - have a shared interest in ensuring water companies are performance driven, sustainable, financially resilient, mindful of our impact on the environment and able to make the substantial capital investment required in infrastructure in order to ensure the long-term viability of the sector.

With this in mind it is essential that the approach to executive pay is able to attract and retain the high-quality talent required to lead a large, complex, infrastructure organisation, by incentivising and fairly rewarding management teams for outcomes achieved. These principles underpin our approach to executive remuneration.

EXTERNAL CONTEXT

This has been a year in which many of the foundations underpinning effective regulation of the water sector have been under review, with a new Government, new legislation and a renewed focus on the transformation of the Sector. The Water (Special Measures) Act, passed in February 2025, has strengthened the power of water industry regulators, with Ofwat consulting on the prohibition of performance-related pay in certain circumstances.

As a principle, we always strive to ensure we maintain constructive working relationships with the Government and our regulators. As a responsible business, we fully support the legislation and want to work constructively with Ofwat to ensure that everyone can have the clarity required to enact the Act in full. That said, we are mindful that the Act will fundamentally change how incentives are operated by water companies in comparison to other sectors.

Noting that the consultation on the prohibition rules was still underway at the time the Remuneration Committee met in May 2025 to agree incentive outcomes, and given a remuneration review is under way, no annual bonus has been paid to executives.

INCENTIVE OUTCOMES

Following guidance from Ofwat, we have taken steps to ensure that performance related pay outcomes for executive directors meet the following principles:

1) Ensuring customers do not pay – performance related pay is paid for at a Group level.
2) Ensuring that the proportion of the annual bonus is substantially linked to stretching outcomes for customers, communities and the environment. For the Group CEO and Group CFO, 90% of remuneration has been set to link to the water company performance, with 20% attributed to SES. For SES Executives 100% of their remuneration is linked to water company performance.
3) Considering formulaic outcomes of performance related pay against the four standards under consultation by Ofwat (consumer matters, environment, financial resilience and criminal liability).

For 2024/25, the annual bonus performance outcome for the year was assessed, but no annual bonus has been paid to Executives. The final outcome will be determined by the Committee in the coming months given Ofwat have published their final rules and guidance, and as we review remuneration arrangements across the Group to ensure they are aligned with the stretching business plan delivery.

The 2022 LTIP for the Group CEO and Group CFO has vested and will be paid for by shareholders. This long-term share award is subject to a further two-year hold period. As an inflight scheme, awarded in 2022, Ofwat has confirmed that this scheme is not subject to the Water Special Measures Act. However, the Committee considered the time period (2022-2025) and that annual bonuses had been waived in 2023 and 2024 before agreeing that the LTIP should vest.

Following feedback from the EFRA committee to ensure that remuneration arrangements contain measures around affordability, the customer basket of measures have been adjusted to contain relevant KPIs.

The 2022 LTIP for SES Executives has also vested.

REMUNERATION REVIEW

This is a critical phase for the Group, as we seek to deliver what matters most to our stakeholders, transforming the water sector in a period of unprecedented and well-documented challenges. During such a period it is crucial that we are able to retain and motivate our extremely strong team of senior leaders in order to drive delivery of our transformational business plan.

The Water (Special Measures) Act will fundamentally change how incentives are operated by water companies in comparison to other sectors. The Committee is also acutely aware of the need for external stakeholders to have trust and transparency in the way remuneration is determined in the water sector.

In this context the Remuneration Committee has been considering how best to evolve remuneration arrangements, seeking views from a range of stakeholders to ensure we can motivate, retain and attract talent, alongside responding to the new regulations and challenges in the sector. The focus has been on ensuring remuneration supports stewardship and sustainability of the business, aligned with the long-term objectives of our customers and in complying with relevant legislation.

Over the past year we have debated a number of alternative solutions to how pay can be structured in the future.

Although this review process is ongoing, we have debated how remuneration can help to rebuild trust in the sector by supporting long term stewardship and aligning remuneration with execution of the long term strategy

EXECUTIVE BOARD CHANGES

During the course of the year, there were a number of changes post the acquisition of SES by the Group.

Susan Davy, Chief Executive officer and Andrew Garard, Group Legal Counsel and Company Secretary joined the SES water PLC Board on 14 June 2024 following the CMA clearance of the acquisition.

Laura Flowerdew, Chief Financial Officer joined the SES water PLC board on 19 November 2024, and Paul Kerr stepped down as Chief Financial Officer on 28 February 2025.

WIDER WORKFORCE REMUNERATION

We are committed to ensuring remuneration for our front-line colleagues is competitive, understanding that this is the right priority when the financial landscape is changing. We are proud that we have been an accredited Living Wage Foundation payer since 2021, and in practice we had aligned our pay rates to these recommended levels for some time prior to accreditation.

The 2025 pay award, whilst still under ballot with our trade union partners, reflects a competitive award which continues to focus on front line roles with a proposed increase valued at 3.9% inclusive of one day additional holiday for the majority of colleagues. We are proud that our employees will earn a minimum of £13.10 per hour, exceeding the real living wage by almost £1,000 annually, underscoring our dedication to being an employer of choice.

Our Group Reward principles continue to reflect the broader strategy, evolving composition of the Group and in recent years acquisition activity which has expanded our workforce across multiple locations. Key areas of focus included the embedding of the Group Values, strengthening wellbeing and incorporating greater employee flexibility through work patterns or choices of lifestyle benefits. We also offer highly competitive retirement benefits to our colleagues, and enhanced life assurance protection.

We also took time to reflect on our variable pay for colleagues, linking any variable pay to our Group Values, and ensuring clear line of sight between their objectives and the Group strategy, our customers and their communities. For senior managers there is a continued focus to build colleagues shareholding in the business through any variable pay outcomes.

Our Group wide HMRC-approved share schemes have been rolled out to SES colleagues. We have once again provided expanded disclosure on our approach for the wider workforce.

DIRECTORS' REMUNERATION REPORT

REMUNERATION ALIGNED TO DELIVERY FOR OUR CUSTOMERS

Significant portion of executive remuneration is linked to performance:

- Incentive linked to underlying performance
- Performance pay – appropriately aligned with customer interests with bonus and LTIs having a substantial link to stretching performance delivery for customers
- Focus on customer and operational metrics assessed by Ofwat, our customer, communities, and wider stakeholders
- Incentives designed to motivate delivery of sustainable performance
- Safeguard mechanisms in place to ensure outcomes reflect underlying performance.

AT A GLANCE

For further detail on the structure of Executive Pay for Pennon Group Executives, please see page 167 of the Pennon Group Annual Report and Accounts 2025.

For SES Executive, Ian Cain the below table summarises the implementation of the legacy SES Remuneration Policy.

Element	Description
Base Salary	Core element of a fixed amount, reflecting the size and scope of the role.
Benefits	Appropriate and sufficient level of benefits based on individual circumstances, includes car allowance and private medical insurance, for example.
Retirement Benefits	Executive directors are eligible to participate in the Company's defined contribution pension scheme (or receive a cash alternative).
Annual Bonus	Rewards performance against annual targets which support the strategic direction of the Company.
Long-term Incentive Plan (LTIP)	Rewards performance against targets set by the Board for financial performance over three years.

ANNUAL REPORT ON REMUNERATION

For 2024/2025 the statutory directors included in this report are as follows:

Susan Davy, Chief Executive Officer is an Executive Director of Pennon Plc and joined the SES Water plc Board on 14 June 2024 following the CMA clearance of the acquisition.

Andrew Garard, Group Legal Counsel and Company Secretary joined the SES Board on 14 June 2024 following the CMA clearance of the acquisition.

Laura Flowerdew, Chief Financial Officer is an Executive Director of Pennon Plc and joined the SES Water plc on 19 November 2024.

Paul Kerr stepped down as SES Chief Financial officer on 28 February 2025. All remuneration arrangements relating to Paul Kerr's departure were consistent with the legacy Remuneration Policy and the Company's incentive plan.

Paul received a payment in lieu of notice (in respect of his salary, pension and benefits) for his contractual notice period (£129k). In addition, he was entitled to legal support. Paul is not entitled to any bonus payments for 2024/25 and any in-flight LTIP's have lapsed.

The CEO and CFO have their remuneration set by the Pennon Group Remuneration Committee and in accordance with the Pennon Group remuneration policy, approved by shareholders on 22 July 2023 in line with the normal three-year review process. The Pennon remuneration policy was approved with 93.6% shareholder support and is detailed in the Pennon Group Annual Report and Accounts 2023.

Full details of the implementation for 2025/26 can be read in the Pennon Group Annual Report and Accounts 2025 on pages 163 to 165, and the joining arrangements for Laura Flowerdew (page 173).

The apportionment of fixed pay included in this report for Pennon Group Executives in 2024/25 is 20% for SES Water, covering Sutton and East Surrey Water and subsidiaries.

Incentives are not included in this apportionment for any Executive with Pennon Group funding any incentive payments with no cost to customers.

THE SES WATER DIRECTORS' REMUNERATION POLICY AND IMPLEMENTATION IN 2024/25

The current SES Water Directors' remuneration policy was set in 2024. The full policy is detailed on the SES Water website.

For the Executive Directors of Pennon Group Plc, the policy can be found in full in the Pennon Group Annual Report and Accounts 2023 and a summary of the policy and implementation for 2025/26 in the Pennon Group Annual Report and Accounts 2025.

REMUNERATION APPROACH FOR WIDER EMPLOYEES

The Remuneration Committee considers oversight of remuneration for the wider workforce as a key element of its remit and considers this when making decisions regarding remuneration for the Executive Directors. The Committee reviews a report on employee remuneration twice a year, either through a pay dashboard, which contains information on elements of financial and nonfinancial reward, the wider labour market, demographics and pay statistics across the organisation or through a subject specific paper. This detail provides important context to ensure that a consistent approach is adopted across the Group workforce including the Executive Directors. Developments in the financial and non-financial elements of the employee proposition are reviewed regularly, as well as share scheme participation and emerging reward trends. The Committee reflects on the position of our gender and ethnicity pay. Feedback to the Committee from Pennon employees is through 'Be The Future' Forum and for 2024/25 for SES Water colleagues this was via the JNCC – our employee engagement forum through the Executive Directors on matters concerning remuneration arrangements.

Reward strategy

Our well-established People Strategy across the Group is centred around talented people doing great things for customers and each other and creating the best place to work. The Reward strategy and framework which was established in 2019 was reviewed and updated during 2023/24. The framework reflects our changed Group composition, our latest business strategy and plans and changing employee expectations. The Group values (see pages 14 to 15) are incorporated. The framework will continue to set our approach for future developments in the reward landscape for colleagues. Pennon's Group Reward Strategy continues to have three aims:

Aim 1	Ensure reward decisions will support: • Our business strategy for delivering to customers and communities, and promoting long-term sustainable growth • Our People strategy and values • Our alignment to stakeholder expectations (e.g. investors and regulators)
Aim 2	Ensure the reward package offered to employees is: • Designed and delivered fairly • Set up to enable the business to attract and retain the talent that it needs to be successful • Supports employee engagement and motivation • Allows employees to hare in Company success
Aim 3	Clearly communicate to relevant stakeholders our employee reward and recognition principles and framework

REWARD FRAMEWORK

Our reward framework supports our people strategy.

The role of reward underpins our people strategy, proactively supporting our ambition to be an employer of choice, able to retain top talent and drive business success, rather than a stand-along strategic element.

Total Reward at Pennon incorporates:

- Base Pay
- Variable Pay and Allowances
- Saving for the Future
- Benefits

All elements are supported by reward strategy and governance, job evaluation and benchmarking and systems and data.

REWARDING OUR COLLEAGUES

Salary increases for wider workforce
The 2025 pay award continues to focus on front line roles with a planned increase valued at 3.9% inclusive of one day additional holiday for the majority of colleagues. We are proud that our employees will earn a minimum of £13.10 per hour (with the exception of apprentices who are on a formal training plan), which not only aligns with, but exceeds the real living wage by almost £1,000 annually, underscoring our dedication to being an employer of choice. For most colleagues the London Real Living Wage now applies to their roles, if working in the South East area.

We will continue to evaluate work patterns for the mutual benefit of customers, colleagues and operational needs during 2025/26.

Wider workforce bonus arrangements
All colleagues across the Group are eligible to participate in variable pay schemes. Senior bonus arrangements follow the model applied to the Executive Directors for their annual bonus incentive. For the wider workforce, variable pay has been aligned with the Group Values and has stretching targets which support delivery of our Business Plan for 2025-2030, focusing on water quality and resilience, our net zero agenda and customer service and affordability. The scheme maintains a measure for our imperative of all colleagues going HomeSafe each and every day.

Financial wellbeing and wider benefits

We offer a comprehensive range of benefits including a financial well-being and education partner for colleagues and their families, some flexible benefits and a healthcare cash-plan. We also operate a range of discounts, green initiatives and services to enhance our employee proposition.

Saving for the future

We know that our colleagues value our responsible approach to pension contributions. We are pleased that despite the cost-of-living crisis, over 330 SES Water colleagues participating in the defined contribution schemes. Our ShareSave scheme and Share Incentive Plan was opened for applications in 2024 to SES Water colleagues, expanding the benefits of the Pennon Group to colleagues.

Living Wage Foundation

We continue to pay above the Living Wage Foundation rates for all roles excluding those colleagues who are on our apprenticeship arrangements. Our accreditation as a Living Wage Foundation employer has been maintained since 2021. We continue to focus our pay spend on lower paid roles. For most colleagues the London Real Living Wage now applies to their roles, if working in the South East area.

Wider workforce remuneration dashboard

In accordance with the 2018 UK Corporate Governance Code, the Committee reviews the level of information provided on pay matters in the wider organisation. The Wider Workforce papers provide the Remuneration Committee with an overview of the approach to pay across the Group, supplemented with topic specific papers:

- Helps support the Committee in reviewing workforce remuneration and related policies which continually evolves to provide greater insight.
- Provides an overview of pay arrangements across the business and key statistics on pay in different areas of the business.
- Updates on progress on our Reward Strategy implementation.
- Has oversight of the wider remuneration landscape to provide external context and industry specifics to inform on our benefits.
- Provides information on workforce demographics, gender pay, pay ratios, pension and benefits and incentive outcomes in different areas.

The Committee intends to keep the content of the dashboard under review to ensure it remains suitable.

Highlights	
Base Pay	The Company’s overarching principles for basic pay are as follows: • Base pay should reflect the level of skills, responsibilities and accountabilities of the job, plus the market and region in which the business area operates. • We should maintain a market competitive edge to attract and retain talent. Market benchmarking against recognised surveys is conducted regularly. • We should maintain our status as an accredited Real Living Wage Employer, guaranteeing base pay at or above the Living Wage Foundation rates. • We should review pay annually with any resulting award being subject to affordability and business performance. • We should engage with Be The Future Forum, the WaterShare Customer Panel and any Recognised Trade Unions on pay decisions. • We should undertake equal pay and gender/ethnicity pay analysis from time to time to ensure we comply with current equality legislation and provide equal total reward opportunities for roles of equal value.
Variable pay	SES Water operates variable pay schemes, including annual bonus and incentive arrangements and all employees and temporary workers are eligible to participate. Throughout variable pay schemes, there is strong correlation in the targets, to align the whole organisation on goals linked to customer, communities and the environment. The maximum bonus levels are based on seniority and level of responsibility. Long-term incentive share awards are available to senior executives and Executive Directors, consistent with market practice. Our front-line teams receive overtime, call-out and standby payments, ensuring that when workloads are high, employees are fairly compensated. We remain mindful of the need to balance working hours, customer demand and available resource against the health, safety, wellbeing of our colleagues, our overarching principles on variable pay are as follows:

	• Provide every colleague with the opportunity to earn an element of variable reward using appropriate mechanisms for different colleague populations, as agreed by each business area. • Have clear communication on rationale, purpose, performance measures, pay-out calculation and other rules for the variable pay schemes, to ensure colleagues fully understand their total reward opportunities. • Ensure the performance measures included in the balanced scorecard are aligned to our business strategy, values and take into consideration the views of customers, regulators and other key stakeholders. • Encourage colleagues to have share ownership through variable pay. • Remuneration Committee or relevant Executive Committee can apply appropriate discretion to bonus outturn, considering the 'how' as well as the 'what'.
Saving for the future	We offer highly competitive retirement benefits to our employees, which include additional life assurance protection. Membership of the Group pension scheme remains high with over 330 colleagues in SES Water participating in our Defined Contribution (DC) scheme. As part of our Saving for the Future, all employees can participate in our HM Revenue and Customs-approved Sharesave and Share Incentive Plan, with a strong emphasis on employee buy-in and ownership. Not only do our share schemes provide a mechanism for sharing in the long-term success of the Group but mean that colleagues and customers have a say and stake in the business. Our overarching principles on Saving for the future are as follows: • Provide every colleague with the opportunity to build up share ownership. • Clearly communicate and promote the existing share schemes to ensure maximum participation. • Ongoing exploration of HRMC approved tax advantaged share scheme opportunities for broader offerings. • Provide every colleague with the access to our Defined Contribution pension scheme with the choice of employee/employer contribution levels. • Provide company matching in our Defined Contribution pension scheme to further support our colleagues saving for retirement. • Provide access to a fully interactive pension administrative platform and drop in sessions to ensure employees understand the offering and implications to make informed decisions. • Comply with the government required pension enrolment requirements.
Benefits	We operate a range of benefits of which the majority are available to all colleagues. These are selected for their ability to enable colleagues to get the best value from their salary such as discounts, to ensure a work life balance which supports both family life and outside interests through generous holiday entitlements or those designed to bring financial security such as income protection or life assurance. A range of advisory services are available to support colleagues on occasions where additional support is needed, including financial support, health and wellbeing, legal advice and a range of employee led support groups. From time to time, there may be necessary exceptions that apply to our core benefits, reflecting TUPE transfers or preserved contractual benefits. The principles for our benefits are as follows: • Operate a set of core Group-wide benefits for all colleagues, and a wide range of other additional offerings to enable colleagues select the most appropriate benefits tailored to their needs. • Ongoing evaluation of the effectiveness of the benefits offering, ensuring we take full advantage of our Group-wide purchasing power with benefits providers, and we are aligned with our Fair Tax Strategy and HRMC guidelines. • Actively engage with employees to understand their needs to continue shaping our benefits proposition. • Adopt technology to enable easy access to our benefits from home or work. • Continue to focus on developing our wellbeing and flexible working provisions and explore additional benefits provision opportunities to support our broader ESG agenda (e.g. green voluntary benefits, volunteering days etc.).

Gender and Ethnicity pay reporting

We recognise our duty to contribute positively to society by cultivating an environment that promotes social mobility, prioritises diversity and inclusion, and ensures equitable treatment for all employees. Our aspiration is to become the Employer of Choice across our region, where trust is paramount, and every individual is valued for their contributions. Transparency lies at the heart of our commitment to diversity and inclusion. Reporting serves as a vital instrument in our journey towards openness, allowing us to candidly assess the gender and ethnic diversity within our workforce. Moreover, it enables us to share the proactive measures we have implemented and will continue to pursue to enhance diversity across all levels and roles within our organisation. We understand that fostering an inclusive workplace is imperative not only for attracting talent but also for retaining our valued colleagues and because it is the right thing to do.

During 2022/23, in line with our Change the Race Ratio commitments, Pennon voluntarily published our Ethnicity Pay Gap data for the first time. The results reflect our journey in building representation of ethnic minority groups and gender diversity. Our mean ethnicity pay gap is -3.82% for SES Water as at the snapshot date 6 April 2024. Across the Group Company we have been working hard to attract a greater number of ethnically diverse candidates to apply for job vacancies, and we offer dedicated support to new employees through our graduate programme and support the 10,000 Black Interns Programme. We will continue to work to progress our diversity actions to build greater representation.

Within SES Water, our gender pay gap for the year has remained relatively consistent with prior year moving from 7.1% to 7.4%. The rise is driven by a c.5% reduction in female representation at the highest pay level. This is significantly lower than the national average, which stands at 13.1%.

During the year the Group has been recognised for our progression in gender equality by external bodies. Our placement in the FTSE Women Leaders Review reflected our high participation of female Board members resulting in Pennon Group ranking third for Women on Boards in the FTSE 250.

We are committed to deliver on our ambitions to build diversity and inclusion across the Company and the water industry.

Colleague engagement

The JNCC at SES Water is an engagement and communication forum focused on the front-line, providing a two-way dialogue for all colleagues across the business. This is regularly attended by senior leadership. The forum is an established group provoking healthy debate and discussion on areas that matter to employees, including reward.

Engagement survey results and action planning are a discussion area for this forum and representation remains strong across the business.

HomeSafe

Making sure our colleagues and contractors get HomeSafe every day is fundamentally more important than remuneration. However, how we measure our performance, reward colleagues living by our values and the culture we create, has a direct influence on the health and safety of each other and we will continue to support this important initiative through our wider workforce remuneration principals and Executive Remuneration policy.

SINGLE TOTAL FIGURE OF REMUNERATION TABLES (AUDITED INFORMATION)

	Ian Cain (£000)		Paul Kerr(1) (£000)		Susan Davy(2) (£000)		Laura Flowerdew(2) (£000)		Andrew Garard2) (£000)	
	FY25	FY24	**FY25**	FY24	**FY25**	FY24	**FY25**	FY24	**FY25**	FY24
Base salary	**294**	281	**193**	202	**81**	-	**32**	-	**55**	-
Benefits(3) (including Sharesave)	**25**	24	**15**	16	**8**	-	**1**	-	**1**	-
Pension-related benefits(4)	**25**	24	**25**	26	**8**	-	**3**	-	**6**	-
Total fixed pay	**344**	329	**233**	244	**97**	-	**36**	-	**62**	-
Other payments	**-**	120	**-**	120	**-**	-	**-**	-	**-**	-
Annual bonus (cash and deferred shares)(5)	**-**	117	**-**	53	**-**	-	**-**	-	**-**	-
Long-Term Incentive Plan(5)	**-**	134	**-**	82	**-**	-	**-**	-	**-**	-
Total variable pay	**-**	371	**-**	255	**-**	-	**-**	-	**-**	-
Total remuneration	**344**	700	**233**	499	**97**	-	**36**	-	**62**	-

(1) Paul Kerr stepped down as Chief Financial Officer of SES Water plc on 28 February 2025 and has not been directly replaced.

(2) Susan Davy was appointed as Chief Executive Officer of Pennon Group plc on 31 July 2020 and was appointed Chief Executive Officer of SES Water plc on 14 June 2024. Laura Flowerdew was appointed as Chief Financial Officer of Pennon Group plc on 11 July 2024 and SES Water from 19 November 2024. Andrew Garard, Group Legal Counsel and Company Secretary joined the SES Water plc Board on 14 June 2024. The fixed pay figures shown in the table are those re-chargeable to SES Water through Group re-charges (20% of fixed remuneration). Reflecting the nature of their Group position all subsidiaries receive a cross-charge for fixed remuneration. All variable incentives for the Group Executives are fully funded by Pennon Group. The full single total figure of remuneration table is shown on page 173 of the Pennon Group plc Annual Report and Accounts 2025 as well as Laura's joining arrangements and Steve's departure arrangements on page 173 and 177 respectively. These arrangements are funded by Pennon Group.

(3) Benefits comprise a car allowance, fuel allowance and medical insurance.

(4) Retirement benefits for the Ian Cain and Paul Kerr are shown on page 103 of this report, with details for the Group Executive Directors shown on page 177 of the Pennon Group Plc Annual Report and Accounts 2025.

(5) LTIP outturn figures for SES are detailed on page 103 but resulted in a 40% outturn for SES, however as incentives are not funded by customers this will be paid at the Pennon Group level and has not been apportioned here as this will not be funded by the customers. With regards to bonus in light of the Water (Special Measures) Act the Committee has noted but not approved the formulaic outturn of the 2024/25 annual bonus. No payments will be made to the Executive until the Committee have reviewed outcomes and the best course of action, in the event there is a payment due these would be paid at a Pennon Group level and would not be funded by the customers. Further details of the annual bonus and any LTIP award to the Pennon Group Executive Directors are shown on pages 174-177 of the Pennon Group plc Annual Report and Accounts 2025.

Notes to the single figure table

No annual bonus has been paid to the Executive Directors of SES Water or Pennon Group in respect of 2024/2025.

Paul Kerr was not eligible for a bonus due to his departure from the business.

Ian Cain is eligible for a bonus for 2024/25. The decision on bonus payments will be considered and reviewed by the Remuneration Committee in due course now further clarity has been provided on the application of the Water (Special Measures) Act.

ANNUAL BONUS OUTTURN FOR 2024/25

The formulaic outturn for 2024/25 has been reviewed.

The SES performance under the scorecard is summarised in the outcome table, the scorecard captures a wide range of factors, reflecting the multiple areas which are important to our stakeholders. It is vital that the business continues to perform across these areas of focus. In line with regulatory guidance, 70% of the bonus is linked to delivery of stretching objectives for our customers, communities and the environment.

For 2024/25, common performance metrics aligned to the business plan were overlayed against the specific objectives and this reduced the formulaic outcome from 56.7% to 37.5%. The Committee also noted the operational challenges, particularly the valve failure at Cheam Water Supply Works, and the road collapse above a water main at Godstone, in assessing performance in the round, as well as the comparative performance across the Group, in determining the appropriate outcome.

The Committee also considered the formulaic outcomes of performance related pay against the 4 standards under consultation by Ofwat (consumer matters, environment, financial resilience and criminal liability).

The Water (Special Measures) Act was passed in February 2025, and the Act will be applicable to 2024/25 annual bonuses. In light of the ongoing consultation by Ofwat on how the Water (Special Measures) Act will be operated in practice, the Committee noted the formulaic out turn of the 2024/25 bonus.

However, no payments will be made to the Executives until there is further clarity on the new legislation framework to assess performance and the additional performance criteria that needs to be achieved before a bonus can be paid.

The Committee will review outcomes and determine if and how any award is delivered and potential interaction with any future incentive framework.

SUMMARY OF SES BONUS OUTCOME

Measure	Weighting	Targets	Achievement	Outcome
High Quality Water	12.5%			**11.9%**
CRI (95%)		2.0	0	11.9%
Water softening (2.5%)		0.0	10.4	0%
Taste Smell & Colour (2.5%)		0.5	0.58	0%
Customer Experience	12.5%			**0.6%**
CMeX (80%)		9th	14th	0%
DMeX (15%)		9th	12th	0%
First contact resolution (5%)		90.0	90.7	0.6%
Leakage reduction (Ml/d)	12.5%	22.1	21.5	**12.5%**
Supply interruptions	12.5%	5m0s	26m16s	**0%**
Mains repairs	12.5%	59.0	62.5	**0%**
Unplanned leakage	12.5%	2.34	4.07	**0%**
PCC reduction	12.5%	139.2	147.6	**0%**
Affordability	**12.5%**			**12.5%**
PSR (80%)		7.0%	15.5%	10.0%
Social tariff (15%)		25,000	25,379	1.9%
Voids (5%)		2.2	2.02	0.6%
			Formulaic outturn	**37.5%**

LONG-TERM INCENTIVE OUTTURN FOR 2024/25

The 2022 LTIP for the Group CEO and Group CFO has vested at 41.1% and will be paid for by shareholders. This long-term share award is subject to a further two-year hold period. As an inflight scheme, awarded in 2022, Ofwat has confirmed that this scheme is not subject to the Water (Special Measures) Act. However, the Committee considered the time period (2022-2025) and that annual bonuses had been waived in 2023 and 2024 before agreeing that the LTIP should vest.

The Long-Term Incentive Plan arrangements and vesting outcome for the Executive Directors of Pennon are detailed in the Pennon Group Annual Report and Accounts 2025 on pages 176-177.

The Long-Term Incentive Plan arrangements for SES Executives is noted below, and the vesting outcome for the award granted in 2022 is 40%, based on achievements of specific performance targets. The cost of this will not be apportioned to SES Water and is met in full by Pennon.

The Committee reviewed the formulaic outturn and after a holistic review of business outcomes, and considering the overall performance of SES comparatively in the Group, in particular around financial resilience and customer experience and decided to reduce the vesting level down from 56.1% to 40%.

Achievement against the SES targets are set out below:

SES 2022 LTIP performance target	Full Year		Proportion of award	LTIP
	Forecast	Vesting		
Systems-based resilience	75.0%	75.0%	15.0%	11.3%
Financial resilience	40.0%	0.0%	25.0%	0%
Value to customers	70%	75.0%	15.0%	10.5%
Financial hardship	75%	80.0%	15.0%	11.3%
Proactive sustainability & social steps	75%	80.0%	20.0%	15.0%
Reactive management	80.0%	85.0%	10.0%	8.0%
			Formulaic outturn	56.1%
			Remco downward discretion	40%

RETIREMENT BENEFITS AND ENTITLEMENTS (AUDITED INFORMATION)

Details of the retirement benefits for the Group Executive Directors are shown on page 177 of the Pennon Group Annual Report and Accounts 2025, they receive a maximum of 10% of salary, in line with the level available for the wider workforce.

Details of the SES Water Executives pension entitlements and pension related benefits during the year are as follows.

	Contributions to defined contribution arrangements (£000)	Cash allowances in lieu of pension (£000)	Total value for the year	Normal retirement age and date (for pension purposes)
Ian Cain(1)	-	25	25	65 (29 April 2031)
Paul Kerr(1)	-	25	25	65 (1 December 2038)

(1) Ian Cain and Paul Kerr received an overall pension benefit from the Company equivalent to 10% of salary for Ian and 15% of salary for Paul for the year. For 2024/25 this comprised a cash sum.

ARRANGEMENTS FOR THE OUTGOING EXECUTIVE DIRECTOR

Paul Kerr stepped down as SES Chief Financial officer on 28 February 2025. All remuneration arrangements relating to Paul Kerr's departure were consistent with the legacy Remuneration Policy and the Company's incentive plan.

Paul received a payment in lieu of notice (in respect of his salary, pension and benefits) for his contractual notice period (£129k). In addition, he was entitled to legal support. Paul is not entitled to any bonus payments for 2024/25 and any in-flight LTIP's have lapsed.

NON-EXECUTIVE DIRECTORS' REMUNERATION

SINGLE FIGURE OF REMUNERATION (AUDITED)

	2024/2025			2023/24		
	Fees (£000)	Taxable benefits (£000)	Total Fees (£000)	Fees (£000)	Taxable benefits (£000)	Total Fees (£000)
David Shemmans[1]	68	-	**68**	86	-	**86**
Murray Legg[1]	34	-	**34**	44	-	**44**
Jonathan Woods[1]	34	-	**34**	43	-	**43**
Rebecca Wiles[1]	29	-	**29**	37	-	**37**
Gill Rider[2,3]	4	-	**4**	-	-	**-**
David Sproul[2,4]	38	-	**38**	-	-	-
Iain Evans[2]	9	-	**9**	-	-	**-**
Claire Ighodaro[2,5]	4	-	**4**	-	-	**-**
Jon Butterworth[2]	7	-	**7**	-	-	**-**
Loraine Woodhouse[2]	8	-	**8**	-	-	**-**
Dorothy Burwell[2]	7	-	**7**	-	-	**-**

(1) These Non-Executive Directors were given three months notice and stepped down from the SES Board on 2 October 2024
(2) 20% of fees are recharged through Pennon Group plc.
(3) Gill Rider resigned from the Board on 24 July 2024.
(4) David Sproul was appointed as Chair Designate on 1 July 2024 of Pennon Group plc and assumed the role as Chair and joined the SES Board on 24 July 2024.
(5) Claire Ighodaro resigned from the Board on 31 December 2024.
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Non-Executive Director fee information is disclosed in the Pennon Group Annual Report 2025 on page 178.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

The dates of Directors' service contracts and letters of appointment and details of the unexpired term are shown below:

Executive Directors	Date of Appointment	Notice Period
Susan Davy[1]	31 July 2020	12 months
Laura Flowerdew[2]	11 July 2024	12 months
Andrew Garard[3]	14 November 2022	12 months
Ian Cain	12 February 2020	12 months
Non-Executive Directors	**Date of Appointment**	**Expiry date of Appointment**
David Sproul[4]	1 July 2024	30 June 2027
Iain Evans	16 June 2018	31 August 2027
Jon Butterworth	28 September 2017	31 July 2026
Loraine Woodhouse	1 December 2022	30 November 2025
Dorothy Burwell	1 December 2022	30 November 2025
Andrea Blance[5]	8 April 2025	7 April 2028

(1) Susan Davy was appointed to the Board of SES Water on 14 June 2024.
(2) Laura Flowerdew was appointed to the Board of SES Water on 19 November 2024, following her appointment as Chief Financial Officer, Pennon PLC 11 July 2024.
(3) Andrew Garard was appointed to the Board of SES Water on 14 June 2024.
(4) David Sproul was appointed to the Board as Chair Designate on 1 July 2024 and assumed the role as Chair on 24 July 2024.
(5) Andrea Blance was appointed to the Board of SES Water on 8 April 2025.

The policy is for Executive Directors' service contracts to provide for 12 months' notice from either side.

The policy is for Non-Executive Directors' letters of appointment to contain a three-month notice period from either side. All Non-Executive Directors are subject to annual re-election and letters of appointment are for an initial three-year term.

Copies of Executive Directors' service contracts and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office.

OUTSIDE APPOINTMENTS

Executive Directors may accept one Board appointment in another company. Board approval must be sought before accepting an appointment. Fees may be retained by the Director. Susan Davy remained a Non-Executive Director of Restore plc throughout 2024/25. Laura Flowerdew does not hold any additional appointments. No other outside Company appointments are held by the Executive Directors other than with industry bodies or governmental or quasi-governmental agencies.

ADDITIONAL CONTEXTUAL INFORMATION

PERCENTAGE CHANGE IN DIRECTORS' REMUNERATION

Comparison of Directors' remuneration to employee remuneration

The table below shows the percentage change between 2021/22, 2022/23 and 2023/24 in base salary, benefits and annual bonus of the SES Water Director, Ian Cain and the SES Finance Director, Paul Kerr. Percentage changes in remuneration for the Pennon Executive Directors and Non-Executive Directors are disclosed in full in the Pennon Group Annual Report and Accounts 2025 on page 180.

	Percentage change in salary/fees			Percentage change in benefits			Percentage change in bonus		
	2024/2025	2023/24	202223	2024/2025	2023/24	2022/23	2024/2025	2023/24	2022/2023
				Executive Directors					
Ian Cain	4.5%	6.5%	3.5%	4.5%	6.5%	3.5%	(100%)	6.8%	6.0%
Paul Kerr[1]	-	6.5%	3.5%	-	6.5%	3.5%	-	5.5%	7.0%
SES Water	4.5%	6.5%	3.5%	0%	0%	0%	(23.0%)	0.7%	(12.5)%

1 Paul Kerr stepped down from the Board on 28 February 2025 so did not have a full year for comparison purposes.

RELATIVE IMPORTANCE OF SPEND ON PAY

	2024/25 £000	2023/24 £000	Percentage change (%)
Overall expenditure on pay(1)	17,708	15,748	12.4%
Net interest charges	19,949	30,491	-34.6%
Capital expenditure	20,776	22,446	-7.4%
Distributions to shareholders	-	-	-

(1) Excludes employer's social security costs and non-underlying items.

The above table illustrates the relative importance of spend on pay compared with distributions to shareholders and other Company outgoings. The interest charges and the purchase of property, plant and equipment have been included as these were the most significant outgoings for the Company in the last financial year.

CHIEF EXECUTIVE OFFICER PAY RATIO

Our Group CEO pay ratio stands at 18:1 for the median employee across the wider Pennon Group. The ratio is slightly lower than in 2023/24 due to differences in the LTIP as the only variable pay element for the CEO. For 2024/25 the Pennon Group CEO is the reference point, for prior years the SES CEO data was used.

Year	Method	25th percentile (P25) pay ratio	50th percentile (P50) pay ratio	75th percentile (P50) pay ratio
2024/25	**Option A**	**24:1**	**18:1**	**13:1**
2023/24	Option A	25:1	18:1	15:1
2022/23	Option A	20:1	16:1	11:1
2021/22	Option A	14:1	14:1	10:1
2020/21	Option A	14:1	14:1	9:1
2019/20	Option A	17:1	12:1	9:1

Option A has been used for the calculations as per the disclosure regulations. The employees at the lower quartile, median and upper quartile (P25, P50, and P75, respectively) have been determined based on a calculation of total remuneration for the financial year 1 April 2024 to 31 March 2025.

Basic salary for part-time employees and new joiners within the applicable period have been converted to full-time equivalents for the purpose of the calculations.

The total remuneration of 2024/25 for the employees identified at P25, P50 and P75 is £33,510, £45,690, and £63,865, respectively. The base salary of 2024/25 for the employees identified at P25, P50 and P75 is £29,960, £40,315, and £31,820, respectively. The individual at P75 received a large amount of variable pay during the year.

The CEO pay ratio calculation to the median employee, on the same compensation elements as the wider workforce stands at 13:1.

SHARE AWARD AND SHAREHOLDING DISCLOSURES (AUDITED INFORMATION)

Share awards granted during 2024/25

No share award was made to Ian Cain or Paul Kerr during 2024/25 due the ongoing integration, and their existing arrangements.

Details of the share awards for the Group Chief Executive Officer, Group Chief Financial Officer and Group General Counsel and Company Secretary are detailed in the Pennon Annual Report and Accounts 2025 on page 181.

Directors' shareholding and interest in shares

The Remuneration Committee believes that the interests of Executive Directors and senior management should be closely aligned with the interests of Pennon Group plc shareholders.

To support this, the Committee operates shareholding guidelines. For 2024/25, this guideline was 200% for the Group Chief Executive Officer and Chief Financial Officer. In line with best practice guidelines, deferred bonuses and LTIP awards subject to a holding period may only count towards the guidelines on a net tax basis.

The Executive Directors are expected to build up a shareholding in the Company within the first five years of joining the Company, or appointment to a new role.

The beneficial interests of the Pennon Group Executive Directors in the ordinary shares (61.05p each) of Pennon Group plc as at 31 March 2025 and 31 March 2024, together with their shareholding guideline obligation and interest are shown in the Pennon Group Annual Report and Accounts 2025 on pages 181 to 182.

The Executive Directors of SES excluding the Pennon Group Executive Directors do not have a Pennon shareholding at present, are not required to build one at present and have not been awarded any shares during 2024/25.

Long Term Incentive Awards during 2024/25

In line with the legacy SES Remuneration Policy, Ian Cain and Paul Kerr were granted LTIP awards in 2024. The maximum opportunity for Ian Cain is 70% of base salary, and for Paul Kerr a maximum opportunity of 60% of base salary. These LTIP awards are for a three-year period and are cash awards. Paul's award has now lapsed in full.

The performance measures are detailed below and were agreed by the Remuneration Committee. These awards remain discretionary and can be adjusted or removed at the Company's discretion.

Target	Measurement criteria	Weighting
Business resilience		**40%**
- Systems-based resilience	Progress on key aspects of the company-wide resilience plans with a focus on network and operational resilience - Such progress will be achieved through effective Totex spend to minimise leakage, supply interruptions ad supply failures and efficient capex programmes to minimise unplanned outages and ensuring performance commitment are met. Digital resilience will be a key part of achieving this overall systems-based resilience	- 15%
- Financial resilience	Ensure that customers benefit from a stable financial business that allows prioritisation of customer service - Outperformance of budget (allowing delivery to customers in an economically efficient manner) - Business plan financial covenant and gearing ratios are met - Progress on enduring financial resilience solutions, including long-term refinancing and sinking fund solutions	- 25%
Customer service and support		**30%**
- Value to customers	Development, deployment and delivery of a company-wide, cost-effective customer plan that solidifies our position as a customer-oriented organisation and drives improvement in our C-MeX standing	- 15%
- Financial hardship	Achievement of social tariff and Priority Services Register targets in line with the Company's business plans to ensure appropriate support for our most vulnerable customers	- 15%
Environmental and reputational resilience		**30%**
- Proactive sustainability and social steps	Proactive steps taken to enhance reputation, including embracing and implementing a social value agenda and bring to life the Company's environmental agenda (aligned to the water sector's Public Interest Commitments, including net zero carbon)	- 20%
- Reactive management	Appropriateness of steps taken by management in light of potential reputational issues	- 10%

Non-Executive Directors' shareholding

The beneficial interests of the Non-Executive Directors, including the beneficial interests of their spouses, civil partners, children and stepchildren, in the ordinary shares of the Pennon Group, are shown in the Pennon Group Annual Report and Accounts 2025 on page 182.

Malus and Clawback

Malus and Clawback provisions are embedded in the employment contracts of Group Executive Directors and relevant scheme documentation.

Malus and clawback provisions apply to all Group incentive awards. These provisions enable awards to either be forfeited prior to delivery, repaid or made subject to further conditions where the Committee considers it appropriate in the event of any significant adverse circumstances. For awards granted under the term of this policy, the circumstances in which malus and clawback may be applied include a financial misstatement, error in calculation, material failure of risk management, serious reputational damage, serious corporate failure or misconduct.

In respect of the annual bonus, clawback may be applied for the period of three years following determination of the cash bonus. Under the LTIP, clawback may be applied until the end of the holding period.

The Committee have not applied any action under the provisions of malus and clawback during 2024/25.

THE REMUNERATION COMMITTEE AND ITS ADVISERS

Jonathan Woods, Dave Shemmans, Murray Legg and Rebecca Wiles were members of the Remuneration Committee until they stepped down on 2 October 2024. Claire Ighodaro, Loraine Woodhouse, Iain Evans and Dorothy Burwell were members of the Remuneration Committee with effect from 2 October 2024, with Claire Ighodaro stepping down on 31 December 2024. Gill Rider (who stepped down on 24 July 2024), David Sproul (who joined on 1 July 2024 and succeeded Gill Rider as Chair), Jon Butterworth (who joined the SES Board on 2 October 2024) and Susan Davy attend by invitation as required. Since 2 October 2024, the Committee received advice or services which materially assisted the Committee in the consideration of remuneration matters from Adele Barker (Group Chief People Officer) and from Deloitte LLP.

During 2018/19, Deloitte LLP was reappointed directly by the Committee with a refreshed advisory team, following a comprehensive retendering process. Deloitte LLP is a member of the Remuneration Consultants Group and as such voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice it has received from Deloitte LLP has been objective and independent.

BOARD OF DIRECTORS AND COMPANY INFORMATION

CHAIR	D Sproul
GROUP CHIEF EXECUTIVE OFFICER	S Davy
GROUP CHIEF FINANCIAL OFFICER	L Flowerdew
EXECUTIVE DIRECTORS	A Garard I Cain
SENIOR INDEPENDENT DIRECTOR	I Evans CBE (Non-Executive)
NON-EXECUTIVE DIRECTORS	D Burwell J Butterworth L Woodhouse A Blanche (appointed 8 April 2025)
REGISTERED OFFICE	66-74 London Road Redhill Surrey RH1 1LJ
INDEPENDENT AUDITOR	PricewaterhouseCoopers LLP 2 Glass Wharf Bristol BS2 0FR
COMPANY'S REGISTERED NUMBER	02447875
PRINCIPAL ACTIVITIES	The Company's principal activity is that of an appointed water provider, including acting as a retailer for household customers within Surrey and Kent in accordance with its licence, and to act as a wholesaler to the non-household customer market.

DIRECTORS' REPORT

INTRODUCTION

The Directors present their Annual Report and Accounts for the year ending 31 March 2025. The Directors' Report comprises this report and the entire Governance section Including the Chair's Governance Statement. It has been prepared in accordance with the provisions of the Companies Act 2006 and regulations made under it. In accordance with the Financial Conduct Authority Listing's Rules, the information to be included in the 2024 Annual Report and Accounts, where applicable (under Listing Rule 9.8.4), is set out in this Directors Report. Other information relevant to this Report, and which is incorporated by reference, can be located as follows:

Information	Page number
Particulars of important events affecting the Company and/or its subsidiaries which have occurred since the year end	158
Likely future developments of the Company	21
Risk management systems	32-45
Certain employee and employee engagement matters as well as the disclosures below	14 to 18
How the Board have engaged with employees and had regard for employee interests	9 to 10
Business relationships/engagement with suppliers, customers and others	8 to 13
Carbon and greenhouse gas emissions, energy consumption and energy efficiency action	25 to 26
Financial risk management	139 to 140
Financial instruments	151 to 152

This Directors' report (including pages 52 to 114, which form part of this report) fulfils the requirements of the corporate governance statement for the purposes of the FCA's Disclosure Guidance and Transparency Rules.

CAUTIONARY STATEMENT

This Annual Report has been prepared for, and only for the members of the Company, as a body, and no other persons. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. By their nature, the statements concerning the risks and uncertainties facing the Group in this Annual Report involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

CORPORATE

AUDITORS

The External Auditor for the 2024/25 financial year was PricewaterhouseCoopers LLP. The Independent Auditors' Report starting on page 115 sets out the information contained In the Annual Report which has been audited by the External Auditor. The Audit Committee considered the performance and audit fees of the External Auditors and the level of non-audit work undertaken.

CHANGE OF CONTROL

No person holds securities in the Company carrying special rights with regard to control of the Company. All of the Company's share schemes contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions proration for time where appropriate.

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as bank loan agreements, Eurobond documentation, hybrid capital securities documentation, private placement debt and employees' share plan. This may result in certain funding agreements being altered or repaid early.

FINAL DIVIDEND

A total dividend for the year of £nil was paid during the year (2023/24: £nil). The Financial review on pages 29 to 31 analyses the Company's financial results in more detail and sets out other financial information.

POLITICAL CONTRIBUTIONS

The Company has authority, in accordance with Section 366 of the Companies Act 2006, to make political donations to political parties, political organisations and incur political expenditure subject to limits approved by shareholders. No political donations were made or political expenditure incurred and no contributions were made to a non-UK political party (2023/24: nil).

OTHER CONTRIBUTIONS

During the year, the Company provided a total of £14,529 in charitable donations (2023/24: £35,000).

DIRECTORS

APPOINTMENTS

Details of the Directors who served in the year and to the date of this Report can be found on page 54. Biographies for Directors currently in office can be found on pages 57 to 60. Changes during the year can be found on page 52.

CONFLICTS OF INTEREST

The Board has adopted a Conflicts of Interest Policy. The Board has considered in detail the current external appointments of the Directors that may give rise situational conflicts and, where appropriate, has authorised potential conflicts. Such authorisation can be reviewed at any time but is always subject to annual review.

DIRECTORS' INSURANCE AND INDEMNITIES

The Company has maintained Directors' and officers' liability insurance for the benefit of the Company, the Directors and its officers throughout the year. The Company has entered into qualifying third-party indemnity arrangements for the benefit of all its Directors in a form and scope that complies with the requirements of the Companies Act 2006 and which were in force throughout the year and remain in force.

DISCLOSURES

FINANCIAL RISK MANAGEMENT

The Directors have carried out a robust assessment of the principal and emerging risks facing the Company, including in relation to its business model, future performance, solvency and liquidity. Details of our principal risks and association mitigations are set out on pages 32 to 45. Note 2.26 to the Financial Statements gives details of the Company's financial risk management policies and related exposures. This note is incorporated by reference and deemed to form part of this Report.

GOING CONCERN

The going concern basis has been adopted in preparing these financial statements. At 31 March 2025 the Company has access to undrawn committed funds and cash and cash equivalents totalling £101.0 million, including cash and other short-term deposits of £62.5 million and £38.5 million of undrawn facilities. Cash and other short-term deposits exclude £12.1 million of restricted funds deposited with lessors which are available for access, subject to being replaced by an equivalent valued security. The Company has an expected headroom of £78.6 million at 31 October 2026.

In making their assessment, the Directors reviewed the principal risks and considered which risks might threaten the Company's going concern status, to do this the Company's business plan has been stress-tested. Whilst the Company's risk management processes seek to mitigate the impact of principal risks as set out on pages 32 to 45, individual sensitivities against these risks have been identified. These sensitivities, which are ascribed a value with reference to risk weighting, factoring in the likelihood of occurrence and financial impact, were applied to the baseline financial forecast which uses the Company's annual budget for 2025/26, and longer-term strategic business plan for the remainder of the going concern period to 31 October 2026. The risks and sensitivities include consideration of legislative impacts such as change in government policy and non-compliance with laws and regulations, macroeconomic impacts such as inflation and interest rate increases and operational impacts such as ensuring adequate water resources and failure of operational assets. A combined stress testing scenario has been performed to assess the overall impact of these individual scenarios impacting the Company collectively. The combined weighted impact of the risks occurring is a cash outflow of c.£16 million; this value is considered equivalent to an extreme one-off event that could occur by 31 October 2026, the probability of such an event happening is deemed unlikely. Through this testing, it has been determined that none of the individual principal risks would in isolation, or in aggregate, compromise the going concern of the Company over the going concern period, the assessment has been considered by reviewing the impact on the solvency position as well as debt and interest covenants. In the combined scenario to ensure that the Company was able to continue as a going concern, additional mitigations could be deployed to reduce gearing and increase covenant headroom. In the combined stress test scenario, the company has sufficient liquidity and covenant headroom which reflects that no mitigations would be needed by the Company. However, if required additional mitigations could be deployed to reduce gearing and increase covenant headroom. Examples of mitigations could include: reduction in discretionary operational expenditure, deferral of capital expenditure and/or cancellation of non-essential capital expenditure, reduction in the amount of dividend payable, and raising additional funding.

We have considered the Company's funding position and financial projections which take into account a range of possible impacts, including the refinancing required within and immediately after the going concern assessment period. Having considered these factors, the Directors have a reasonable expectation that that the Company will meet the requirements of its covenants and has adequate resources to continue in operational existence for the period to at least the end of the going concern assessment period of 31 October 2026, and that there are no material uncertainties to disclose. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

DATA

As part of our business activity, the Company processes large amounts of personal data. The Company recognises that to enable this use of personal data it is critical that we continue to build on our approach to applying privacy in a lawful and ethical way. A programme of work to support this has been led by our data governance team. The work includes making improvements to our data governance framework and delivering our data privacy function. We have a number of policies, procedures and tools to support this. Compliance with these policies is mandatory. All colleagues undergo regular training to remind them of their responsibilities under these policies.

EMPLOYMENT POLICIES AND EMPLOYEE INVOLVEMENT

CONTINUOUS IMPROVEMENT

SES Water has a culture of continuous improvement through investment in people at all levels within the Company. It is committed to pursuing equality and diversity in all its employment activities including recruitment, training, career development and promotion and ensuring there is no bias or discrimination in the treatment of people. In particular, applications for employment are welcomed from persons with disabilities, and special arrangements and adjustments as necessary are made to ensure that applicants are treated fairly when attending for interview or for pre-employment aptitude tests. Wherever possible the opportunity is taken to retrain people who become disabled during their employment in order to maintain their employment within the Company.

POLICIES

The Company has policies in place covering health and safety, equal opportunities, diversity and inclusion, ethics and employee relations. Further detail of the contents of the diversity and inclusion policy are set out in the report of the Nomination Committee on pages 76 to 77. Also, information regarding the employee diversity is provided on page 16. The Board's activities in relation to assessing and monitoring culture can be found in the Corporate Governance Statement on pages 61 to 62.

FREEDOM OF ASSOCIATION

SES Water respects the right to freedom of association and employees are consulted regularly about changes which may affect them either through their trade union-appointed representatives, through consultation groups or by means of their elected representatives at the Employee Engagement Forum. These forums, together with regular meetings with particular groups of employees, are used to ensure that employees are kept up to date with the business performance of their employer and the financial and economic factors affecting the performance of the Company. SES Water also cascades information monthly to all employees to provide them with important and up to date information about key events and to obtain feedback from them on a monthly basis.

SHARE OWNERSHIP

SES Water, and the Pennon Group as a whole, encourages share ownership among its employees in Pennon Group plc by operating an HM Revenue & Customs approved ShareSave scheme and Share Incentive Plan. Following Pennon shareholder approval at the 2014 AGM, these were amended to provide for the increased savings limits approved by Government.

MODERN SLAVERY ACT

Our people are fundamental to our business, and we remain committed and passionate about supporting our staff, customers and communities to thrive in creating an environment where everyone can feel safe and supported. We have a clear zero-tolerance approach to modern slavery and are committed to playing our part in helping eradicate it by having systems and processes to monitor, assess and reduce the risk of forced labour and human trafficking.

We remain focused on improving our risk assessment and the widening of our engagement. We have continued to engage and raise awareness, through internal training, and by continuing as a member of Slave Free Alliance. We are part of a utilities sector working group which shares best practice across our industry. We will continue to work hard to tackle this issue collaboratively with our partners, employees, suppliers, and peers, to evolve our approach to ensure it remains effective. Our latest Modern Slavery Statement can be found here: www.pennon-group.co.uk/sites/default/files/attachments/pdf/pennon-modern-slavery-statement-2023.pdf.

ENERGY USAGE

Details of our Energy usage can be found in the Pennon Group Annual Report and Accounts 2025 on pages 91 to 93.

OVERSEAS BRANCHES

The Company has no overseas branches.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with UK-adopted international accounting standards and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure

Framework", and applicable law).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the year.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- Make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company will not continue in business.

The Directors are responsible for safeguarding the assets of the company and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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 that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS CONFIRMATIONS

The Directors consider that the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Each of the directors whose names and functions are listed in the governance report confirm that, to the best of their knowledge:

i) The financial statements, which have been prepared in accordance with UK adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and loss of the Company and undertakings taken as a whole.

ii) the company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities and financial position of the company; and

iii) the Strategic report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the directors' report is approved:

i. so far as each of the Directors in office at the date of signing of the report is aware, there is no relevant audit information of which the Company's auditor is unaware; and

ii. each of the Directors has taken all the steps that each Director ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors' report consisting of pages 52 to 114 was approved by the Board on 10 July 2025.

By Order of the Board

LAURA FLOWERDEW
Group Chief Financial Officer
10 July 2025

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SUTTON AND EAST SURREY WATER PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion, Sutton and East Surrey Water Plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2025 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the statement of financial position as at 31 March 2025; the income statement, statement of comprehensive income, statement of changes in equity and the cash flow statement for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Our opinion is consistent with our reporting to the Audit Committee.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 6 to the Financial Statements, we have provided no non-audit services to the company in the period under audit.

OUR AUDIT APPROACH

OVERVIEW

AUDIT SCOPE

- Following our assessment of the risk of material misstatement of the Company financial statements, we identified a single division which we performed a full scope audit over its complete financial information, either due to size or risk characteristics.

KEY AUDIT MATTERS

- Revenue recognition in relation to the accrued income for measured supplies
- Valuation of expected credit loss provision for household customer balances

MATERIALITY

- Overall materiality: £800,000 (FY24: £600,000) based on approximately 1% of revenue.
- Performance materiality: £600,000 (FY24: £450,000).

THE SCOPE OF OUR AUDIT

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

KEY AUDIT MATTERS

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition in relation to the accrued income for measured supplies The Company's revenue streams include the provision of water services. Revenue from measured water services requires an estimation of the level of usage/consumption of water between the last meter read date and the balance sheet date. The directors apply judgment whether any manual adjustments for factors such as seasonality and operational data trends regarding consumption, which are adjusted on top of the system generated information covering volume usage and the last meter reading, are needed. We focused on this area because the manual adjustments are judgmental and therefore the position adopted is subjective. Refer to Note 3.1 to the financial statements for further information relating to this critical estimate.	As part of our audit of the directors' judgment over the level of manual adjustments required: • We have performed walkthrough procedures to understand the process for calculating the measured water services accrual, with a specific focus on the directors' methodology; • We performed lookback procedures over the directors historical forecasting to assess the accuracy of the manual adjustments applied; and • We have tested how management have made their estimate. Based on our procedures, the conclusion that the level of manual adjustments applied was reasonable is consistent with the evidence obtained.
Valuation of expected credit loss provision for household customer balances The expected credit loss provision for household customer balances is calculated using a combination of system generated information on historic debt recovery rates and the directors' judgement of whether manual adjustments are necessary to reflect the future likely level of future cash collections where these are expected to not be represented by historic losses. We focussed on this area because the key assumptions driving whether manual adjustments are required are subjective and require the directors to apply judgment. The key assumption related to these manual adjustments is whether historic level of collections is indicative of the ability to collect at the same levels in the future. The risk of non-recovery from customers varies, depending on a number of factors which include, but are not limited to; increases to future rates, whether the household customer no longer occupies a property in the area and the level of expected leakage. Refer to Note 3.1 to the financial statements for further information relating to this critical estimate.	As part of our audit of the directors' judgment over the level of manual adjustments required: • We have performed walkthrough procedures to understand the process for calculating the expected credit loss provision, with a specific focus on the directors' methodology for applying manual adjustments; • We have considered external macroeconomic data such as Real Household Disposable Income reports, as well as employment, inflation, interest rate trends and the post balance sheet collections data for April and May 2025 to assess the impact on the provision held; • We have tested how management have made their estimate; and • We have understood the nature and relevance of the manual adjustments posted validating the basis of the adjustment to supporting evidence. Based on our procedures, the conclusion that the level of manual adjustments applied was reasonable is consistent with the evidence obtained.

HOW WE TAILORED THE AUDIT SCOPE

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. The Company has its own accounting records and controls, as well as oversight from the head office finance team.

THE IMPACT OF CLIMATE RISK ON OUR AUDIT

In planning our audit, we considered the potential impact of climate change on the Company's financial statements. We made enquiries of the directors to understand the process for assessing climate-related risks and opportunities, the extent of the potential impact of climate change risk on the Company's financial statements and the Company's preparedness for this. The climate change risks and opportunities summary describes and explains how climate change could have an impact on the Company's business. Using our knowledge of the business we considered whether the risks identified are consistent with our knowledge of the business and remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any additional risks of material misstatement, or material inconsistencies between the financial statements and the other climate related information presented.

MATERIALITY

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	£800,000 (FY24: £600,000).
How we determined it	approximately 1% of revenue
Rationale for benchmark applied	Based on the benchmarks included in the annual report and financial statements, revenue is considered a key metric for the users of the financial statements that represents a generally acceptable auditing benchmark. In the prior year we used total assets as the benchmark on which to calculate materiality. The company is an infrastructure company, that generates revenues and profits almost entirely through using its infrastructure assets. The change in benchmark for the year ended 31 March 2025 reflects the first full year of consolidation into the Pennon Group plc annual report and aligns with the key metrics and materiality benchmark applied across water companies within the Group.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (FY24: 75%) of overall materiality, amounting to £600,000 (FY24: £450,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £40,000 (FY24: £30,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

CONCLUSIONS RELATING TO GOING CONCERN

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

- Testing the mathematical integrity of the cash flow forecasts and the models supporting these forecasts and reconciling them to Board approved budgets. The directors' assessment covered the period of 15 months from the date of approval of the Annual Report and Accounts to October 2026, we focused on this period and also considered the subsequent five months to March 2027;
- Understanding the key assumptions the directors have applied in developing their base case and severe but plausible downside scenarios. We challenged various aspects of the directors' base case and downside scenarios including consideration of other potential downside risks that were not factored into the directors' downside scenario;
- Assessing the accuracy of the cash flow forecast prepared in the prior years so as to obtain assurance of the ability of the directors to prepare accurate forecasts;

- Obtaining and understanding the terms of the Company's financing and available credit facilities and in particular the financial covenants that the Company is subject to. We have verified the existence of the facilities in place on which the directors have based their liquidity forecast;
- Reviewing the directors' analysis of both liquidity and covenant compliance to ensure there is sufficient liquidity and no forecast covenant breaches during the going concern period;
- Assessing the extent of mitigating actions that could be taken by the directors, if necessary, to increase liquidity or to prevent a trigger or default event arising against the covenants in place; and
- Assessing the appropriateness of the disclosures within the financial statements as disclosed in the accounting policies, relating to going concern.

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 a period of at least twelve months from when the financial statements are authorised for issue.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

In relation to the directors’ reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors’ statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors’ report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

STRATEGIC REPORT AND DIRECTORS' REPORT

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2025 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

CORPORATE GOVERNANCE STATEMENT

ISAs (UK) require us to review the directors’ statements 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, which the Listing Rules of the Financial Conduct Authority specify for review by the auditor. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

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 and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the company and its environment obtained in the course of the audit.

In addition, 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 and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

AUDITORS' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of licence conditions granted to the company under the Water Industry Act, 1991, or Environmental regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Tax legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries that improve financial performance and management bias in significant accounting estimates and judgements. Audit procedures performed by the engagement team included:

- Discussions among the engagement personnel covering the potential for material misstatements due to error or fraud, the risks associated with related parties and emphasis on the need to maintain professional scepticism throughout the engagement;
- Inquiries of the directors and others within the entity, including those outside of finance, as to their knowledge, awareness and concerns regarding fraud, or breaches in laws and regulations;
- Identification and testing of journal entries that met our risk criteria, in particular any journal entries posted with unusual account combinations that hit our risk criteria and incorporating an element of unpredictability in the nature, timing and extent of audit procedures performed;
- Testing significant accounting estimates and judgements made by the directors;
- Reading the minutes of the Board meetings to identify any inconsistencies with other information provided by management;
- Reviewing internal audit reports insofar as they related to the financial statements; and
- Reviewing legal expense accounts and other correspondence to identify items which may indicate the existence of material legal claims.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

USE OF THIS REPORT

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

COMPANIES ACT 2006 EXCEPTION REPORTING

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

APPOINTMENT

Following the recommendation of the Audit Committee, we were appointed by the members on 7 February 2020 to audit the financial statements for the year ended 31 March 2020 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 March 2020 to 31 March 2025.

OTHER VOLUNTARY REPORTING

DIRECTORS’ REMUNERATION

The company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006. The directors requested that we audit the part of the Directors' Remuneration Report specified by the Companies Act 2006 to be audited as if the company were a quoted company.

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Colin Bates (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
10 July 2025

INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2025

	Notes	**2025 £m**	2024 £m
Revenue	5	**82.7**	72.8
Employment costs		**(17.7)**	(15.7)
Raw materials and consumables used		**(4.3)**	(4.8)
Other operating expenses		**(31.9)**	(31.9)
Depreciation and amortisation	6	**(16.2)**	(14.9)
Other operating income	7	**-**	0.1
Net impairment losses on financial and contract assets	15	**(0.2)**	(1.3)
Operating Profit		**12.4**	4.3
Finance income	9	**1.2**	0.8
Finance costs	9	**(20.0)**	(30.5)
Finance costs - net		**(18.8)**	(29.7)
Loss before income tax		**(6.4)**	(25.4)
Income tax credit	10	**1.4**	6.1
Loss for the financial year		**(5.0)**	(19.3)

The above results were derived from continuing operations.

The notes on pages 127 to 153 form part of these financial statements.

STATEMENT OF COMPREHENSIVE EXPENSE

FOR THE YEAR ENDED 31 MARCH 2025

	Notes	**2025** **£m**	2024 £m
Loss for the year		**(5.0)**	(19.3)
Other comprehensive (expense)/income:			
Items that will not be classified to profit or loss			
Actuarial loss on pension scheme	20	**(0.6)**	(1.2)
Movement on deferred tax relating to pension scheme	19	**-**	0.3
Total comprehensive expense for the year		**(5.6)**	**(20.2)**

The notes on pages 127 to 153 form part of these financial statements.

BALANCE SHEET

AS AT 31 MARCH 2025

	Notes	2025	2024 (restated*)
		£m	£m
ASSETS			
Non-Current Assets			
Goodwill	12	**3.1**	3.1
Intangible assets	12	**10.8**	10.6
Property, plant and equipment	13	**381.2**	376.8
Right-of-use assets	13	**1.3**	1.3
Pension asset	20	**6.1**	6.4
		402.5	398.2
Current Assets			
Inventories	14	**1.1**	0.4
Trade and other receivables	15	**32.5**	29.7
Contract assets		**11.9**	6.7
Cash and cash equivalents		**62.5**	36.9
Restricted funds	16	**12.1**	11.4
		120.1	85.1
Total Assets		**522.6**	483.3
LIABILITIES			
Non-Current Liabilities			
Borrowings	18	**(263.3)**	(255.1)
Trade and other payables	17	**(2.3)**	(2.7)
Lease liabilities	18	**(1.2)**	(0.9)
Deferred tax liabilities	19	**(33.3)**	(34.8)
Pension deficit	20	**(1.2)**	(1.3)
		(301.3)	(294.8)
Current Liabilities			
Borrowings	18	**(26.5)**	(65.0)
Trade and other payables	17	**(42.1)**	(39.4)
Contract liabilities		**(9.0)**	(4.6)
Lease liabilities	18	**(0.2)**	(0.4)
		(77.8)	(109.4)
Total Liabilities		**(379.1)**	(404.2)
Net Assets		**143.5**	79.1
EQUITY			
Called up share capital	21	**143.5**	73.5
Profit and loss account		**-**	5.6
Total Equity		**143.5**	79.1

*The 2024 balance sheet has been restated, see note 2 for further detail.

The notes on pages 127 to 153 form part of these financial statements.

The financial statements on pages 122 to 153 were approved by the Board of Directors and authorised for issue on 10 July 2025 and were signed on its behalf by:

Laura Flowerdew
Group Chief Financial Officer
Registered office: 66-74 London Road, Redhill, Surrey, RH1 1LJ
Registered Number: 02447875

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2025

	Notes	Called up share capital £m	Profit and Loss account £m	**Total Equity £m**
Balance at 1 April 2023		51.5	25.8	77.3
Loss for the year		-	(19.3)	(19.3)
Actuarial loss on pensions scheme	20	-	(1.2)	(1.2)
Movement on deferred tax relating to pension scheme	19	-	0.3	0.3
Total Comprehensive expense for the year		**-**	**(20.2)**	**(20.2)**
Transactions with owners in their capacity as owners:				
Issuance of shares	21	22.0	-	22.0
Transactions with owners recognised directly in equity		**22.0**	**-**	**22.0**
Balance at 31 March 2024		**73.5**	**5.6**	**79.1**
Loss for the year		-	(5.0)	(5.0)
Actuarial loss on pensions scheme	20	-	(0.6)	(0.6)
Movement on deferred tax relating to pension scheme	19	-	-	-
Total Comprehensive expense for the year		**-**	**(5.6)**	**(5.6)**
Transactions with owners in their capacity as owners:				
Issuance of shares	21	70.0	-	70.0
Transactions with owners recognised directly in equity		**70.0**	**-**	**70.0**
Balance at 31 March 2025		**143.5**	**-**	**143.5**

The notes on pages 127 to 153 form part of these financial statements.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2025

	Notes	2025 £m	2024 (restated*) £m
Loss for the year		**(5.0)**	(19.2)
Adjustments for:			
Finance income	9	**(1.2)**	(0.8)
Finance costs	9	**20.0**	30.5
Net impairment losses on financial and contract assets	15	**0.2**	1.3
Depreciation of property, plant and equipment	13	**14.0**	13.4
Depreciation of right-of-use assets	13	**0.5**	0.4
Amortisation of intangible assets	12	**1.7**	1.2
Gain on disposal of property, plant and equipment		**-**	(0.1)
Non-cash items - section expenses		**0.3**	0.4
Changes in working capital:			
Increase in inventories		**(0.7)**	-
Increase in trade and other receivables		**(8.9)**	(2.9)
Increase/(decrease) in trade and other payables		**4.0**	(2.5)
Decrease/(increase) in amounts due to related companies		**1.1**	(2.9)
Income tax credit	10	**(1.4)**	(6.1)
Interest paid		**(9.7)**	(11.2)
Income taxes refunded/(paid)		**-**	(0.2)
Net cash generated by operating activities		**14.9**	**1.3**
Investing activities			
Deposit of restricted funds		**(0.7)**	(2.7)
Purchase of property, plant and equipment		**(18.5)**	(20.0)
Purchase of intangible assets	12	**(1.9)**	(2.1)
Proceeds from sale of property, plant and equipment		**-**	0.1
Interest received	9	**0.8**	0.4
Net cash used in investing activities		**(20.3)**	**(24.3)**
Financing activities			
Proceeds of RCF	18	**16.5**	-
Repayment of Shareholders loan	18	**-**	(7.0)
Proceeds of other borrowings	18	**-**	40.0
Repayment of RCF	18	**(55.0)**	(10.0)
Principal elements of lease payments		**(0.5)**	(0.4)
Proceeds from issuance of shares	21	**70.0**	22.0
Net cash from financing activities		**31.0**	**44.6**
Net increase in cash and cash equivalents		**25.6**	21.6
Net cash and cash equivalents at the beginning of the year		**36.9**	15.3
Net cash and cash equivalents at the end of the year	**16**	**62.5**	**36.9**

*The cash flow statement has been restated to exclude restricted funds from cash and cash equivalents, see note 2 for further detail.

The notes on pages 127 to 153 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Sutton and East Surrey Water Plc is a company registered in the United Kingdom under the Companies Act 2006. The address of the registered office is 66-74 London Road, Redhill, Surrey, RH1 1LJ. The nature of the Company's operations and its principal activities are set out on page 108.

According to the licence conditions under which the Company operates as a water-only supplier, the Company is required to comply with the Listing Rules of the Financial Conduct Authority when publishing its annual results.

2. Principal accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to both years presented.

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires 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 in note 3.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
    - paragraph 79(a)(iv) of IAS 1
    - paragraph 73(e) of IAS 16, 'Property, plant and equipment', and
    - paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
    - 16 (statement of compliance with all IFRS)
    - 38B-D (additional comparative information)
    - 40A (requirements for a third balance sheet)
    - 111 (statement of cashflows information), and
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group
- The following paragraphs of IFRS 15, 'Revenue from contracts with customers':
    - 110 (disclosure requirements)
    - 113(a) (separate sources of revenue)
    - 115 (disaggregated of revenue)
    - 118 (explanation of changes in contract assets and liabilities)
    - 120 to 121 (transaction price allocated to the remaining performance obligations)
    - 129 (practical expedients).

These financial statements are presented in pounds sterling and all values rounded to the nearest one-hundred thousand pounds, except when otherwise indicated.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Basis of preparation (continued)

2.1.1 Going concern

The going concern basis has been adopted in preparing these financial statements. At 31 March 2025 the Company has access to undrawn committed funds and cash and cash equivalents totalling £101.0 million, including cash and other short-term deposits of £62.5 million and £38.5 million of undrawn facilities. Cash and other short-term deposits exclude £12.1 million of restricted funds deposited with lessors which are available for access, subject to being replaced by an equivalent valued security. The Company has an expected headroom of £78.6 million at 31 October 2026.

In making their assessment, the Directors reviewed the principal risks and considered which risks might threaten the Company's going concern status, to do this the Company's business plan has been stress-tested. Whilst the Company's risk management processes seek to mitigate the impact of principal risks as set out on pages 32 to 45, individual sensitivities against these risks have been identified. These sensitivities, which are ascribed a value with reference to risk weighting, factoring in the likelihood of occurrence and financial impact, were applied to the baseline financial forecast which uses the Company's annual budget for 2025/26, and longer-term strategic business plan for the remainder of the going concern period to 31 October 2026. The risks and sensitivities include consideration of: legislative impacts such as change in government policy and non-compliance with laws and regulations, macroeconomic impacts such as inflation and interest rate increases and operational impacts such as ensuring adequate water resources and failure of operational assets. A combined stress testing scenario has been performed to assess the overall impact of these individual scenarios impacting the Company collectively. The combined weighted impact of the risks occurring is a cash outflow of c.£16 million; this value is considered equivalent to an extreme one-off event that could occur by 31 October 2026, the probability of such an event happening is deemed unlikely. Through this testing, it has been determined that none of the individual principal risks would in isolation, or in aggregate, compromise the going concern of the Company over the going concern period, the assessment has been considered by reviewing the impact on the solvency position as well as debt and interest covenants. In the combined scenario to ensure that the Company was able to continue as a going concern, additional mitigations could be deployed to reduce gearing and increase covenant headroom. In the combined stress test scenario, the company has sufficient liquidity and covenant headroom which reflects that no mitigations would be needed by the Company. However, if required additional mitigations could be deployed to reduce gearing and increase covenant headroom. Examples of mitigations could include: reduction in discretionary operational expenditure, deferral of capital expenditure and/or cancellation of non-essential capital expenditure, reduction in the amount of dividend payable, and raising additional funding.

We have considered the Company's funding position and financial projections which take into account a range of possible impacts, including the refinancing required within and immediately after the going concern assessment period. Having considered these factors, the Directors have a reasonable expectation that that the Company will meet the requirements of its covenants and has adequate resources to continue in operational existence for the period to at least the end of the going concern assessment period of 31 October 2026, and that there are no material uncertainties to disclose. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

In preparing the financial statements, management has considered the impact of climate change, taking into account the relevant disclosures in the Strategic Report, including those made in accordance with the recommendations of the Taskforce on Climate-related Financial Disclosure. The expected environmental impact of climate change on the water business has been modelled noting that the physical risks are increasing. It is likely that the Company will need to invest to protect certain assets such treatment works against impacts such as subsidence and these considerations form part of the planning process for new capital expenditure. Longer term investment, outlined in the strategic plans, will be needed to manage future risks. To achieve this, combined regulatory and government support within their policy frameworks will be essential. Whilst it is estimated additional spend will be required to manage future risks, the current available information and assessment did not identify any risks regarding the sufficiency of funds available to the Company to support this additional spend or any risk that would require the useful economic lives of assets to be reduced in the year or identify the need for impairment that would impact the carrying values of such assets or have any other impact on the financial statements. The impact assessments will be continuously updated to reflect the latest available information on the impact of climate change.

2.1.2 New standards, amendments, IFRIC interpretations and new relevant disclosure requirements

The company has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2024:

- Classification of Liabilities as Current or Non-current and Non-current liabilities with covenants – Amendments to IAS 1,
- Lease Liability in Sale and Leaseback – Amendments to IFRS 16,
- Supplier Finance Arrangements – Amendments to IAS 7 and IFRS 7, and
- International Tax Reform – Pillar Two Model Rules – amendments to IAS 12.

The amendments listed above did not have any material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2.1.3 Restatements

In the prior year 'Cash and cash deposits' consisted of 'Cash and cash equivalents' and 'Restricted funds'. As restricted funds do not form part of cash and cash equivalents, the 2024 balance sheet has been re-presented. Cash and cash equivalents totalled £36.9 million and Restricted funds £11.4 million at 31 March 2024. An adjustment has also been reflected in the cash flow statement, the opening and closing values of cash and cash equivalents in the prior year have been restated to £15.3 million and £36.9 million respectively from £24.0 million and £48.3 million.

In the prior year, collateral deed amendment costs payable was presented in the Balance Sheet as a liability under Current liabilities. This was reviewed in the current year and upon reflection that a portion of these fees would be payable after 12 months, a restatement was required to reclassify the non-current portion from current liabilities to non-current liabilities. Therefore, an adjustment in the prior year restating £2.7m of collateral amendment costs has been posted from current liabilities to non-current liabilities.

2.2 Consolidation

The company is a wholly owned subsidiary of SESW Holding Company Limited and of its ultimate parent, Pennon Group plc. It is included in the consolidated financial statements of Pennon Group plc, which are publicly available. Therefore, the company is exempt, by virtue of section 400 of the Companies Act 2006, from the requirement to prepare consolidated financial statements. The address of the ultimate parent's registered office is Peninsula House, Rydon Lane, Exeter, EX2 7HR.

2.3 Foreign currency translation

Foreign currency transactions are translated into Sterling using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the profit and loss account.

2.4 Property, plant and equipment

Property, plant and equipment (PPE) is carried at cost less accumulated depreciation and accumulated provisions for impairment (assets were revalued to fair value on transition to FRS 101 in 2014, which is treated as the deemed cost).

2.4.1 Infrastructure assets

Expenditure to increase capacity or enhance infrastructure assets is capitalised where it can be reliably measured and it is probable that incremental future economic benefits will flow to the Company. The cost of day-to-day servicing of infrastructure components is recognised in the income statement as it arises.

Infrastructure assets are depreciated evenly over their estimated useful economic lives and are principally:

		Years
Mains network	these are those assets forming the network which are used to deliver the water to customers.	15-100

2.4.2 Other assets

Other assets are included at cost less accumulated depreciation. Land is not depreciated.

Assets in the course of construction are not depreciated until commissioned.

		Years
Land	.	n/a
Buildings, including reservoirs and boreholes	these are the operational buildings; collections reservoir (the Company's primary reservoir for collecting fresh water); the service reservoirs which temporarily store treated water in order to meet any volatility in demand; and boreholes for collecting water from underground.	5-150
Fixed and moveable equipment	consist of heavy plant used in the course of construction such as excavators, as well as water treatment equipment and water pumps, motor vehicles and sundry plant	2-100

2.4.2 Other assets (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if it is greater than its estimated recoverable amount (see note 2.6).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and they are recognised within 'Other operating income' in the income statement.

Capitalised costs include the original purchase price of the asset and costs attributable to the acquisition of the asset and bringing the asset to its working condition for its intended use. The cost of assets includes directly attributable labour which are incremental to the Company. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced.

All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Where an item of PPE is transferred from a customer (for instance the adoption of mains water supply pipes constructed by developers instead of the Company) that the Company must then use, either to connect the customer to the network, or to provide the customer with ongoing access to a supply of goods or services, or to do both, such items are capitalised at cost, being any costs of adoption incurred by the Company.

Borrowing costs directly attributable to the construction of a qualifying asset (an asset necessarily taking a substantial period of time to be prepared for its intended use) are capitalised as part of the asset.

Borrowing costs that have been capitalised as property, plant and equipment are included within 'Purchase of property, plant and equipment' within investing activities in the statement of cashflows. All other borrowing costs are included as finance expenses within the profit and loss account. During the year £0.3m interest was capitalised by the Company at an interest rate of 6.1%.

2.5 Intangible assets and goodwill

2.5.1 Software costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which are between one and 15 years.

2.5.2 Internally generates intangible assets – research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

The amount initially recognised for internally generated intangible assets arising from development (or from the development phase of an internal project) is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in the profit and loss account profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

2.5 Intangible assets and goodwill (continued)

2.5.3 Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is added to the cash-generating unit (CGU) that derives benefit from the goodwill for impairment testing purposes. Any impairments are recognised immediately in the profit and loss account.

2.5.4 Impairment of goodwill

The Company as a whole is defined as the CGU as assets are not able to independently generate cashflows.

The recoverable amount of the CGU is deemed to be the higher of fair value less disposal cost (FVLDC) and value in use. The best evidence for FVLDC would be an arm's length transaction, less a disposal cost.

The impairment test determined that the FVLDC exceeds the carrying amount and that there are no reasonably possible changes in assumptions that would lead to impairment of goodwill.

A value in use assessment has not been required as there is no indication of impairment.

2.6 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets subject to amortisation or depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (CGUs).

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.7 Financial liabilities

Financial liabilities are initially measured at cost and subsequently at amortised costs using the effective interest method.

2.8 Financial assets

At initial recognition, the Company measures a financial asset at its fair value. Financial assets are held at amortised cost.

Financial assets are derecognised when the rights to receive cashflows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

2.8.1 Financial assets at amortised cost

Subsequent to initial recognition these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other (expenses)/income together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the profit or loss under 'Net impairment losses on financial and contract assets'.

2.9 Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit loss associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables – see note 2.11.

Outstanding balances on customers' accounts are normally written-off as bad debts only when the customer can either no longer be located, all means of recovery have been exhausted, or the cost of recovery is considered to be disproportionate to the value of the debt.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

Inventories consist of critical supplies needed to maintain our physical assets, and fuel oil used to run the backup generators at the water treatment works. The costs are the costs of purchasing the supplies.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Management recognises a provision for obsolete stock as follows:

- between one and two years – 50%
- two years and older – 100%.

2.11 Trade and other receivables

Trade and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade receivable and are recognised initially at fair value and subsequently at amortised cost using the effective interest method, less provision for expected credit losses (ECLs).

2.12 Cash and cash equivalents and restricted funds

Cash and cash equivalents include cash at bank and in hand, deposits held at call within banks and other short-term highly liquid investments with maturities of less than three months, and bank overdrafts. Bank overdrafts are offset against cash balances where there is a legally enforceable right to offset and there is an intention to settle the balances on a net basis. Otherwise, overdrafts are included within current borrowings.

Restricted funds (note 16) relates to cash owned by the Company relating to the secured index-linked bond.

2.13 Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are not interest-bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.14 Borrowings

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Following initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period in which case they are classified as non-current liabilities.

2.15 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.16 Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax

Current tax is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates tax items subject to interpretation and establishes provisions on individual tax items, where in the judgement of management, the companies, including the parent company, which are part of a tax group for certain aspects of the tax legislation. One of these aspects relates to group relief position is uncertain. The Group includes a number of whereby current tax liabilities can be offset by current tax losses arising in other companies within the same tax group. Payments for group relief are included within the current tax disclosures.

Deferred tax

Deferred tax is provided in full on temporary differences between the carrying amount of assets and liabilities in the financial statements and the tax base, except where they arise from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be realised. Deferred tax is determined using the tax rates enacted or substantively enacted at the balance sheet date, and expected to apply when the deferred tax liability is settled or the deferred tax asset is realised.

Deferred tax liabilities are recognised for all temporary differences, with the following exceptions:

• where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

• in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures where the timing of the reversal of temporary differences can be controlled and it is probably that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The company measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

2.17 Post employment benefits

The Company operates both defined benefit and defined contribution pension schemes. Defined benefits are provided using both funded and unfunded pension plans.

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

Defined benefit pension schemes

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the year less the fair value of plan assets. If the value of a plan's assets exceeds the present value of its obligations, the resulting surplus is only recognised if the Company has an unconditional right to that surplus. The defined benefit obligation is calculated by independent actuaries who advise on the selection of Directors' best estimates of assumptions, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds, and that have terms to maturity approximating to the terms of the related pension obligation. The increase in liabilities of the Company's defined benefit pension schemes, expected to arise from employee service in the year, is charged against operating profit.

2.17 Post employment benefits (continued)

Changes in benefits granted by the employer are recognised immediately as a past service cost in the income statement. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the statement of comprehensive income in the period in which they arise.

Defined contribution scheme

Costs of the defined contribution pension scheme are charged to the income statement in the year in which they arise. The Company has no further payment obligations once the contributions have been paid.

2.18 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 expenditures expected to be required to settle obligations. The unwinding of the discount to present value is included as notional interest within finance costs.

If there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations is small.

Provisions are not recognised for future operating losses.

2.19 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods or services supplied, stated net of discounts, returns and value added taxes. The Company recognises revenue when performance obligations to the customer are satisfied. Consideration received from customers in advance of the performance obligation being met and hence revenue being recognised is deferred and recorded as a contract liability.

Revenue is only recognised when collection of consideration is highly probable (note 3.5). Revenue is only recognised when collection of consideration is highly probable. Revenue is recognised either when the performance obligation in the contract has been performed (point in time recognition) or ‘over time’ as the performance obligations to the customer are satisfied. For each obligation satisfied over time, the Group applies a revenue recognition method that accurately reflects performance in transferring control of the services to the customer.

Where a contract with a customer includes more than one performance obligation, revenue is allocated to each obligation in proportion to a fair value assessment of the total contract sales value split across the services provided.

Where customers pay in advance for a service provided this is treated as a contract liability and recorded as a liability.

Where the Company provides services in advance of an invoice being raised this is recorded as a contract asset.

The Company has applied this framework to its revenue streams as follows:

2.19.1 Water revenue (appointed income) – Household and Wholesale revenue

The Company has an obligation as an appointed Water Undertaker to provide water services to customers within its statutory supply area, which is considered to constitute a contractual arrangement with those customers (household customers). For non-household supply, the Company’s customer is the relevant wholesale retailer. In this case there is a contractual arrangement with the wholesale retailer through the competitive market arrangements run by Market Operator Services Ltd (MOSL).

The Company’s performance obligation is the continuous and ongoing supply of water services to the customers across its entire network. This is considered to be a single performance obligation and the performance of this obligation is matched to our customers’ consumption of water.

The transaction price is the amount of consideration that the Company expects to receive in return for providing the water services, in this case being the amount which it has a right to receive from billing customers for appointed water services.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2.19.1 Water revenue (appointed income) – Household and Wholesale revenue (continued)

For unmeasured supply of water services, the amount of consideration to which the Company has a right to receive is based on the rateable value of the customer's property as assessed by an independent rating officer. Revenue is recognised in a straight line over the course of a financial year, best representing the Company's performance of its obligations throughout that year in the absence of definitive information regarding individual unmeasured customer's usage.

For measured supply of water services, the amount of consideration to which the Company is entitled is determined by actual usage of water by customers. The usage is derived from meter readings taken by the Company (or its contractors), which are read at least twice per year. Revenue includes an estimate of the water consumed but unbilled at year end (see note 3.5).

Details of the charging schemes for household customers are available on the Company's website.

For the wholesale supply to retailers, the majority of end customers are metered with the billing information passing between the Company and the relevant retailer through the competitive market processes controlled by MOSL. Revenue includes an estimate of the water consumed by customers but not yet billed at the year end (see note 3.1).

2.19.2 Empty properties – Household revenue

Empty unmeasured properties are not billed if the Company has been informed in writing that the supply is not required and the Company is able to attend and turn off the supply. Empty metered properties are billed standing tariffs only.

Meter reading continues for the purpose of highlighting consumptions so that volume charges can be billed when the occupier has been identified. Disconnected commercial properties are not billed. If a household property is unoccupied due to the customer being hospitalised or residing in care, and we are informed of this in writing, the property is not billed.

New properties are charged from the date a meter is installed, if consumption is being recorded on the meter. If the property is unoccupied but consumption is being registered, the developer will be billed. The developer remains responsible for a property until handover details have been provided.

If a property is recorded as empty in the billing system, an empty property process is followed. The purpose of this process is to verify whether the property is occupied or is genuinely empty and, if occupied, to identify the person or persons responsible for charges and raise a bill. The empty property process may involve electronic services using third party data as well as visits to the properties. No bills are raised under the name of the 'occupier'.

2.19.3 Developer services (appointed income) – Other water revenue

The Company has an obligation to provide several services to enable developers to connect new properties and other property developments to our water network. Details of Developer Services charges are available on the Company's website and described below:

A range of regulated services is offered to property developers and owners who require connection to the water and sewerage networks or need the networks to be extended or altered. Typically, these customers pay an estimate of the charges in advance as a deposit, which is treated as a contract liability and are billed or refunded the difference between the estimate and actual costs on completion of the work.

The principal components of these contributions are as follows:

i) Where the performance obligation relates solely to a connection to the network, revenue is recognised at the point of connection when the customer is deemed to obtain control.

ii) Where assets are constructed or provided by the Company or assets transferred to the Company, it is considered that there is an explicit or implied performance obligation to provide an ongoing water and/or wastewater service, with the result that revenue is recognised over a time no longer than the economic life of assets provided by or transferred to the Company.

2.19.4 Commission income – non-appointed income

Commission revenue from another regulated water and wastewater company (providing sewerage services to the majority of our customers) is earned when the Company collects monies from customers on behalf of the other regulated company. The Company acts as an agent through a contractual arrangement, which sets the transaction price and with the performance obligation being the collection of the debt and transfer to the other company. The commission is paid based on the amount of debt collected and then transferred, with the Company recognising the revenue when the performance obligation is satisfied (the cash being transferred).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2.20 Interest income/(expense)

Interest income/(expense) is recognised using the effective interest rate method. In calculating interest income/(expense), the effective interest rate is applied to the gross carrying amount of the asset, when the asset is not impaired or to the amortised cost of the liability for interest expense. For financial assets that have been impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer impaired the interest income calculation reverts to the gross carrying amount.

2.21 Leases

All are accounted for by recognising a right-of-use asset and a lease liability except for:

- Low value assets; and
- Leases with a duration of 12 months or less.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative standalone prices. However, for leases of real estate for which the Company is a lessee and for which it has major leases, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured at the present value of contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

After initial measurement, lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The Company is exposed to potential future increases in variable lease payments based on an index or

rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

2.22 Dividend distribution

Dividend distribution to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders. Proposed dividends that do not meet these criteria are disclosed in the notes to the financial statements.

2.23 Contract assets and liabilities

The contract assets (accrued income) presented on the balance sheet relate to unbilled work in progress and water delivered to customers, but not yet invoiced, have substantially the same risk characteristics as the trade receivables for the same types of contracts.

Contract liabilities are presented in the balance sheet and represent where a customer has paid an amount of consideration prior to the Company meeting the performance obligation required to recognise the transaction in the profit and loss account. An example would be for an unmeasured customer where the amount is billed once at the start of the financial year based upon the rateable value of the property and is apportioned to revenue over the period.

2.24 Insurance receipts

The Company recognises income from insurance policies when there is an enforceable insurance contract in place that covers the event causing the loss and any amount to be received has been confirmed in writing by the insurer. The receipt is recorded as other income in the profit and loss account and as a current asset on the balance sheet at fair value which is considered to be the expected cash to be transferred, unless that cashflow is expected to occur after one year in which case they are subsequently remeasured at amortised cost using the effective interest method and recorded as non-current assets.

To identify classification in the cashflow management consider the nature of the transaction. Insurance receipts relating to damaged PPE represent ‘in substance’ a disposal of PPE and are classified as an investing activity (insurance proceeds are not derived from the principal revenue-producing activities of the entity).

2.25 Managing financial risk

The Company’s activities expose it to a variety of financial risks; liquidity risk; market risk (interest rate risk), credit risk and inflation risk.

The Company receives treasury services from the treasury function of Pennon Group plc, the parent company, which seeks to ensure that sufficient funding is available to meet foreseeable needs and to maintain reasonable headroom for contingencies and manages inflation and interest rate risk.

These risks and treasury operations are managed by the Pennon Chief Financial Officer in accordance with policies established by the Board. Major transactions are individually approved by the Board. Treasury activities are reported to the Board and are subject to review by internal audit.

Financial instruments are used to raise finance, manage risk, optimise the use of surplus funds and manage overall interest rate performance. The Company does not engage in speculative activity.

(a) Liquidity risk
The Company actively maintains a mixture of long-term and short-term committed facilities which are designed to ensure the Company has sufficient available funds for operations and planned expansions equivalent to at least one year’s forecast requirements at all times. Details of undrawn committed facilities and short-term facilities are provided in note 18.

Refinancing risk is managed under a Pennon Group policy that requires that no more than 20% of Group net borrowings should mature in any financial year. The Company has entered into covenants with lenders. While terms vary, these typically provide for limits on gearing (primarily based on the water business’s regulatory capital value and unregulated EBITDA) and interest cover. Existing covenants are not impacted by subsequent changes to accounting standards. See note 18 for further detail on SES Water’s covenants.

(b) Market risk
The Pennon Group treasury policy states at least 60% of the Group’s debt should be fixed, this is managed through fixed rate debt and the use of derivatives to ensure these levels are met. Of the Company’s net borrowings a proportion is RPI index-linked. The interest rate for index-linked debt is based mainly upon an RPI measure; due to current Ofwat methodology the Company has considered other index-linked indices, which are also used in determining the amount of revenue from customers of the Company. The Company uses a combination of fixed rate, index-linked borrowings and fixed rate interest swaps as cash flow hedges, of future variable interest payments, to achieve this policy. The notional principal amounts of the interest rate swaps are used to determine settlement under those swaps and are not therefore an exposure for the Company.

For 2025 if interest rates on variable net borrowings had been on average 1% higher/lower with all other variables held constant, post-tax profit for the year and equity would have increased/decreased by £0.7 million (2024 post tax profit for the year and equity would have increased/decreased by £0.7 million), for the equity sensitivity fair value, with derivative impacts included. This provides an indication of the changes which could be expected and can be multiplied to support sensitivity analysis, the expected volatility is within the range of 0-2%.

For 2025 if the indices on index-linked borrowings had been on average 1% higher/lower with all other variables held constant, post-tax profit for the year and equity would have decreased/increased by £0.1 million (2024 post tax profit for the year and equity would have increased/decreased by £0.1 million). This provides an indication of the changes which could be expected and can be multiplied to support sensitivity analysis, the expected volatility is within the range of 0-2%.
See note 18 for further detail on SES Water’s inflation-linked bond.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2.26 Managing risk (continued)

(c) Credit risk
Credit counterparty risk arises from cash and cash equivalents and exposure to customers, including outstanding receivables. Further information on the credit risk relating to trade and other receivables is given in note 15.

Counterparty risk arises from the investment of surplus funds. The Pennon Group Board has agreed a policy for managing such risk, across the whole Group, which is controlled through credit limits, counterparty approvals, and rigorous monitoring procedures.

The Company has no other significant concentration of credit risk. The Company's surplus funds are managed by the treasury function and are usually placed in short-term fixed interest deposits or the overnight money markets. Deposit counterparties must meet Pennon Group Board approved minimum criteria based on their short-term credit ratings and therefore be of good credit quality.

(d) Inflation risk
Market inflation has caused inflationary pressures for the Company, the Company has index-linked facilities which are predominantly Retail Price Index (RPI) linked.

Inflation risk arises if the indexes increase meaning the Company will either be paying or accreting the inflation, this could put pressure on the gearing or interest cover ratios. Inflation risk is mitigated through the index-linked nature of our revenues and RCV calculations.

3. Critical judgements and estimates in applying the entity's accounting policies

3.1 Estimates

Unbilled measured income accrual (contract asset)

The measured income accrual is an estimate of the amount of water consumed by customers but not yet billed as of the year end. The Company uses a defined methodology based upon estimating the amount of water that has been consumed. The methodology includes using known factors such as the date of the customers' last bill, the tariff upon which they pay, and an estimate of water consumed since their last meter read based on historical consumption levels for each customer. The unbilled measured income accrual was £11.1m (2024: £9.5m)

If the volumetric element of the measured accrual were to vary by 5% this would impact the accrual by £0.5m (2024: £0.4m).

Provision for doubtful debt

The Company makes a provision against trade receivables based on an assessment of the recoverability and estimates for expected credit losses based on historical trends of the cash collection rate, review of current economic environment, the age of the debt, and actual write-off history. The actual level of receivables collected may differ either favourably or negatively from those estimates given. All debts over three years are 100% provided for. A management judgment is applied to the provision where appropriate. The provision of doubtful debt carrying value is £7.5m (2024: £7.5m). An increase/decrease in the ECL provision rates for current occupiers of 1% (100 basis points) would lead to an increase/decrease in the level of provision by £0.2 million.

Defined benefit pension scheme

The Company is required to pay pension obligations to former employees. The cost of these benefits and the present value of the related obligation depends upon a number of factors including life expectancy, asset valuations and the discount rate based on scheme assets.

The pension asset and liability shown in the balance sheet use these assumptions, the assumptions reflect historic experience and current trends and are set in consultation with appropriately qualified and experienced professional advisors. Sensitivities in respect of these assumptions are shown in note 20. The carrying value of the pension asset is £6.1m (2024: £6.4m) and the liability is £1.2m (2024: £1.3m).

3.2 Judgements

Capitalisation of expenditure as fixed assets

The Company makes large-scale investment into its fixed assets through construction and engineering projects.

Management are required to make a judgement of assessing the classification of costs between operating expenditure and capital expenditure. The Company capitalises costs where the expenditure enhances assets or increases the capacity of the network, providing the asset meets the criteria to be capitalised. This includes an element of employee costs where the individuals contribute to the overall capital programme but not specifically on an individual project. An estimation of time spent on capex-related activities is used to determine the recharge amount which is reviewed on a quarterly basis.

4. Segmental information

Segmental information is reported internally on a monthly basis to the Executive Committee. The Executive Committee is responsible for the day-to-day running of the business and consequently the Executive Committee is considered to be the Chief Operating Decision-Maker ('CODM') of the Company.

All operational and support functions providing a water service to customers are reported as a single business unit.

Revenue is further disaggregated into the different products and services as detailed in note 5.

The Company is subject to economic regulation by Ofwat and operates under a licence to provide water services within a defined geographical region within the South East (East Surrey, West Sussex, West Kent and South London). Management considers the UK to be the geographical location of business.

The Company's revenue is predominately derived from the supply of water to both household and non-household (wholesale customers)

During the year ended 31 March 2025, tariffs for household and non-household customers increased year-on-year however non-household volumes declined in-year due to lower consumption. The increased tariffs impacted both measured household and non-household revenues compared to the prior year.

Unmeasured household water is charged at a fixed rate, so consumption has no impact on revenue.

5. Revenue

	2025	2024
	£m	£m
Unmeasured water revenue (household)	**21.5**	20.7
Measured water revenue (household)	**43.1**	35.5
Total household revenue	**64.6**	56.2
Wholesale revenue from retailers (non-household)	**12.3**	11.2
Other water revenue	**0.6**	0.6
Non-water revenue	**2.4**	2.6
Non-appointed income	**2.8**	2.2
Total revenue	**82.7**	72.8

6. Operating costs

	Notes	**2025**	2024
		£m	£m
Wages and Salaries		**13.4**	11.8
Social Security Costs		**1.9**	1.6
Other Pension Costs	20	**2.4**	2.3
Staff costs		**17.7**	15.7
Power		**8.8**	8.2
Raw materials and consumables		**4.3**	4.8
Rates		**3.5**	3.3
Subcontractors		**5.8**	7.0
Insurance		**0.9**	1.1
Other operating costs		**11.0**	9.1
Depreciation charge on property, plant and equipment	13	**14.0**	13.4
Depreciation of right-of-use assets	13	**0.5**	0.4
Amortisation charge on intangible assets	12	**1.7**	1.2
Legal and professional fees (excluding auditors' fees)		**1.3**	2.6
Fees payable to the Company auditor for the audit of annual financial statements		**0.4**	0.3
Fees payable to the Company's auditors and associates for other services:			
- Audit of regulatory financial statements		**0.1**	0.1
- Other assurance services		**0.1**	0.1
Operating costs		**70.1**	67.3

Wages and salaries disclosed above are shown net of capitalised costs. During the year wages and salaries of £3.8m (2024: £3.4m) were capitalised to fixed assets.

7. Other operating income

	2025	2024
	£m	£m
Profit on sale of fixed assets	-	0.1
Other Operating Income	**-**	0.1

8. Employees and Directors

The average monthly number of persons (including executive directors) employed by the company during the year was:

	2025 number	2024 number
Operations	**194**	181
Retail	**97**	83
Support	**80**	85
Other	**1**	1
Total	**372**	350

Directors' emoluments

	2025	2024
	£m	£m
Executive Directors:		
Salary	0.7	0.5
Other emoluments, including payments in lieu of pension provision	0.1	0.5
Aggregate amounts receivable under long-term incentive schemes	-	0.2
Non-Executive Directors (including Chair)	0.2	0.3
Total emoluments	**1.0**	1.5

More detailed information concerning Directors' emoluments (including pensions and the highest paid Director) is shown in the Directors' Remuneration Report on pages 96 to 108. This report also details arrangements with Pennon Group plc for the payment and recharging of emoluments relating to Directors who serve as Directors of both Pennon Group and SES Water. All variable incentives for Group executives are fully funded by Pennon Group plc. The full single total figure of remuneration table is shown on page 173 of the Pennon Group plc Annual Report and Accounts 2025. These arrangements are funded by Pennon Group plc.

9. Finance cost - Net

	2025	2024
	£m	£m
Finance income		
Expected return on pension scheme assets	**3.5**	3.6
Interest paid on post-retirement liabilities	**(2.9)**	(3.2)
Other interest receivable	**0.6**	0.4
Total finance income	**1.2**	0.8
Finance expense		
Interest on index-linked bond	**6.5**	6.2
Indexation of bond	**7.8**	18.2
Bond fee amortisation	**0.6**	1.2
Other interest expenses	**5.1**	4.9
Total finance expenses	**20.0**	30.5
Net finance cost	**18.8**	29.7

9. Finance cost – Net (continued)

During the year the Company incurred £20.0 million of finance expenses (2024: £30.5 million) mainly relating to accretion of the index-linked loan interest charges on loans and drawn facilities and amortisation of bond fees.

There has been a £10.4m decrease in indexation costs due to a drop in the current year of the Retail Price Index (RPI) rate.

Bond fee amortisation £0.6 million (2024: £1.2 million).

10. Income tax credit

	Note	**2025 £m**	2024 £m
Tax(credit)/charge included in the profit or loss:			
Current tax:			
UK corporation tax on profits for the year		**-**	(0.2)
Adjustments in respect of prior periods		**0.1**	0.5
Total current tax		**0.1**	0.3
Deferred tax:			
Origination and reversal of temporary differences - pension scheme		**-**	-
Origination and reversal of temporary differences - property, plant and equipment		**(1.5)**	(2.9)
Tax losses		**-**	(3.2)
Adjustments in respect of prior periods		**-**	(0.3)
Total deferred tax		**(1.5)**	(6.4)
Income tax credit		**(1.4)**	(6.1)
Tax credit included in other comprehensive expense:			
Deferred tax:			
Movement in relation to pension scheme	20	**-**	0.3
Total tax credit included in other comprehensive expense		**-**	0.3

Tax credit for the year is higher (2024: lower) than the standard rate of corporation tax in the UK for the year-ended 31 March 2025 of 25% (2024: 25%). The differences are explained below:

	2025 £m	2024 £m
Loss before taxation	**(6.4)**	(25.4)
Loss before taxation multiplied by the standard rate of tax in the UK of 25% (2024: 25%)	**(1.6)**	(6.3)
Effects of:		
Expenses not deductible for tax purposes	**0.1**	-
Adjustments in respect of prior periods	**0.1**	0.2
	(1.4)	(6.1)

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing the Pillar Two global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting periods starting on or after 31 December 2023.

Under the legislation, the group will be required to pay, in the UK, top-up tax on profits of its subsidiaries that are taxed at a Pillar Two effective tax rate of less than 15%. FY25 is the first accounting period where the Group is within scope of the Pillar Two rules.

The UK is the only jurisdiction in which the Group operates therefore an assessment of any potential Pillar Two tax exposure for FY25 has been performed focusing solely on the application of the UK domestic top-up tax rules.

10. Income tax credit (continued)

The assessment performed by the Group is based on country-by-country reporting principles and financial statements information for FY25. Based on that information, the UK is expected to meet the conditions of the transitional safe harbours such that no top-up tax arises. The Group is continuing to assess the impact of the Pillar Two income taxes legislation and related updates on its future financial performance.

In addition to the amounts recognised in the statement of profit or loss, the following tax charges/(credits) were recognised:

	2025 **£m**	2024 £m
Amounts recognised directly in other comprehensive income		
Deferred tax charge/(credit) on defined benefit pension schemes	**-**	0.3
	-	0.3

11. Dividends

There were no dividends paid in 2025 (2024: £Nil).

12. Intangible assets

	Goodwill	Software	Work in Progress	**Total Software and Work in progress**
	£m	£m	£m	**£m**
Cost:				
At 1 April 2024	19.5	14.9	1.4	16.3
Additions	-	-	1.9	1.9
Transfer	-	2.9	(2.9)	-
As at 31 March 2025	**19.5**	**17.8**	**0.4**	**18.2**
Accumulated amortisation and impairment				
At 1 April 2024	16.4	5.7	-	5.7
Amortisation	-	1.7	-	1.7
As at 31 March 2025	**16.4**	**7.4**	**-**	**7.4**
Net book Value 31 March 2025	**3.1**	**10.4**	**0.4**	**10.8**
Net book Value 31 March 2024	3.1	9.2	1.4	10.6

The software included in the Company's balance sheet primarily relates to two significant projects, One Serve and Aptumo. One Serve is used to track all of our projects from network repairs to large capital projects. The asset is carried at £0.3 million (2024: £0.4 million) and has a remaining amortisation period of four years (2024: five years) on a straight-line basis. Aptumo, the billing system, went live in October 2021 and is used for all customer service operations and billing management. The asset is carried at £5.8 million (2024: £6.3 million) and has a remaining amortisation period of 12 years (2024: 13 years) on a straight-line basis.

13. Property, plant and equipment and Right-of-use assets

	Land & Buildings	Infrastructure assets	Fixed and moveable plant and equipment	Assets under construction	**Total**
	£m	£m	£m	£m	**£m**
Cost:					
At 1 April 2024	144.9	289.3	197.6	5.1	**636.9**
Additions	-	-	-	18.4	**18.4**
Transfer	0.2	5.5	7.9	(13.6)	**-**
Disposals	-	-	(0.1)	-	**(0.1)**
As at 31 March 2025:	**145.1**	**294.8**	**205.4**	**9.9**	**655.2**
Accumulated depreciation and impairment					
At 1 April 2024	48.1	102.3	109.7	-	**260.1**
Depreciation charge	2.7	2.4	8.9	-	**14.0**
Disposals	-	-	(0.1)	-	**(0.1)**
As at 31 March 2025:	**50.8**	**104.7**	**118.5**	-	**274.0**
Net book Value 31 March 2025	**94.3**	**190.1**	**86.9**	**9.9**	**381.2**
Net book Value 31 March 2024	96.8	187.0	87.9	5.1	376.8

Land and buildings includes freehold land at £5.1million (2024: £5.1 million).

Groups of assets forming cash generating units are reviewed for indicators of impairment. No indicators of impairment were identified during the year.

Asset lives are reviewed annually. No significant changes were required in 2024/25.

All right-of-use assets are motor vehicles.

	Right-of-use assets
	£m
Cost:	
At 1 April 2024	2.1
Additions	0.6
As at 31 March 2025:	**2.7**
Accumulated depreciation and impairment	
At 1 April 2024	0.9
Depreciation charge	0.5
As at 31 March 2025:	**1.4**
Net book Value 31 March 2025	**1.3**
Net book Value 31 March 2024	1.3

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. Inventories

	2025	2024
	£m	£m
Raw materials and consumables	**1.1**	0.4
Total	**1.1**	0.4

Inventory is made up of critical supplies needed to maintain our physical assets and fuel oil used to run the backup generators at the water treatment works.

15. Trade and other receivables - current

	2025	2024
	£m	£m
Gross trade receivables	**31.7**	30.7
Expected credit loss	**(7.5)**	(7.5)
Net trade receivables	**24.2**	23.2
Amounts due from group undertakings	**2.3**	3.1
Other receivables	**4.6**	1.7
Prepayments	**1.4**	1.5
Group relief receivable	**-**	0.2
	32.5	**29.7**

The Company measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss (ECL). The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position adjusted for factors that are specific to the debtors' general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Company has recognised a loss allowance of 100% (adjusted by a management judgement) against all receivables over three years since issued because historical experience has indicated that these receivables are generally not recoverable.

The movement in the allowance for expected credit losses in respect of trade receivables was:

	2025	2024
	£m	£m
At 1 April 2024/2023	**7.5**	9.3
Charge/(credit) for bad and doubtful debts - charged against operating costs	**0.2**	1.3
Receivables written off during the year as uncollectible	**(0.2)**	(3.1)
At 31 March	**7.5**	7.5

15. Trade and other receivables – current (continued)

Ageing debt profile and credit loss provision at 31 March 2025:

	< 6 mos £m	6mos - 1 year £m	1-2 years £m	2-3 years £m	3 + years £m	**Total £m**
Expected credit loss - Household Metered	2.8%	18.2%	33.3%	50.0%	88.9%	
Outstanding customer debt*	3.6	1.1	1.5	1.2	1.8	**9.2**
Provision at expected credit loss	(0.1)	(0.2)	(0.5)	(0.6)	(1.6)	**(3.0)**
Specific provisions against contract assets	(0.2)	-	-	-	-	**(0.2)**
Loss allowance	(0.3)	(0.2)	(0.5)	(0.6)	(1.6)	**(3.2)**
Net outstanding customer debt	3.3	0.9	1.0	0.6	0.2	**6.0**
Expected credit loss - Household Non Metered	3.4%	3.4%	63.6%	80.0%	95.5%	
Outstanding customer debt*	0.5	0.9	1.1	1.0	2.2	**5.7**
Provision at expected credit loss	-	-	(0.7)	(0.8)	(2.1)	**(3.6)**
Loss allowance	-	-	(0.7)	(0.8)	(2.1)	**(3.6)**
Net outstanding customer debt	0.5	0.9	0.4	0.2	0.1	**2.1**
Expected credit loss - Other Receivables	20.0%	50.0%	73.6%	87.7%	100.0%	
Carrying amount of trade receivable*	0.5	0.2	0.3	(0.1)	0.3	**1.2**
Provision at expected credit loss	(0.1)	(0.1)	(0.1)	-	(0.3)	**(0.6)**
Loss allowance	(0.1)	(0.1)	(0.1)	-	(0.3)	**(0.6)**
Net outstanding customer debt	0.4	0.1	0.2	(0.1)	-	**0.6**
Total loss allowance	**(0.4)**	**(0.3)**	**(1.4)**	**(1.4)**	**(4.0)**	**(7.5)**
Net trade receivable	**4.2**	**1.9**	**1.5**	**0.8**	**0.3**	**8.7**

* Gross credits received on account recorded in contract liabilities.

The £31.7 million (2024: £30.7 million) trade receivable amount earlier in this Note is different to the amounts total trade receivables in the table above as the table includes waste water customers who the Company bills on behalf of.

16. Cash and cash equivalents and restricted funds

	2025 £m	2024 £m
Cash at bank and in hand	**62.5**	36.9
Cash and cash equivalents	**62.5**	36.9
Restricted funds	**12.1**	11.4
Total	**74.6**	48.3

Restricted funds relate to a secured index-linked bond.

17. Trade and other payables

	2025 £m	2024 (restated) £m
Current liabilities		
Trade payables	**1.4**	3.2
Amounts owed to group undertakings	**0.3**	-
Other creditors	**26.7**	23.2
Deposits from developers	**0.4**	0.3
Accruals	**13.3**	12.7
Total Current Liabilities	**42.1**	39.4
Non-current liabilities		
Other creditors	**2.3**	2.7

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

18. Borrowings

	2025 £m	2024 £m
Current:		
Short term bank and other loans	**26.5**	65.0
Total current borrowings	**26.5**	65.0
Non-current:		
2.874% secured index-linked bond	**224.6**	216.35
3.25% irredeemable debentures	**-**	0.1
5.00% irredeemable debentures	**0.1**	0.1
Long term bank and other loans	**38.6**	38.6
Total non-current borrowings	**263.3**	255.1

The maturity of non-current borrowings was:

	2025 £m	2024 £m
Between 1 and 2 years	**-**	-
Over 2 and less than 5 years	**173.4**	125.1
Over 5 years	**89.9**	130.0
Total non-current borrowings	**263.3**	255.1

18. Borrowings (continued)

The Company does not use derivative financial instruments to hedge its exposure to credit and interest rate risks arising in the normal course of business. The Company does not have exposure to currency risk. since all activities are conducted in the United Kingdom and all borrowings are determined and denominated in pounds sterling.

The long-dated inflation-linked bond was issued at a rate of interest of 2.874%. The index-linked nature of the bond reflects the index-linked regulatory asset value and pricing structure. The bond issue carried an AAA rating. The bond is index-linked so that the capital sum and interest payment increase with RPI. 20% and 80% of the bond will be matured in 2027 and 2028-2031, respectively.

The indexation charge is treated as an interest cost but does not have any immediate cashflow impact on the Company. The bond was issued on 21 March 2001 and is secured upon the shares of the Company. In the event of default, the interest and capital payments are insured by Assured Guaranty Ltd.

The bond and debentures are at fixed rates of interest. Borrowings made under the revolving credit facilities (RCFs) and the short-term bank loan are at a variable rate with a margin above SONIA and the Bank of England base rate and the short-term bank loan was at a fixed margin above Bank of England base rate. The shareholder's loan was at a fixed rate of 6% per annum.

The £100 million bond agreement specified that the issuer shall ensure that sufficient cash is available to meet the indexed RPI-linked increases in the bond.

On 12 June 2024, the Company replaced its two existing RCF facilities with a new 18-month RCF facility of £65 million with NatWest. The new facility is at 1.35% above SONIA rate per annum and was originally due to expire in December 2025. This was negotiated in May 2025 for a period of 3 years with the option to extend.

As at 31 March 2025, £26.5 million were drawn down under the £65 million RCF (2024: the £40 million and £25 million previous RCFs were fully drawn down) by the Company.

A £40 million private placement with Phoenix was executed on 28 November 2023, drawing down the first £10 million in November 2023 and a final drawdown of £30 million in March 2024 at 5.74% and 5.70% respectively.

On the calculation date of 31 March 2025, the covenants of the index linked bond - interest cover ratio (greater than 1.3x) and gearing (less than 80%) were both met. Net debt included cash in transit over the year end period for customers paying by direct debit.

Loan covenants

Under the terms of the major borrowing facilities, the Company is required to comply with the following financial covenants

1. As per the agreement of £100m index-linked bond, the issuer shall maintain at each calculation date of the 7 May and 7 November each year covering calculation period of 12 months ending 31 March and 31 October an Interest Cover Ratio of at least 1.10:1 and a Regulated Asset Ratio of not more than 0.95:1.
2. Under the same agreement, the issuer shall submit a Business Plan which reflects a revised price determination on each schedule price determination date under the Instrument of Appointment so as to maintain a Forward-looking Interest Cover Ratio of at least 1.30:1: and a Regulated Asset Ratio of less than or equal to 0.80.

The Company has complied with these covenants throughout the current and prior reporting period.

Fair values

The table below analyses financial instruments. into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the assets or liability that are not based on observable market data (unobservable inputs).

18. Borrowings (continued)

Determining the fair value of financial liabilities

The fair value of the bond is based on price quotations at the reporting date.

Fair value is determined using a quoted market bid price where available or otherwise based on discounted expected future principal and interest cashflows. There is no material difference between fair values and carrying amounts within the balance sheet of all other financial assets and liabilities.

The fair values together with their carrying amounts are shown in the balance as follows:

	2025				2024			
	Carrying amount £m	**Fair value £m**	**Level 1 £m**	**Level 3 £m**	Carrying amount £m	Fair value £m	Level 1 £m	Level 3 £m
2.874% secured index-linked bond 2027-2031	**226.9**	**233.0**	**233.0**	**-**	216.3	229.8	229.8	-
Private placement debt of £10m	**9.6**	**10.7**	**-**	**10.7**	9.6	10.3	-	10.3
Private placement debt of £30m	**28.9**	**31.6**	**-**	**31.6**	28.9	30.5	-	30.5

Under IFRS 7 the disclosure of the fair value of leases is not required.

For all other financial instruments there is no material difference between the carrying value and fair values.

Changes in liabilities from financing activities

	3.25% Irredeemable debentures £m	5% Irredeemable debentures £m	2.874% secured index-linked bond £m	Private placement loans £m	Bank loans £m	Total £m	Cash/ Non-cash
Balance at 1 April 2024	0.1	0.1	216.3	38.5	65.0	320.0	
Indexation	-	-	7.8	-	-	7.8	Non-cash
Amortisation of bond cost	-	-	0.5	-	-	0.5	Non-cash
Drawdown of borrowings	-	-	-	-	16.5	16.5	Cash
Repayment of borrowings	-	-	-	-	(55.0)	(55.0)	Cash
Balance at 31 March 2025	**0.1**	**0.1**	**224.6**	**38.5**	**26.5**	**289.8**	

Information on leases

The company has leases for vehicles, the balances of which are included under 'right-of-use assets' as shown in note 13.

The maturity of vehicle lease liabilities was:	**2025 £m**	2024 £m
Within 1 year	**0.5**	0.4
Over 1 year and less than 5 years	**0.9**	0.9
Total	**1.4**	1.3

	2025 £m	2024 £m
Lease Liabilities		
Current	**0.5**	0.4
Non-Current	**0.9**	0.9
Total	**1.4**	1.3

Additions to the right-of-use assets during the financial year were £0.6 million (2024: £0.8 million).

Cash outflows in respect of leasing relate to principal repayments of £ 0.5 million and interest repayments of £ 0.1 million.

Other information required to be disclosed under IFRS 16 is included in note 13.

19. Deferred tax liabilities

	2025 £m	2024 £m
At 1 April 2024/2023	**34.8**	43.7
Adjustment in respect of prior years	**-**	(0.3)
Deferred tax credit to profit and loss for the year	**(1.5)**	(6.1)
Pension asset related tax	**-**	(2.2)
Credit to the statement of other comprehensive income	**-**	(0.3)
At 31 March	**33.3**	34.8

Deferred tax

	31 March 2025 £m	31 March 2024 £m
Non-current deferred tax assets	**-**	-
Non-current deferred tax liabilities	**33.3**	34.8
Total carrying amount	**33.3**	34.8

	elerated capital allowances £m	Relating to pension deficit £m	Other/ Tax losses £m	**Total £m**
A 1 April 2023	45.3	2.1	(3.7)	**43.7**
Credited to the profit and loss	(3.2)	-	(3.3)	**(6.5)**
Pension asset related tax	-	(2.1)	-	**(2.1)**
Credited directly to other comprehensive income	-	(0.3)	-	**(0.3)**
At 31 March 2024	**42.1**	**(0.3)**	**(7.0)**	**34.8**
Credited to the profit and loss	(1.5)	-	-	**(1.5)**
Credited directly to other comprehensive income	-	-	-	**-**
At 31 March 2025	**40.6**	**(0.3)**	**(7.0)**	**33.3**

SES Water plc has an unrecognised deferred tax asset of £2.2 million gross and a tax effect of £0.5 million (2024: £2.2 million gross and a tax effect of £0.5 million) in respect of non-trade deficit debits available for relief in later years.

This relates to restrictions under the UK's tax legislation. Whilst these are available for offset indefinitely, SES Water plc has taken a prudent approach given the business is continuing to suffer both losses and continues to have significant financing costs. As such, given the uncertainty of the timing and recoverability and future tax planning within the Group, management have not recognised the deferred tax asset.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. Post-employment benefits

The Company participates in both a defined contribution scheme, 'Group Personal Pension Plan' (GPPP), which is available for all employees and a defined benefit scheme, 'the Water Companies Pension Scheme' (WCPS), for qualifying employees providing retirement benefits on the basis of the member's final salary.

20.1 Defined benefit scheme

WCPS is a sectionalised scheme, and the Company participates in the Sutton & East Surrey Water Section of the scheme. Plan assets held in the fund are governed by local regulations and practice in the United Kingdom.

The Company's own Section of the WCPS scheme closed to the future accrual of benefits with effect from 31 March 2019 with active members becoming entitled to deferred pensions within the scheme. The weighted average duration of the expected benefit payments from the Section is around 15 years. Prior to its closure members accrued their' final salary until April 2013 when it switched to a career average basis.

With effect from 31 March 2023 the trustees of the scheme invested in a buy-in policy with the insurance company JUST to insure the benefits for members of the Section. Following this, the method for valuing the liabilities of the pension scheme has remained the same. The pension liability, following the purchase of the bulk annuity policy, matches the value of the insurance asset. There is no intention (or obligation) to convert the buy-in policy to a buy-out in the short term.

In June 2023, the High Court handed down a decision (Virgin Media Limited v NTL Pension Trustees II Limited and others) which potentially has implications for the validity of amendments made by schemes, including the Company's defined benefit scheme, which were contracted-out on a salary-related basis between 6 April 1997 and the abolition of contracting-out in 2016. This decision was upheld by the Court of Appeal in August 2024. There is potential for legislative intervention following industry lobbying efforts that may retrospectively validate certain rule amendments that would otherwise be held void where the requirements of section 37 were not met. However, the parent company has engaged with the relevant Trustee for the WCPS scheme who have confirmed that based on the governance processes in place and reviews of significant deed changes during the period in question, these bodies have no reason to believe that the relevant requirements were not complied with in relation to the Schemes with regard to the relevant period in question. Given that there is no indication of non-compliance with the relevant requirements, the Company's defined benefit scheme’s valuation as at 31 March 2025 does not reflect potential additional liabilities arising from the Virgin Media case.

Risks of the scheme

Following the purchase of the bulk annuity policy, the balance sheet asset is now largely only exposed to changes in the value of the invested assets. This is because the value of the insurance policy is set to equal the value of the corresponding obligations meaning that any changes in financial conditions or other assumptions will affect the value of the insurance policy and the corresponding obligations by broadly the same amount.

The value of the pension scheme surplus has been restricted by refund tax of 25% (2024: 25%) under UK tax legislation. An increase in the refund tax rate will reduce the net pension scheme surplus.

Guaranteed minimum pension (GMP)

We have continued to include an allowance of 1% of the value of the Section's obligations in respect of the cost of adjusting members' benefits to remove the inequalities caused by unequal Guaranteed Minimum Pensions for current members of the Section.

A formal actuarial valuation of the Company pension scheme, was carried out at 31 March 2022 by Lane Clark & Peacock LLP (‘LCP’), independent consulting actuaries. This valuation was updated to 31 March 2025 by LCP using the following major assumptions in accordance with IAS 19 ‘Employee Benefits’.

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 60.

20. Post-employment benefits (continued)

	31 March 2025	31 March 2024
Retail price inflation	3.05%	3.15%
Consumer price inflation	2.45%	2.55%
Discount rate	5.75%	4.80%
Life expectancy of male aged 60 in 2024	25.8	26.1
Life expectancy of a male aged 60 in 2049	27.3	28.0
Weighted average duration	10.0	11.0

Reconciliation of scheme assets and liabilities:

	Assets £m	Liabilities £m	Total £m
At 1 April 2024	70.1	(63.7)	6.4
Interest on benefit obligations	-	(2.9)	(2.9)
Actuarial gains / (losses) due to:			
- changes in financial assumptions	-	5.9	5.9
- changes in demographic assumptions	-	0.5	0.5
- experience adjustments on obligation	-	(0.2)	(0.2)
Benefits paid	(4.6)	4.6	-
Interest on section assets	3.4	-	3.4
Actual return on scheme assets less interest	(6.6)	-	(6.6)
Expenses	(0.4)	-	(0.4)
At 31 March 2025	61.9	(55.8)	**6.1**

Section expenses relate to non-cash expenses incurred to administer the defined benefit scheme.

In accordance with IAS19 'Employee Benefits' the value of the net pension scheme surplus that can be recognised in the statement of financial position is restricted to the present value of economic benefits available in the form of refunds from the scheme or reductions in future contributions. As defined under IFRIC 14, the Company believes that it has an unconditional right to a refund of surplus and that the gross pension surplus can be recognised.

This benefit is only available as a refund as no additional defined pension benefits are being earned. Under UK tax legislation a tax deduction of 25% (2024: 25%) is applied to a refund from a UK pension scheme, before it is passed to the employer. This tax deduction has been applied to restrict the value of the surplus recognised for this scheme.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumption is:

	31 March 2025 £m	31 March 2024 £m
Changes in assumptions		
Changes in inflation rate (+0.1%)	**0.4**	0.6
Changes in inflation rate (-0.1%)	**(0.4)**	(0.6)
Changes in discount rate (+0.1%)	**(0.5)**	(0.7)
Changes in discount rate (-0.1%)	**0.5**	0.7
Changes in life expectancy (+1 year)	**2.2**	2.5
Changes in life expectancy (-1 year)	**(2.2)**	(2.5)

The above sensitivity analyses are based on a change in an assumption, while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions might be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (that is, present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. Post-employment benefits (continued)

The methods and types of assumption used in preparing the sensitivity analysis did not change compared to the previous year.

	2025 £m WCPS	**2025 £m Unfunded**	**2025 £m Total**	2024 £m WCPS	2024 £m Unfunded	2024 £m Total
Employer's part of current service cost						
Section expenses	**(0.3)**	**-**	**(0.3)**	(0.4)	-	(0.4)
Net interest credit/(charge)	**0.5**	**0.1**	**0.6**	0.4	(0.0)	0.4
Net credit/(expense) recognised in profit and loss account for pensions schemes	**0.2**	**0.1**	**0.3**	-	(0.0)	(0.0)

Total (loss)/gain recognised in other comprehensive income/(expense)

	2025 £m WCPS	**2025 £m Unfunded**	**2025 £m Total**	2024 £m WCPS	2024 £m Unfunded	2024 £m Total
Net actuarial (losses)/gains in the year due to						
Changes in financial assumptions	**5.9**	**0.1**	**6.0**	4.0	0.1	4.1
Changes in demographic assumptions	**0.5**	**-**	**0.5**	0.8	-	0.8
Experience adjustments on benefit obligations	**(0.2)**	**(0.1)**	**(0.3)**	(0.4)	-	(0.4)
Actual (loss)/gain on Section assets relative to interest on Section assets	**(6.7)**	**(0.1)**	**(6.8)**	(5.0)	(0.7)	(5.7)
(Loss)/gain to recognise outside profit and loss in other comprehensive income	**(0.5)**	**(0.1)**	**(0.6)**	(0.6)	(0.6)	(1.2)

Changes in net assets recognised in the balance sheet

	2025 £m WCPS	**2025 £m Unfunded**	**2025 £m Total**	2024 £m WCPS	2024 £m Unfunded	2024 £m Total
Balance sheet asset /(liability) at 1 April 2023/2024	**6.4**	**(1.3)**	**5.1**	9.2	(0.8)	8.4
Credit/(charge) recognised in profit and loss	**0.2**	**0.1**	**0.3**	-	(0.0)	(0.0)
(Loss)/gain recognised in other comprehensive income	**(0.5)**	**(0.1)**	**(0.6)**	(0.6)	(0.6)	(1.2)
Benefits paid	**-**	**0.1**	**0.1**	-	0.1	0.1
Pension asset related tax	**-**	**-**	**-**	(2.2)	-	(2.2)
Balance sheet asset/(liability) at 31 March 2024/2025	**6.1**	**(1.2)**	**4.9**	6.4	(1.3)	5.1

Fair value of scheme assets

	31 March 2025 £m	31 March 2024 £m
Liquidity funds	**7.8**	8.2
Buy-in policy	**55.4**	63.1
Net current assets	**0.7**	0.7
Cash	**0.2**	0.3
	64.1	72.3

All the above scheme assets are unquoted.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. Post-employment benefits (continued)

20.2 Defined contribution scheme

Following the closure of the defined benefit scheme to new entrants, the Company provides a defined contribution scheme for its employees.

The amount recognised as an expense for the defined contribution scheme was:

	2025 **£m**	2024 £m
Current year contributions	**2.4**	2.3

21. Share capital

	31 March 2025 **£m**	31 March 2024 £m
1,434,894,370 (2024: 734,894,370) ordinary shares of £0.10 each	**143.5**	73.5

During the year, 700,000,000 ordinary shares of 10 pence each were issued fully paid for cash of £70 million.

All shares rank Pari passu in all respects.

22. Commitments

The Company has the following capital commitments for contracts for future capital expenditure provided in the financial statements:

	31 March 2025 **£m**	31 March 2024 £m
Contracted capital commitments	**2.2**	2.9

23. Transactions with related parties

The Company had transactions with related parties during the current and preceding year, however transactions and balance in aggregate were each less than £0.1 million.

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions only when such terms can be substantiated.

Details of transactions with all Group companies can be found in the notes to the regulatory accounts in the Annual Performance Report.

24. Controlling parties

The Company is a wholly owned subsidiary of SESW Holding Company Limited. The ultimate parent company and ultimate controlling party is Pennon Group plc which is registered in England. Group financial statements are included in the Annual Report of Pennon Group plc which is available from Peninsula House, Rydon Lane, Exeter, Devon, England, EX2 7HR.

25. Events after the reporting period

On 30 May 2025, the RCF was renewed for £50m to provide additional prefunding for the Company, this is for an initial period of 3 years with the option to extend. The renewal took place after the balance sheet date and is considered a non-adjusting balance sheet event.