

Our Company



Stakeholder Report 2007-2008



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Our Company

Introduction

This report focuses on the 2007-2008 operational and financial performance of Southern Water, which serves more than four million customers in the South East of England.

We concentrate on providing top quality drinking water, recycling wastewater safely to the environment and being a good, socially responsible neighbour.

As part of this, we have achieved a number of key successes during 2007-2008, including reducing water leakage to

an industry-leading level, halving the number of our serious pollutions in our region, upgrading our customer contact centre and delivering many improvement projects.



Further information and details of all our reports and key sustainability, environmental and corporate social responsibility policies can be found at:
www.southernwater.co.uk/aboutus/library/default.asp

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Verification statement

Verification objective

To provide independent and autonomous assurance that statements and data used in this report are factually correct and quoted in context.

Assurance provision and scope

Southern Water, in line with best industry practice on corporate governance, has an Audit and Risk Review Committee to which our Internal Audit function reports, enabling it to act independently of the business and providing autonomous assurance to the Board. Acting on this basis, Internal Audit has reviewed and challenged:

- Business controls established for the gathering of data and information.
- The quality of supporting information collated by the business.
- The transposition of data into this report.

Opinion

Having reviewed the complete document, Internal Audit has drawn the following opinions:

- Management has established a comprehensive data gathering process that records and indexes all facts and figures used within the report.
- The system for recording data and information collected is robust.
- Statements are supported by assessed evidence.
- Quantitative data has been transposed from sources into the body of the report accurately.
- Management has promptly resolved issues identified during the verification process.

It is, therefore, the considered opinion of the Audit and Risk Review Committee that the statements contained in this report are a true and accurate representation of the company's performance.

Jason Zibarras
Audit and Risk Review Committee Chairman

CEO's Statement



Welcome to Southern Water's annual Stakeholder Report, which outlines our work to deliver first class water and wastewater services in the South East of England. This report highlights our key work in 2007-2008 to provide top quality drinking water, safely recycle wastewater, safeguard our environment and be a good neighbour in the communities we serve.

During the year, we have achieved many successes while also overcoming challenges.

Our focus has been on delivering better services to more than four million customers in Sussex, Kent, Hampshire and the Isle of Wight and we have significantly improved our performance in many areas.

The drinking water we supply to more than two million customers met quality standards enforced by the Drinking Water Inspectorate in 99.95 per cent of samples – ranking it among the best in Europe.

While there was a normal amount of rain in 2007-2008, the South East of England remains designated as a water-stressed area, needing careful management to help maintain this natural resource.

Therefore, our water efficiency campaign has continued to promote messages of not wasting water and using it wisely. We have continued to reinforce these messages because changing customer behaviour with regard to water use is one of the key aspects to the success of managing this resource and our own performance on leakage is crucial in underpinning these messages.

I am pleased to report that we significantly beat the leakage target set by our regulator, Ofwat, to maintain our position as the UK's best performing water and wastewater company on leakage per property.

Our work to balance water supply and demand also included the installation of nearly 20,000 water meters in existing homes. By 2015, we want all homes in our region to have meters. This is just one of the long-term targets set out in our Strategic Direction Statement, which outlines our plans for the next 25 years to deliver sustainable and value-for-money services.

We are currently planning our capital investment programme for 2010-2015 and the work we need to do to maintain and improve our infrastructure and services to meet the standards set by our regulators. This is published as a draft business plan for public consultation and consideration by Ofwat, prior to finalisation next year.

During 2007-2008, we continued our capital investment programme – which will total about £2 billion for the 2005-2010 period – and spent £397 million on upgrading our sewers, water mains, pumping stations, treatment works and business infrastructure.

This included a challenging £15 million scheme to replace two water mains supplying up to a quarter of the Isle of Wight's water from mainland Hampshire. This exciting project was captured on webcams, video, podcasts and a blog on our website.

Our investment also resulted in a significant improvement in our wastewater performance, with only three wastewater treatment works failing to meet Environment Agency standards, compared with 15 the previous year. In addition, significant pollution incidents caused by failure of our apparatus dropped by half to seven and complaints about smells have fallen by seven per cent.

Mindful of the impacts of climate change, we have introduced further Combined Heat and Power plants at our wastewater treatment sites to generate renewable energy from biogas produced during the treatment process. In addition, we are focusing on reducing our own carbon footprint with an energy awareness campaign across the business.

Our work to deliver value for money for our customers has included investing in customer services to respond earlier and more efficiently to enquiries. We have introduced an automated payment service to enable bills to be paid by phone 24 hours a day and we have redesigned our bills to make them easier to understand.

We repeated our public apology to our customers when Ofwat fined the company £20.3 million for historical misreporting of our customer service performance and failure to make all guaranteed standards payments up to October 2005.

I and my new management team discovered the discrepancies in this one area of the business while installing a new billing system in 2005 and we have since put measures in place to ensure this practice cannot

happen again. This was a shameful period in the company's history, but one that we can now put behind us.

Training is the key to ensuring our employees have the skills and support to deliver a first class service, so – in February 2008 – we launched a course, being attended by every member of staff, to highlight how to provide excellent customer service.

The health and safety of our staff, contractors and customers remain a priority and we continued our award-winning Aim for Zero Injuries campaign. For the fifth year in a row, we received a Gold Medal from the Royal Society for the Prevention of Accidents.

As a good neighbour, we have engaged with many communities and groups across the South East, including our sponsorship of the South and South East in Bloom competition and our life-saving Learn to Swim scheme, which reached the milestone of teaching 500,000 children to swim.

We have also visited communities with our water efficiency roadshow and water awareness play Drips Ahoy, taken schoolchildren on an educational boat trip in the Solent, sponsored the Children's Parade to launch the 2007 Brighton Festival and members of our staff have volunteered to help young pupils to learn to read.

I would like to thank all of our customers and employees for their support as we continue to meet our commitment to improve our performance.

Les Dawson
Chief Executive Officer

Core Business



Our business

In our area of operations, illustrated above, we supply drinking water to more than two million customers and recycle the wastewater from more than four million.

In 2007-2008, the average daily volume of water we supplied was 560 million litres and the average daily volume of wastewater we treated and recycled was 798 million litres.

We have continued to maintain and improve



our extensive operations and infrastructure, investing £397 million during the year as part of our improvement programme of about £2 billion between 2005 and 2010.

This is helping us to supply drinking water that is among the best in Europe, deliver the lowest leakage level of the UK's water and wastewater companies and contribute to meeting European standards on bathing water quality.

This year, we greatly improved our environmental performance and halved the number of our major and significant pollution incidents in our region. The number of prosecutions by the Environment Agency also fell.

Our key achievements during 2007-2008 include:

- Supplying top quality drinking water that met standards on 99.95 per cent of occasions.
- Reducing leakage to 83.01 million litres a day, well below the target of 92 million litres set by Ofwat.
- Capital investment of £397 million.

- Water metering – meters are now in more than 35 per cent of homes.
- Publishing our Strategic Direction Statement for the next 25 years.
- Launching a 24-hour automated service, which works by voice recognition, for customers to pay their bills by phone.
- Raising more than £200,000 for the charity WaterAid.

Ofwat fine

Ofwat fined Southern Water a total of £20.3 million during 2007-2008 for historical misreporting of our customer service performance and failure to make all guaranteed standards payments up to October 2005.

We publicly apologised for the breaches, which came to light in 2005 during a project instigated by new management to upgrade the billing system.

The two fines were borne by our shareholders and the new executive team has put measures in place to ensure this practice cannot happen again.

In addition, we agreed with Ofwat to reduce customer bills between April 2007 and April 2009, refunding an average of £10 per customer.

The management team at Southern Water once again apologises for what went on in the past.

Core operations

As part of our water supply and wastewater treatment services, we:

- Supply 560 million litres of high quality drinking water each day to more than two million customers.
- Abstract 26.2 per cent of our water supply from rivers, 68.5 per cent from underground sources and 5.1 per cent from surface water reservoirs.
- Maintain 99 water treatment works and 13,587km of water mains.
- Treat and recycle 798 million litres of wastewater each day from four million customers.
- Maintain 369 wastewater treatment works.
- Maintain 21,545km of sewers across our region.
- Maintain approximately 2,150 wastewater pumping stations.

Core Business



Our awards

During 2007-2008, we received several major awards:

- We won Team of the Year in the Utility Industry Achievement Awards for our record-breaking team of leakbusters and Community Initiative of the Year for our life-saving Learn to Swim scheme, which has taught more than 500,000 children to swim.
- We won Partnership Initiative of the Year in the Water Industry Achievement Awards for our work on our capital investment programme with contractor 4Delivery.
- Our Margate and Broadstairs environmental improvement scheme was recognised with a bronze award in the Considerate Constructors Scheme Awards.
- We gained our ninth consecutive gold award from the Royal Society for the Prevention of Accidents in its Occupational Health and Safety Awards – the fifth year in a row at the higher Gold Medal standard.
- Our Aim for Zero Injuries campaign was judged Best Employee Communications in the CorpComms Awards 2007 and won silver in the Chartered Institute of Public Relations (CIPR) New PRide Awards.
- Also in the CIPR New PRide Awards, we were named Outstanding In-House Public Relations Team and won the Community Relations gold award for our Learn to Swim scheme.
- We won a CIPR Excellence Award for Crisis Communications for our PR campaign Engaging the Public to Beat the Drought.
- Our own Learn to Swim Achiever Awards for outstanding children in our Learn to Swim scheme were rewarded with a national Hollis Sponsorship Award.
- Our Victorian sewers were named Best Place to Visit in the Brighton and Hove Business Awards.

New owners

We came under new ownership in 2007 when Greensands Investments Ltd acquired the company for £4.2 billion. Greensands Investment Ltd represents a consortium of infrastructure investors and pension funds, the leading organisations being the JP Morgan Infrastructure Fund, Australia's Challenger Infrastructure Fund and global financial services company UBS.

Financial business

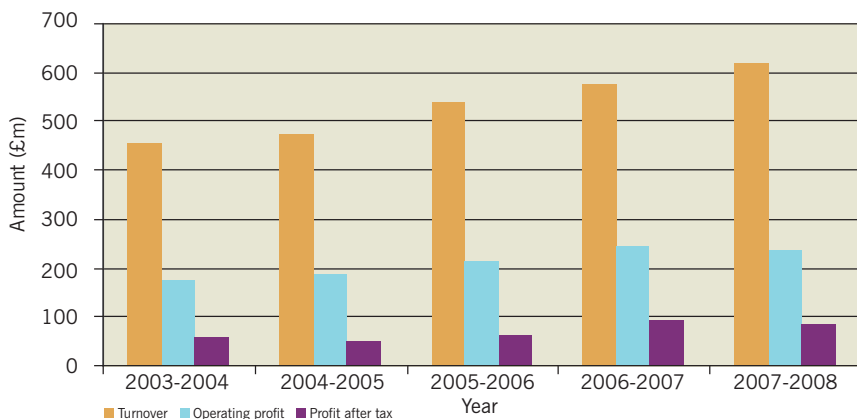
Our turnover rose by 7.5 per cent during 2007-2008 to a total of £618.7 million, with an operating profit of £237.4 million. Profit made after tax was £87.4 million.

Every five years, the Water Services Regulation Authority (Ofwat) sets the amount of money we are allowed to charge our customers and the amount we are allowed to invest in our operations and infrastructure.

Our water and wastewater charges for 2005-2010 were determined by Ofwat in 2004 and the bills paid by our customers during 2007-2008 are helping to pay for improvements to secure water supplies, reduce flooding and improve the environment.

Company profit and significant borrowing enables the full financing of this improvement programme.

Financial performance



Regulatory reporting

During 2007-2008, we received ISO9001:2000 Quality Management System accreditation for our collection, collation, checking and reporting of non-financial data for our Regulatory Report submission.

Capital Expenditure



Our investment

We spent £397 million in 2007-2008 as part of our capital investment programme of about £2 billion for 2005-2010.

This work was delivered in partnership with our contractors 4Delivery, Morrison Utility Services, Holleran Mouchel Parkman JV and Clancy Docwra.

We carried out a number of key improvement schemes, including upgrading six wastewater treatment works in Sussex and Hampshire to reduce the levels of nitrogen nutrients in recycled wastewater. This £87 million investment will help to protect the sensitive waters of the Solent and Chichester and Langstone harbours.

To maintain the high quality of the drinking water we supply, we have invested in new disinfection treatment at our works in Haslingbourne, Patching, Lodsworth, Angmering and Rotherfield in Sussex, Overton in Hampshire and Bowcombe on the Isle of Wight.



Sussex

We submitted new proposals to East Sussex County Council to build a £300 million wastewater treatment works and sludge recycling centre in Peacehaven to treat 95 million litres of wastewater generated each day by the residents of Brighton and Hove and the surrounding area.

The new proposals included additional landscaping and a green roof designed to blend in with the South Downs and made

with special material to allow grass to grow. The landscaping was included in response to comments from two Secretaries of State at a 2007 public inquiry into an earlier proposal.

In Brighton and Hove, we continued with our £15.5 million scheme to replace 57km of Victorian water mains to reduce the amount of water lost through leaks, upgrade the fire protection network and minimise future traffic disruptions. The work, which started in 2006, is due to end in 2009.

Sewer scheme

We completed a £2.2 million sewerage scheme in Dormans Park, East Grinstead, to allow properties to connect to the main public sewer for the first time.

Better treatment

We invested £3.1 million at Goddards Green, near Burgess Hill, to improve the sludge treatment process.

Flood protection

To reduce the risk of flooding, we invested £2.7 million in new manholes, sewers and pumping stations in Western Road, Brighton.

Capital Expenditure



Cross Solent Main

We have completed a challenging £15 million project under the Solent to replace two pipes supplying water to the 126,000 population of the Isle of Wight and millions of visitors during the summer.

The Cross Solent Main, which provides up to a quarter of the island's drinking water from mainland Hampshire, had reached the end of its life.

We replaced the twin pipes with larger ones to help supply more water to meet future demands.

The pipes were manufactured in Denmark and transported to the Solent on giant reels on a barge. Directional drilling – tunnelling underground without disturbing the surface – was used to lay the pipes.



The project was captured on webcams, video and pictures on a dedicated part of our website. Visit the site at: www.southernwater.co.uk/environment/inyourarea/isleofwight/crosssolent

Kent

The coast of Thanet is cleaner following the completion of an £86 million environmental improvement scheme.

A new works at Weatherlees Hill, near Sandwich, can treat up to 70 million litres of wastewater each day from Margate and Broadstairs.

Setting the standards

Customer satisfaction surveys were carried out by the Consumer Council for Water during 2007-2008.

In total, 2,088 interviews were conducted across England and Wales, giving positive feedback on our investment:

- Overall satisfaction with our water supply is 96 per cent – the highest in the industry.
- Awareness of our water efficiency campaigns is 70 per cent – the highest in the industry.
- Customers agreeing the bills are fair is 65 per cent – above industry average.
- Overall satisfaction with wastewater services is 88 per cent – equal to industry average.

In addition, we are setting the standards in industry performance with the best leakage record per property of any water and wastewater company in the UK.

The wastewater, which is pumped to the works along an 11km pipeline, undergoes several processes, including disinfection by ultra-violet light, before being pumped back to Foreness Point in Margate and released through a 1.9km sea outfall.

The scheme is bringing cleaner waters to the residents and visitors in the seaside towns in line with European legislation.

Housing developments proposed for Kent led to a £13.6 million investment in new infrastructure to help transfer wastewater from Halling and Cuxton to our Ham Hill Wastewater Treatment Works.

To treat additional sludge waste removed during the treatment process, we are creating extra capacity at our Ashford Sludge Treatment Centre at a cost of £33.3 million.

Elsewhere in the county, our investments included:

- Upgrading the inlet works at Motney Hill at a cost of £3.1 million.
- Investing £3.5 million to improve drinking water quality at Kettle Hill and Throwley.
- A £5.1 million upgrade of equipment at our wastewater treatment works in Coxheath.



Hampshire and the Isle of Wight

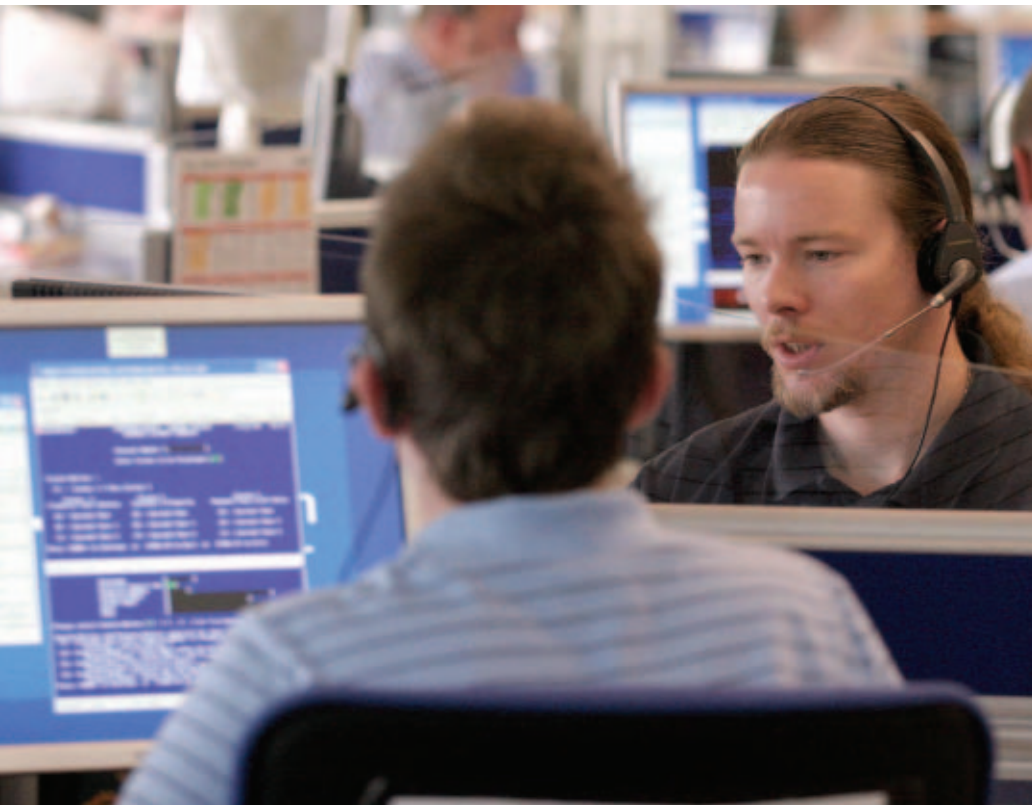
We have invested £1.2 million to help reduce the risk of flooding in the historic city centre of Winchester. This was done by increasing the size of sewers, modifying manholes and lining sewers to help prevent blockages.

A £2.4 million investment on the Isle of Wight is helping to secure supplies of fresh drinking water with the installation of a new link from Chillerton Reservoir to St Catherine's Reservoir.



For more information about our capital investment programme, visit our website: www.southernwater.co.uk/environment/inyourarea/default.asp

Business Improvements



Flood protection

We have focused on reducing flooding incidents caused by blockages or collapses in our sewers. This has led to a reduction in the number of blockages to 215, compared with 292 in the previous year, and nine collapsed sewers, compared with 21.

We also carried out major schemes to upgrade the sewer networks in Winchester and Southampton in Hampshire and in Brighton, Sussex, to help prevent flooding.

Project Jigsaw

Project Jigsaw was established in July 2007 to locate properties that are receiving our water and wastewater services but are not on our system and are not receiving bills for various reasons, such as new developments, conversions or illegal connections. The project helps ensure that all properties are captured and billed correctly in future.

Serving our customers

Customers are at the heart of our business and we have focused on making improvements to the services we deliver.

We have redesigned customer bills to make them easier to read and understand.

We have also introduced an automated phone service to help customers pay their bills more easily. The system, which works by voice recognition, enables payments to be made by debit or credit card and is available 24 hours a day, seven days a week. Our customers can also use this service to tell us of a change of address, set up a direct debit, apply for a payment card, ask for a copy of their bills or tell us if they have recently paid their bills or will be paying soon.

We have significantly improved the speed with which we respond to billing enquiries, dealing with nearly 97 per cent in five working days, compared with 87 per cent last year.

Our success is down to an established team,



which each day handles an average of 1,600 written communications from our customers via post, e-mail and our website.

We have established a revenue directorate to improve the way in which we manage our customers' accounts and we continue our partnerships with other water companies

in the South East to ensure a quick and efficient transfer of information on bills and meter readings where customers are served by more than one company.

We also work with other companies and the Environment Agency to develop water resources and expand the water network in our region.

Remote technology

To ensure our business operates with the most up-to-date and accurate information, we have invested £4 million in a state-of-the-art work management system.

The Field Data Collection System includes hand-held devices with global positioning and easy-to-use software for our employees out in the field.

Accurate information can be fed back more quickly and efficiently, helping us to make more informed decisions to improve our performance for customers.

Computer system

We are installing a £13 million computer system to improve efficiency in our business practices and streamline work in many areas, for example, replacing the use of paper-based processes with an automated system.

IT investment

As part of a £5 million IT infrastructure renewals programme, we are upgrading our data centre at our headquarters in Durrington, Sussex, and are developing a second centre in Bracknell, Berkshire. This will ensure that our data is even more secure and lead to power savings of more than £200,000 to help our carbon footprint.

Working with experts

We have signed Master Framework Agreements with leading businesses, including RR Donnelley (correspondence handling), Wipro Technologies (IT), Wipro BPO (finance and accounting), WS Atkins and Tata Consultancy Services (engineering design) and Siemens Energy Services (meter reading).

Into the Future



Making plans

We are developing plans for the next 25 years to ensure we can continue to supply top quality drinking water and efficiently recycle wastewater.

We want to meet and exceed our customers' expectations in the years to come while offering value for money.

To do this, we need to take account of factors such as climate change, population growth and new legislation.

In 2007, we published a Strategic Direction Statement (SDS) outlining how we plan to operate and develop our services.

While preparing the strategy, we consulted extensively with customers and stakeholders, such as councils, MPs and environment groups.

The key targets outlined in the SDS include:

- 100 per cent compliance with the standards enforced by the Drinking Water Inspectorate.
- Reducing leakage to no more than 10 per cent by 2035.
- Encouraging water efficiency to help reduce customers' bills.
- Where possible, installing water meters in all homes by 2015.
- Ensuring water supplies are secure during dry periods.

- Reducing the number of properties at risk of flooding.
- Stopping serious pollution.
- Minimising our carbon emissions.
- Providing new infrastructure to cater for housing developments.

Financial investment

Water companies plan their investment programmes in five-year periods and we are currently putting together our spending plans for 2010-2015.

The final decision on how much money we can invest during this period will be made by Ofwat next year, along with how much we can charge customers for our services during 2010-2015.

The five-year plan allows for maintenance and upgrades to water and wastewater treatment works, water main and sewer renewal, flood alleviation schemes and customer service improvements.

It also includes work to ensure we continue to meet strict national and European guidelines on water and wastewater quality.



For more information on our plans for the future, visit our website:
www.southernwater.co.uk/aboutus/library/default.asp

Lead pipes

To meet expected tighter standards governing the lead content in water from 2013, we are targeting the removal of public and private lead pipes by 2020.

Tackling leakage

To reduce leakage further, we are exploring the possibility of taking ownership of water supply pipes running from street boundaries to homes. These are currently the responsibility of home-owners.

Water efficiency

Our supply area is classed by the Government as an area of serious water stress. This allows us to implement full household metering from 2010.

Climate change

We need to carefully manage the storage of winter rain to ensure there is a reliable water supply during long, dry summers. Equally, we need to ensure that our sewers and water treatment works can meet the demands of wetter winters to help avoid flooding and pollution.

Preserving a Precious Resource



Water efficiency

Our water efficiency awareness campaign reached thousands of people during 2007-2008:

- Our water efficiency roadshow visited 14 events where we handed out 20,000 leaflets, 17,000 fun flying discs for children, Save-a-Flush bags, sticker books and door hangers.
- Performances of Drips Ahoy, a play which reminds families not to waste water, featured at many of the roadshows.
- Fictional characters The Drips visited schools to perform 25 mime plays to more than 4,400 children, teaching them the importance of being waterwise.
- Shrek played an award-winning role in our campaign to encourage people to 'go green'. In partnership with other water organisations and Paramount Pictures, we used the friendly ogre on stickers and posters to promote water efficiency.
- We visited regional water festivals and the Brighton Science Festival to promote water efficiency and carry out water taste tests with the public.
- Our employees gave water efficiency talks to schools and community groups, giving up their free time to speak to clubs and organisations which met during evenings.

Message in a bottle

Cartoon characters Mr Save-It and Mr Drink-It joined our water efficiency team on World Water Day in 2008.

The two new mascots are being used to help promote water efficiency and water-for-health messages at events around our region.

Mr Save-It is a water butt who helps people to become more waterwise at home and in the garden. Mr Drink-It is a water bottle who promotes the health benefits of drinking water.



Champion leakbusters

The demand for water is continuing to grow in the South East of England as the population grows.

It is, therefore, vital that we all use our precious water supplies efficiently.

During 2007-2008, we continued to tackle leakage, promote metering and encourage customers to be waterwise.

One of our major successes is achieving a leakage level of 83.01 million litres of water a day – 14.78 per cent of our daily supply and the lowest leakage level per property of any of the UK's water and wastewater companies.

This is almost nine million litres below the target set for us by Ofwat and the second year in which our award-winning leak-busting team has beaten the Ofwat target. Our aim is to reduce leakage to no more than 10 per cent of our supply by 2035.

The region we supply is a water-stressed area and metering has an important role to play in helping us to cope with increased demand in the future.

Customers with water meters tend to use less water. Because customers pay only for the water they use, many can reduce their bills while helping the environment.

During 2007-2008, we installed 19,224 household water meters. In addition, we ran an extensive water efficiency campaign in schools and at summer roadshows.



For more information about water efficiency, visit our website:

www.southernwater.co.uk/homeandleisure/waterefficiency/default.asp

Tapping into toilets

We piloted a Retrofit scheme, fitting 2,300 devices into toilets in West Sussex to reduce the amount of water used when flushed.

Green gardens

Water butts are an excellent way to save water. We donated six to a children's hospice in West Sussex for an environmentally-friendly garden and 15 to an Adopt-a-Garden scheme on the Isle of Wight.

Water-saving tips

Our simple water-saving tips, such as those below, can help to save millions of litres of water each day:

- Turn off the tap when brushing your teeth.
- Take a five-minute shower instead of a bath.

Water Quality



Drinking water


Water is a precious, natural resource and the drinking water we supply to our customers is of the highest quality.

We supply 560 million litres of water every day and our supplies met standards enforced by the Drinking Water Inspectorate in 99.95 per cent of samples in 2007.

During 2007, we carried out 238,746 tests on water samples for regulatory purposes. These were taken from our 99 water treatment works, 206 service reservoirs and customers' taps in 83 water supply zones.

In total, we carried out more than 631,000 tests to measure the water we supply against our own water quality standards, which are more stringent than those set by our regulators.

Of the water we supplied, 68.5 per cent came from underground sources, such as aquifers, 26.2 per cent from rivers and the remaining 5.1 per cent from surface water reservoirs.

 Details of our targets for water quality and water resources are available online at: www.southernwater.co.uk/aboutus/library/ourcompany0708.asp

Water safety plans

We are continuing to develop and implement Drinking Water Safety Plans, which the World Health Organisation believes are the most effective way to safeguard water supplies by assessing and controlling risks.



Tap tests

In 2007, we carried out

238,746

regulatory tests on our drinking water supply from taps, water mains and in our works.

Top quality

During 2007, in

99.95 per cent

of samples our water supplies met the stringent standards enforced by the Drinking Water Inspectorate.

Annual report



View our 2007 Drinking Water Quality Report on our website: www.southernwater.co.uk/aboutus/library/default.asp

Water supply

We supply

560 million

litres of water a day.

Protecting our Environment



Cleaner seas

All 81 bathing beaches in our region met the mandatory standard of the EU Bathing Water Directive in 2007 for the third year in a row.

Pollution crackdown

The number of major and significant pollution incidents in our region was reduced by half in 2007, compared with 2006.

Natural odour control

Nearly **95,000** litres of seashells used to line wastewater treatment tanks at Peel Common in Hampshire are helping to put the works on course for its lowest recorded number of complaints about smell.

Safely recycling wastewater

We recorded our best year of improved environmental performance in 2007.

Major and significant pollution was cut by half, more wastewater treatment works met Environment Agency (EA) standards and complaints about smell fell by seven per cent. In addition, all 81 beaches in our region met European standards on water quality.

We recycle 798 million litres of wastewater each day from 1.853 million properties at 369 wastewater treatment works, where it undergoes several stages of treatment. The wastewater is transported through 21,545km of sewers via 2,151 pumping stations. Solid material removed during the treatment process (sludge) is recycled into an agricultural fertiliser.

Works performance

Our wastewater performance improved significantly in 2007 with only three wastewater treatment works failing to meet EA standards, compared with 15 the previous year.

We work to meet stringent standards in the Water Resources Act. These are monitored by the EA. In addition, we monitor our own performance against the Urban Waste Water Treatment Directive.

Controlling smells

The number of complaints about smells from our wastewater treatment works fell for the fourth year in a row.

Complaints were down by seven per cent and the number of people who complained fell by 12 per cent as we continue to improve management.

This has included implementing Odour Management Plans at our sludge treatment centres in Ford and Hastings in Sussex.

Pollution prevention

Our focus on reducing major and significant pollution incidents resulted in a 50 per cent drop compared with 2006.

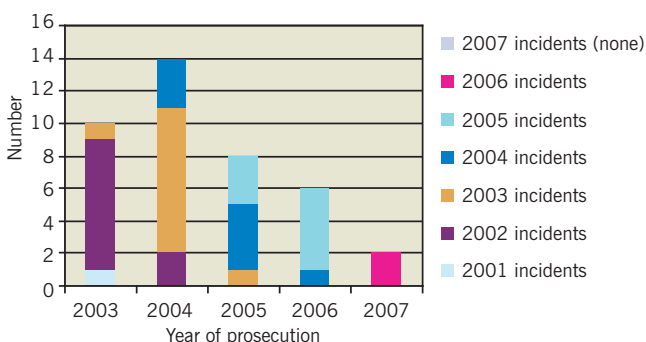
This, in turn, has led to a reduction in the number of prosecutions brought against us by the EA compared with the previous three years.

Our target is to eradicate serious pollution incidents by 2015.

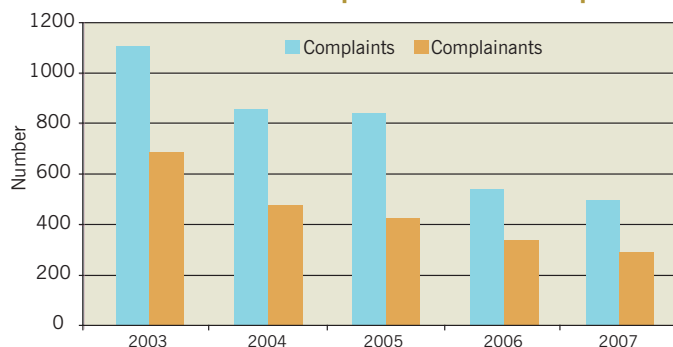


Details of our targets for wastewater and bathing water quality and Environment Agency prosecutions are available online at: www.southernwater.co.uk/aboutus/library/ourcompany0708.asp

Environment Agency prosecutions



Number of odour complaints and complainants



Climate Change



Carbon footprint

We have increased our efforts to reduce our carbon footprint and further develop renewable energy sources.

Our Optimisation Project aims to reduce carbon dioxide emissions by the equivalent of removing 243 heavy goods vehicles from the road in the coming year.

Our Carbon Management Strategy, developed with the Carbon Trust, will help us to reach our target of reducing emissions by 10 per cent by 2015. We have also adopted a number of energy efficient practices at our wastewater treatment works.

Our total carbon dioxide emissions in 2007-2008 were 309,000 tonnes.

Saving energy

Almost half of the UK's carbon dioxide emissions come from everyday activities that waste energy, such as leaving on lights or over-filling kettles.

Therefore, we encourage our staff and contractors to:

- Switch off lights, computers and printers at night.
- Check vehicle tyre pressures to ensure fuel efficiency.
- Turn off photocopiers and phone chargers.
- Recycle paper, toners, cardboard and stationery.
- Turn down the thermostat by one degree.

Generating electricity

We have expanded our use of Combined Heat and Power systems, which use biogas produced during wastewater treatment to generate renewable electricity.

We can now produce up to 10 per cent of our electricity needs from renewable resources and our target is to double this to 20 per cent by 2020. We are also investigating the use of hydro and wind power.



Details of our targets for energy are available online at:

www.southernwater.co.uk/aboutus/library/ourcompany0708.asp

Renewable energy

During 2007-2008, we produced

12,830 MWh

of renewable electricity from nine CHP systems.

Green target

We have set ourselves a target to generate

20 per cent

of our energy from renewable sources by 2020.

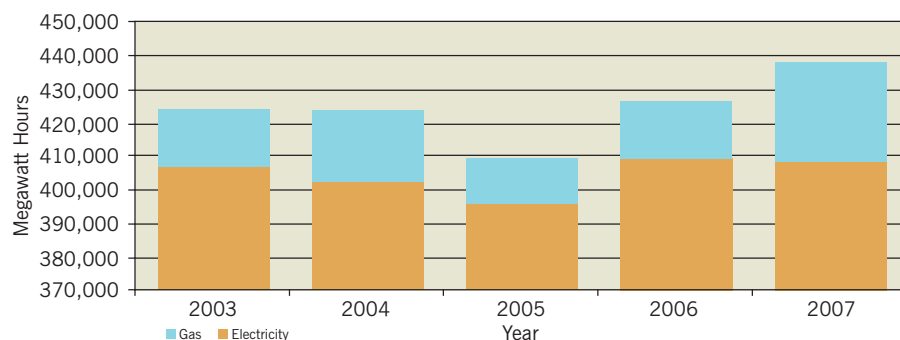
Carbon-cutting

We aim to reduce our carbon emissions by

10 per cent

by 2015.

Fixed sites energy consumption

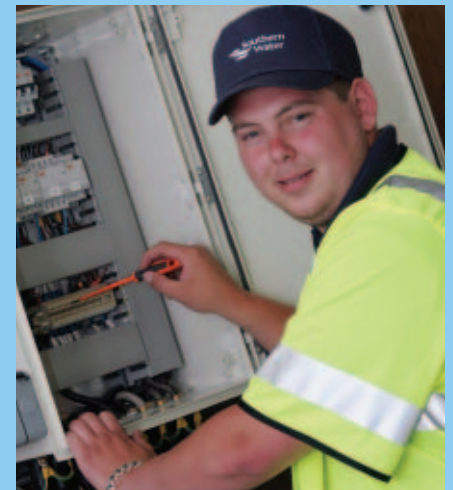


Our People



Apprenticeship scheme

Our apprenticeship scheme enabled 16 young people to complete on-the-job and academic training with us. We also continued Apprentice of the Year and Most Improved Apprentice awards.



Staff training

We gained the prestigious Investors in People national standard for our commitment to developing and supporting our staff.

This award aligns with our belief that it is essential to ensure that our staff have the training and support to deliver a first class service to our customers.

During 2007-2008, we launched a number of initiatives, including reorganising our Sussex-based Billing Contact Centre – the first point of contact for many of our customers.

A new staff structure was put in place with the aim of resolving customers' calls more efficiently and to a higher standard.

As a part of the restructuring, an intensive training programme was developed for both management and call handling staff.

One of the ways in which our employees are consulted on key business decisions is through our company-wide Business Involvement Group of elected staff representatives, which continued through the year.

We also received feedback from our staff in our annual employee opinion survey.

 Details of our targets for employees are available online at: www.southernwater.co.uk/aboutus/library/ourcompany0708.asp

Health and safety



Health and safety remain a priority and we continued our Aim for Zero Injuries campaign, which was named Best Employee Communications at the 2007 national CorpComms Awards.

We also earned our ninth gold award from the Royal Society for Prevention

of Accidents in its annual Occupational Health and Safety Awards – the fifth year in which we have achieved the higher Gold Medal standard.

More than 450 operational staff and contractors attended events as part of European Week of Safety and Health. These included displays on



driving risks by Sussex Police and the Sussex Safer Roads Partnership. East Sussex Fire and Rescue Service also carried out an exercise at one of our sites to free a driver from a “crashed” car.

We supported campaigns led by the UK Health and Safety Executive and the European Agency for Safety and Health at Work.

Customer service

Every member of our staff is attending a two-day training course that focuses on providing excellent customer service.

Young offenders

We run a Young Offender programme to offer training and employment to young people as part of their rehabilitation.

Conservation and Community



South and South East in Bloom competition

We sponsor the South and South East in Bloom competition, which encourages schools, councils and communities to create a flourishing, sustainable environment while being efficient in the use of water.

Thousands of gardeners create beautiful floral entries to battle it out in the annual competition, which is organised by the Royal Horticultural Society.

Entries increased to 217 across 15 categories, ranging from villages, to cities and coastal resorts.

The winners were recognised at an awards ceremony in Crawley.

To mark the Tour de France's visit to Kent, special awards were given to Bethersden, near Ashford, for Best School and Best Village.

Brilliant Reading

Six of our staff joined Brilliant Reading, a scheme run by Brighton-based organisation Brilliant Futures, to help children aged seven to 11 to improve their reading skills.

Brighton Festival



Thousands of children in costumes took part in a parade sponsored by us to launch the 2007 Brighton Festival, the largest community event of its kind in the South East.

Fat traps

We gave away 5,000 Fat Traps in Portsmouth to encourage people not to pour fat down the sink.



Helping hand

We sponsored and supported educational, environmental and fund-raising initiatives across our region.

We also continued to manage our woodlands and conservation sites to provide wildlife habitats and maintain biodiversity, including working with the Forestry Commission's Woodland Grant Scheme.

On our construction sites, we carried out environmental and archaeological investigations. In Kent, working on a pipeline route between Margate and Sandwich with Wessex Archaeology, we discovered artefacts dating back more than 5,000 years and the Canterbury Archaeological Trust recovered coins and pottery from the third and fourth centuries AD at our construction site in Lowton, Richborough.

Learn to Swim

Our Learn to Swim scheme became one of the longest and most successful sports sponsorships in the UK in 2007 when the 500,000th child was taught to swim.

The scheme, in which 40,000 children aged four to 12 learn to swim each year, takes place at 70 centres across our region and entered its 16th year.

Achiever of the Year awards are presented annually to youngsters who have overcome

particular difficulties to learn to swim and the event was recognised as the best in Britain at the 2008 Hollis Sponsorship Awards.

The scheme, which is supported by co-sponsors, was also voted Community Initiative of the Year at the Utility Industry Achievement Awards and won a Community Relations gold award at the Chartered Institute of Public Relations' regional New PRide Awards.

Focus on fund-raising

We are a long-standing supporter of the international charity WaterAid, which helps the world's poorest people gain access to safe and sustainable water and sanitation.

During 2007-2008, we raised more than £200,000 through a number of fund-raising events with contractors and suppliers, including an Arabian Nights-themed ball, a golf day and a horseracing day at Fontwell Park in Sussex.

We award grants to small local projects with an emphasis on the environment, education and the community and donated a total of £18,292 to 108 organisations, including schools and charities.

In addition, we and our staff donated £1,400 to charities through regular Dress Down Days.



For more information on our conservation work, view our Land, Conservation, Access and Recreation report (CAR) at www.southernwater.co.uk/aboutus/library/ourcompany0708.asp

Your feedback

We welcome your views on this report and other aspects of our company performance.

You can give your comments in the following ways:

Email: communications@southernwater.co.uk

Write: Stakeholder Report
Communications
Southern Water
Southern House
Yeoman Road
Worthing
BN13 3NX

www.southernwater.co.uk

Our awards and achievements

We received the following recognition in awards during 2007-2008. For more information, please visit www.southernwater.co.uk



CIPR EXCELLENCE
AWARDS 2007
WINNER



CorpComms
AWARDS 2007
WINNER

2007 **UTILITY INDUSTRY**
ACHIEVEMENT AWARDS

Hollis **WINNER**
AWARDS 2008

