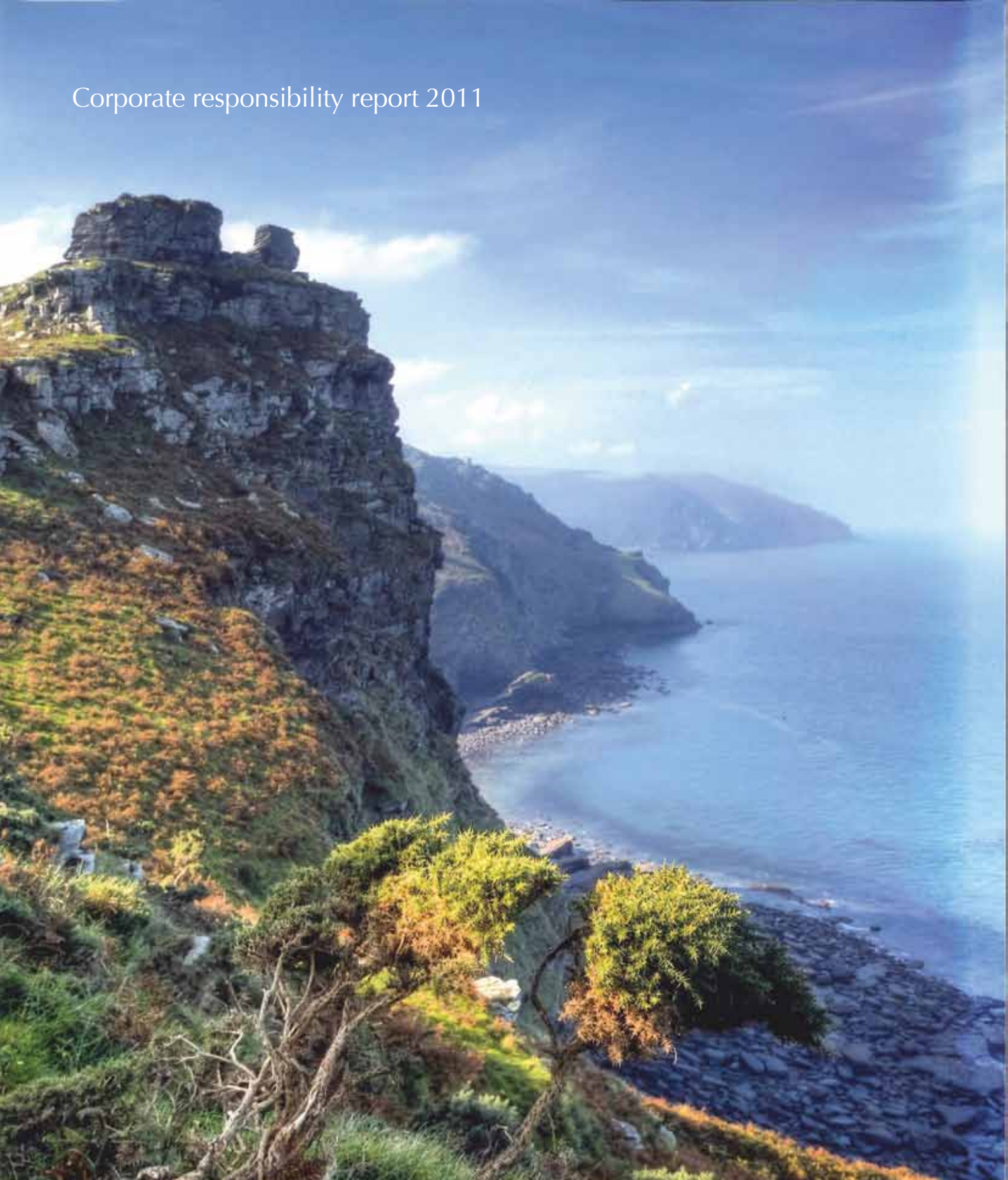


Corporate responsibility report 2011



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Feedback

All data contained in this report refers to the financial year 2010/11 (1 April 2010 - 31 March 2011) unless specifically stated.

Conservation, access and recreation

This corporate responsibility report describes South West Water's responsibilities for conservation, access and recreation to comply with the Code of Practice issued by the Department for Environment, Food and Rural Affairs. These activities are delivered at our inland waters by South West Lakes Trust, an independent charity, on behalf of the company.

Chief Executive's overview



Chris Loughlin
Chief Executive
South West Water Limited

Through the Company's 'Pure Water, Pure Service and Pure Environment' vision, South West Water is focused on achieving increased levels of customer service and operational performance whilst at the same time delivering greater efficiency and adhering to high standards of corporate responsibility. We see innovation and continuous improvement as being essential ingredients in achieving our vision.

The nature of our business means we have a significant role to play in ensuring the environmental, social and economic wellbeing of the communities in our region. In our 25-year Strategic Direction Statement, which sets out our long-term goals and strategies, economic, environmental and social sustainability are integrated into how we conduct our business today and are integral components of business plans going forward, to deliver these goals and strategies.

Since privatisation in 1989, we have transformed the quality of the region's drinking water, sewerage systems and bathing waters so that they meet stringent UK and European Union standards, whilst delivering improved operating efficiencies and higher levels of customer service. Whilst these developments have clearly met favour with our customer, environmental and regulatory stakeholders, it has also been important to attract finance stakeholders to the water sector: the level of investment required by South West Water over this period to allow the necessary quality improvements to be carried out has been over £3 billion.

There are significant new challenges ahead which include:

- responding to climate change impacts
- managing water resources to provide a reliable public service at an acceptable price
- rising customer expectations with reduced tolerance of failure and lower service levels
- diminishing customer ability and willingness to pay for future improvements
- refinement of the system of economic regulation to encourage innovative and sustainable solutions such as strategic catchment management.

This report analyses our corporate responsibility performance and aspirations under the sections of Economic, Environmental and Social Sustainability.

Our objectives are driven by the need to deliver optimum environmental performance to benefit society, whilst being mindful of price. Consequently our sustainability objectives align to those of Pennon Group which are:

- (1) Manage Pennon Group as a sustainable and successful business for the benefit of shareholders and other stakeholders.
- (2) Aim to ensure that all our business activities have a positive economic, social and environmental impact on the communities in which we operate.
- (3) Engage with all our stakeholders and to foster good relationships with them.
- (4) Strive for the highest standards of health and safety in the workplace so as to minimise accidents, incidents and lost time.
- (5) Develop and motivate our employees, treat them fairly and ensure that they are fully engaged in all aspects of Pennon Group's objectives.
- (6) Aspire to leadership in minimising emissions which contribute to climate change, and develop climate change adaptation strategies.
- (7) Aspire to leadership in all aspects of waste prevention and resource efficiency.

We have developed with Pennon Group six key Corporate Responsibility KPIs which we believe to be key to meeting the interests of our customers, stakeholders, investors and the environment and this report sets out our performance against these KPIs:

- renewable energy generation
- greenhouse gas emissions
- recycling volumes
- community support sponsorship and donations
- RIDDOR accident statistics
- capital investment.

In this report we also describe the corporate responsibility targets we have set ourselves for 2011/12 and explain how we have performed against the targets we set for 2010/11.

Highlights of the year

Economic Sustainability

South West Water delivered a robust set of financial results in 2010/11. Profit before tax was broadly stable at £128.9m compared with £129.5 in 2009/10, despite the industry-wide reduction in the allowed rate of return.

As well as achieving this level of profit the Company invested £125.1m in capital expenditure – broadly stable compared to the previous year after adjusting for non-recurring items – and improved its gearing ratio (relationship of net debt to the regulatory capital value) from 59% to 57% as a result of strong cash flow performance.

Another strong year of operational performance accompanied the financial results:

- no hosepipe restrictions or drought orders for the 14th consecutive summer with no water restrictions envisaged for summer 2011
- the Ofwat leakage target being met again (it has been met or beaten every year since inception) despite the coldest December in England in the last 100 years
- near perfect water quality
- reliability resulting from our operating assets again achieving a consistent 'stable serviceability'¹ rating
- a reduction by over a quarter in the number of written complaints received.

With the start of the new five year regulatory period that runs from 2010 to 2015 ("K5" period) we introduced an innovative 'mixed economy' model to source our £705m² capital programme. This means using a significant number of smaller local contractors to provide specialised services as well as long-term relationships with more major supply chain partners.

During the year we have provided extensive input to the debates about how economic regulation for the sector should be developed and the role of market reform in those developments. Key themes for us have been:

- regulatory mechanisms should encourage and reward innovation and sustainability
- reduction in the regulatory burden at the same time as protecting customers' interests
- market reform proposals must make sense in terms of customer service, prices and cost benefit analysis
- tackling fairness and affordability charging issues for the South West.

¹Serviceability is the capacity of a system of assets to deliver a reference level of service to customers and to the environment now and into the future. Serviceability is deemed to be stable when the assessment of trends in a defined set of service and asset performance indicators demonstrates that service is in line with the reference level of service and, by inference, is likely to remain so into the future.

²At 2007/08 prices.

Environmental sustainability

Of the 144 designated bathing waters in our region, 139 or 96.5% met good (mandatory), and 130 or 90.3% met the European excellent standard (guideline). This is an improvement on last year's results, when 121 or 84.0% met the excellent (guideline) standard. All the region's 18 Blue Flag beaches retained their European excellent status and 4 other local beaches could also reapply, having returned to excellent status. The exceptional results in Cornwall, with just one bathing water failing the good (mandatory) standard, are particularly pleasing, given the importance of the tourism industry to the county.

We have continued to make good progress on our 'Upstream Thinking' strategy which aims to improve river water quality in a sustainable way. A five-year pilot project to carry out restoration on areas of internationally important blanket bog on Dartmoor was launched. The project is a partnership led by Dartmoor National Park Authority and funded substantially by South West Water. The ongoing partnership work to restore wetlands on Exmoor has been recognised with a national Golden Green Apple Award.

We achieved a further 3.1 GWh energy saving through initiatives introduced across the business such as the 'PowerDown' programme.

We generated 13.8 GWh – enough to power around 3,000 homes – from capturing and processing methane gas from our digestion plants and waste water treatment works and from our hydro electric power plants. Our long-term aim remains to source 50% of our energy used from renewable sources by 2030.

We received certification under the Certified Emissions Measurement and Reduction (CEMARS) scheme for our carbon reporting: this is independently assessed and can only be achieved by organisations that have not only made credible emissions reductions over the past three years but also have robust carbon reduction plans for the future.

We have reduced our carbon footprint for the third successive year. Our longer term aim is to match the UK Government's carbon reduction targets. It is our aspiration to achieve an 80% reduction in our emissions by 2050 (on a 2006/07 baseline).

Social sustainability

We have been enthusiastic to promote practical ways to help customers struggling to pay their water bills through:

- the WaterCare Scheme which has helped over 8,000 customers with long-term debt problems
- the Restart Scheme which has helped over 6,000 customers to reduce their debt
- the Fresh Start Fund, managed by an independent board, for one-off hardship cases
- a targeted campaign to promote and support low income customers who would benefit from metering
- fitting 5,000 free leak alarms for vulnerable customers wary of metering
- providing training and administration resource to the Citizens Advice Bureau
- employing doorstep debt advisors to provide advice and access to support schemes
- implementing WaterSure tariff with more than 9,800 households on this tariff, one third of the national total.

South West Water has welcomed the Government's response to the Walker Review of charging for household water and sewerage services. The proposal for Government from 2013/14 to fund a cut in the average bill of all customers will be especially well received alongside proposals to target help at those in most need by funding the 'Water Sure' tariff, pegging it to the lower national average metered bill and allowing us to develop our own social tariff. We will continue to work closely with Government and our regulators throughout the consultation period to examine the practicality of all options to aid customers.

South West Water's emphasis on excellent service is delivering tangible improvements for customers and is reflected in reducing levels of contacts, particularly repeat contacts. Customer satisfaction levels are also rising. Service improvements undertaken in the past two years to reduce customer complaints are delivering results, with complaint levels falling for the third year running.

We have continued to support and sponsor community projects linked to water, the environment, youth participation and education in the South West, and overseas via the national water charity, WaterAid.

Overall, a year of good performance provides a robust platform for the delivery of our plans for K5 and beyond with the continued emphasis on sustainability and corporate responsibility.

Support for domestic customers.



Strategy and stakeholder engagement

South West Water has achieved much since privatisation, and the improvements in our services are clear:

	1995	2011
Overall customer satisfaction with services	49%	80%
Drinking water compliance	99.56%	99.97%
Waste water treatment works compliant with standards	81%	93%
Leakage	140 ML/day	84 ML/day
Properties at risk of being flooded with sewage	0.081%	0.005%
Domestic customers on a metered supply	7%	71%

Our Strategic Direction Statement sets out our aspirations and outlines some of the challenges we face in pursuing this vision over a 25-year period.

Customers have told us in no uncertain terms that the very least they expect from us, whatever the impacts of climate change, is a supply of water that they can use without worrying about its quality or reliability. Neither do they want the environment to be damaged by our activities. At the same time, they are concerned about the level of bills. Sustainable solutions are needed which meet statutory obligations and also adapt to the effects of climate change. This will involve new ways of thinking and working, and the regulatory framework will need to develop further to ensure appropriate incentives are provided to encourage these sustainable solutions.

We involved a wide range of stakeholders in developing our Strategic Direction Statement and the business plans for the K5 period that evolved from the statement. Their involvement is essential as, against the background of a complex policy and regulatory context for the water industry, our stakeholders have diverse remits and differing requirements which we need to understand and balance in our strategy and plans. Engagement with stakeholders through a quadripartite process ensured structured discussions with the Environment Agency, Natural England, the Consumer Council for Water, the Drinking Water Inspectorate and Ofwat allowing us to understand and discuss the sometimes competing requirements of our key stakeholders. We also ran workshop sessions with regulatory bodies, groups of business customers, environmental organisations and domestic customers. This has led to our confidence that our K5 business plan represents appropriate balances between customer service standards, environment impact, investment needs and the aim to keep the cost of customer bills as low as possible.

The Strategic Direction Statement describes the ways in which we aim to deliver the specific outputs set out in our business plan:

Sustainability:

- working in partnership with other organisations to manage responsibly river catchment, estuaries and coastline, improving the environment and protecting raw water quality
- delivering quality improvements to rivers, bathing waters, shellfish waters and groundwaters, in the most cost effective and sustainable way possible
- meeting carbon reduction targets through energy efficiency and increased renewable energy generation.

Efficiency:

- Consistently being amongst the most efficient companies in the industry
- Expanding remote site operation and control of our networks without compromising service.

Investors and debt providers:

- Giving a fair return for their investment from a soundly financed business.

The section in this report on Environmental Sustainability sets out the progress made in the year towards the matters listed under Sustainability above.

2010/11 Target

Use stakeholder engagement research for corporate responsibility reporting to develop improved engagement with up to ten stakeholders.

Met

Benchmarking our performance against the water industry

Water UK, the industry body, compiles an annual Sustainability Indicators' report. This highlights a number of areas where the industry has made significant progress. It also explains challenges facing the industry, for example the tension between regulations that demand high water quality and the need to reduce carbon emissions. The report notes that energy use is increasing, driven largely by the requirement for higher water and waste water quality standards. Consequently greenhouse gas emissions appear to be rising.

The Water UK report includes benchmarked performance against the following seven core indicators:

- water supply interruptions
- risk of sewer flooding
- greenhouse gas emissions – water supply
- greenhouse gas emissions – waste water treatment
- leakage
- waste water sludge sent for recycling
- number of convictions for environmental offences.

South West Water's performance against these indicators in 2009/10 and 2010/11 is detailed below. (Water UK will publish the 2010/11 sustainability report towards the end of 2011.) For six of the indicators, South West Water performance compares positively with the industry average, particularly in respect of low levels of sewer flooding risk, leakage and waste water sludge recycled. The exception is the indicator for greenhouse gas emissions for treating wastewater where South West Water has the highest level of emissions. This is because of the extent of energy intensive UV treatment necessary at coastal wastewater treatment works to ensure that bathing waters comply with European standards, and the topography of the region which results in high levels of pumping.



Indicator	Industry performance 2009/10	Highest company 2009/10	Lowest company 2009/10	SWW Performance 2009/10	SWW Performance 2010/11
Number of properties with unplanned interruptions to supply \geq 6 hours per 100,000 connected properties	Total 119,800	1180	17	324	385
Properties at risk of sewer flooding at least once in every ten years, per 100,000 connected properties	Average 19.1	116.8	6.8	6.8	5.4
Greenhouse gas emissions from supplying water (CO ₂ e per ML of water supplied)	Average 0.34 tonnes CO ₂ e / ML	0.5	0.17	0.35	0.36
Greenhouse gas emissions from waste water treatment (CO ₂ e per ML of waste water treated)	Average 0.7 tonnes CO ₂ e / ML	1.1	0.42	1.1	0.99
Total leakage per 100km of supply main (ML/day)	Average 1.03	2.13	0.53	0.55	0.55
% waste water sludge sent for recycling	Average 70.8	100	39.2	100	100
Convictions (calendar year basis)		8	0	3	5

Economic sustainability

As well as delivering strong operational performance, in 2010/11 South West Water delivered a robust set of financial results.

Profit before tax was broadly stable at £128.9m compared with £129.5m in 2009/10. As well as achieving this level of profit the company invested £125.1 in capital expenditure and improved its gearing ratio (relationship of net debt to the regulatory asset value) from 59% to 57% as a result of strong cashflow performance.

Underlying this financial performance for the current year are a range of strategies and procedures, considered in this section of the report, covering economic sustainability that give assurance that strong results achieved in a particular year are not at the expense of longer-term sustainability.

In achieving the profit before tax for the year, operating cost efficiencies of £8.4m (equal to 5.8% per annum) were achieved, representing a step change. A significant element of the efficiency arises from ongoing restructuring programmes and continuing implementation of the systems and processes supporting remote site operation and control of the networks. We have used innovative approaches to save costs, for example, working with our sludge contractors, we have optimised efficiency savings of almost £100,000 by maintaining a low cost of fuel at a time of escalating prices, and deploying night shifts.

The company has a wide range of contacts with our environmental and regulatory stakeholders involving many different functions within the company. We also have central processes in place so that we can be confident that stakeholders are being dealt with by the people most able to assist them when they contact us and that consultations and information requests are being handled in the most efficient manner and that information given to stakeholders is both of high quality and consistent.

Asset Management

Targeted, efficient capital expenditure, forms an essential part of the delivery of the Company's long-term strategies. South West Water has the highest asset value per customer of any of the water and sewerage companies, and it faces considerable challenges to sustain the reliability of its assets as they age, and to improve the robustness of asset performance where necessary.

The capital plan in place for the K5 period represents the Company's view of its investment needs in the context of its longer term strategic aims, whilst mindful of our customers' strong desire for stable prices during K5.

The development of the plan utilised a number of supporting methodologies and tools, including:

- analysing data within our source systems to identify asset performance and deterioration issues
- considering the whole life cost analysis of operating our assets
- sewerage system studies and network modelling
- investment plans to take into account the impact of our activities on customers and the environment
- an approach to the management of small waste water catchments developed in partnership with Exeter University.

The aims of our Asset Management Policy are directed towards both maintaining asset serviceability and delivering the optimum service to our customers as described in our Strategic Direction Statement.

Major capital investments in the year included construction of the Exeter water treatment works flood defence scheme, infrastructure works connecting Stannon Lake (the Company's fourth largest reservoir) into the distribution network, and maintenance expenditure focused on maintaining near perfect tap water quality.

Governance and Internal Control

In order to ensure it is meeting its obligations to stakeholders and carrying the business forward in the way it aspires to in its strategic business plans, South West Water has in place a well-established and effective set of policies and processes covering corporate governance, internal control and risk management. These are described in more detail in the Company's Annual Report and Accounts.

South West Water also has the following quality accreditations/certifications:

- ISO 9001: 2008 (quality management)
- ISO 14001: 2004 (environmental management)
- ISO 27001 : 2005 (information security)
- ISO 17025 (laboratories and sampling).

Constructing the new waste water treatment works at Polperro.



Managing the company's financing

Pennon Group and the Company have robust treasury policies in place to ensure the Company's borrowings and financial commitments are managed in a controlled, prudent way.

These include policies that require that:

- there are always pre-drawn or committed facilities to cover at least one year's estimated cashflow
- no more than 20% of borrowing matures in any one year.

Policies also monitor interest rate risk and govern the balance between fixed and floating interest rates, and those set by reference to the Retail Price Index (RPI). Derivatives, usually interest rate swaps, are used to manage the mix of fixed and floating rate debt.

Financial covenants included in the company's debt facilities are monitored on a regular basis.

We aim to achieve a level of gearing within Ofwat's 'optimum range' of 55% - 65%.

A major source of funding for the Company has been in the form of finance leases. The total owed under finance leases was £1,172.4m at 31 March 2011. This is a long-term form of finance, matching the lives of the plant, property and equipment funded under the leases.

Further details of the Company's treasury and financing policies are given in the Company's Annual Report and Accounts.

Sustainable procurement and supply chain management

We include all aspects of sustainability in our procurement processes and this is a central theme of our procurement strategy for our supply chains and to support the regional economy. We are committed to investing in the region and building good relationships with local businesses. With the start of the K5 period that runs from 2010 to 2015 we introduced an innovative 'mixed economy' model to source our £705m¹ capital programme. This means using a significant number of smaller local contractors to provide specialised services as well as long-term relationships with more major supply chain partners.



Recognising our suppliers' contribution by our supplier awards.

Our supplier assessment covers environmental, social and financial sustainability including suppliers' approaches to occupational health and safety, working conditions in the supply chain, corporate governance, sustainability of their products and services and attitudes to natural capital and the environment. We aim to work with the best companies whose forward-thinking approach to sustainability gives reassurance that their environmental, social and ethical risks are minimised. This approach also supports our business continuity objectives and our Key & Strategic Supplier risk review methodology.

Some indicators of our industry-leading approach are detailed below:

- the supplier questionnaire, used in all tender activity, now includes a carbon emissions reporting section. We collect key data annually from our major suppliers, partners and contractors for inclusion in the company's measurement of carbon emissions
- we encourage our suppliers to provide information and data on the embedded carbon of the products and services they supply. We have updated our standard Supplier Agreement with guidance for suppliers to this effect
- for part of our investment prioritisation programme for the K5 capital programme, we have adopted a methodology for the assessment of embedded and whole life carbon over an assumed asset life of 40 years. This project selection process uses the Government's 'non-traded price of carbon' to value emissions from potential investments in our cost benefit analysis models, thus ensuring that lower carbon option solutions are promoted
- all procurement tendering activity is now completed using e-sourcing software, which eliminates paper copies of tenders.

Third party credit information suppliers are used by the Company to monitor the financial health of major suppliers.

Development of the Regulatory framework

During the year, Ofwat, the economic regulator of the UK water industry, has been considering a number of options in changing the way it regulates the industry – and the regulatory burden that arises from the approach taken to regulation – as well as alternative approaches to performance incentives, potential market reform and the price-setting process.

The Company is supportive of reductions in the regulatory burden that still give regulator and customers adequate protection and has fully contributed towards the discussions and consultations that have taken place. In the discussions about potential changes to the form of price-setting and incentives, we see the support of innovative and sustainable solutions through any regulation as being an issue of prime importance.

¹At 2007/08 prices.

Environmental sustainability

We recognise that our core business of delivering treated water and cleaning waste water impacts on the environment, affecting river and sea water quality. We recognise our responsibilities to exert sound stewardship, to minimise pollution and our carbon footprint. We also recognise that we must adapt to the effects of climate change. We regularly take opportunities to impact positively on the environment – for instance with regards to the nurturing of wildlife.

We have robust systems in place, certified to ISO14001, to review our environmental impacts and then take action to minimise adverse environmental impacts.

We use more assets per customer than any of the other water and sewerage companies in the UK. We have 636 treatment works and there are some 877 pumping stations and 1,001 combined sewer overflows in our 9,328 km waste water network. How we operate these assets is monitored by the Environment Agency against a range of measures of performance. We aim to deliver a service that represents high quality and reliability to customers and also complies with environmental standards.

2010/11 Target

Maintain certification to ISO 14001 across the company. **Met**

Environmental Challenges

Energy use and carbon emissions

Each year there is upward pressure on energy use arising from investment in new assets and in treatment processes required to meet higher drinking water and environmental standards.

In order to meet the European Bathing Water Directive we have to intensively treat waste water effluent before discharge. 60 of our coastal treatment works have ultra violet disinfection, which operates all year round and consequently uses high levels of energy.

Due to the topography of the South West region, it is necessary to pump water long distances and up steep gradients. Our 235 water pumping stations have to overcome an average lift of 135m. This is amongst the highest in the industry.

Climate change impacts

Our water resource plans aim to ensure a sustainable provision of drinking water. These include the acquisition of two former china clay pits which have now been commissioned as our fourth and fifth largest reservoirs. Additionally it is hoped the mires restoration element of our 'Upstream Thinking' catchment management programme will form part of an effective response to the potential impacts of climate change, namely hotter, drier summers and warmer, wetter winters.

Coastal and river water quality

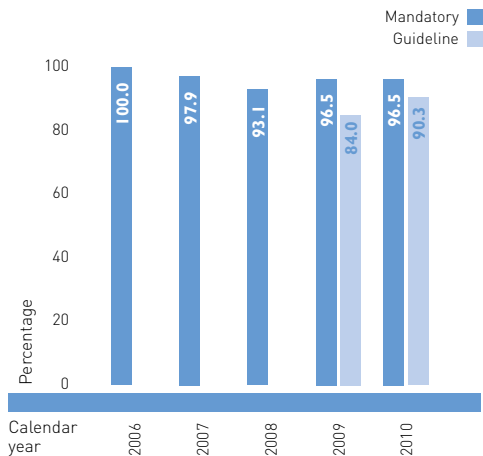
There has been a long-term transformation of bathing water quality in the South West due to the £2 billion Clean Sweep programme. The £6m scheme at Polperro began in June 2010 and is our final 'Clean Sweep' scheme, which will close the crude sewage outfall under the harbour wall. The chosen method of waste water treatment uses less energy and produces less carbon emissions than other options.

Of the 144 designated bathing waters in our region, 139 or 96.5% met good (mandatory), and 130 or 90.3% met the European excellent standard (guideline). This is an improvement on last year's results, when 121 or 84.0% met the excellent (guideline) standard. All the region's 18 Blue Flag beaches retained their European excellent status and 4 other local beaches could also reapply, having returned to excellent status. The exceptional results in Cornwall, with just one bathing water failing the good (mandatory) standard, are particularly pleasing, given the importance of the tourism industry to the county.

BeachLive is a new website hosted by South West Water which offers daily information on potential risks to bathing water quality caused by overflows from the sewerage network. This service is available for up to 25 Blue Flag and heavily used beaches across the South West.

From the latest available analysis, Devon and Cornwall have a higher percentage of high quality rivers (over 90% are classified as 'Very Good' or 'Good') than any other region in England. Since 1989 we have improved treatment standards at our waste water treatment works greatly improving the quality of treated water entering the region's rivers. This has been a major contributor to the improvement of river water quality in our region.

BATHING WATER COMPLIANCE WITH EU MANDATORY AND GUIDELINE STANDARDS %



No data on the EU guideline standard is available for earlier years due to a change to monitoring against the EU standard rather than the UK standard by the Environment Agency.



Porthtowan beach.

Pollution incidents

The Company always self-reports incidents it becomes aware of and co-operates fully with any investigation undertaken by the relevant regulatory authority. After each pollution incident, including incidents leading to prosecution, the Company takes all necessary steps to ensure that the incident will not be repeated and also seeks to ensure that lessons learned are widely disseminated throughout the Company.

There was one Category 1 (major pollution) incident and five Category 2 (significant pollution) incidents in 2010. This compares with two Category 2 incidents in 2009. The total number of Category 1 to 3 waste water pollution incidents in 2010 was 132 (2009 106). 34% of all these incidents in 2010 were self-identified and reported. Whilst there was an increased number of events on the sewer network compared with 2009, this is within the control limits set for K5 for serviceability measures, although the increase is clearly disappointing. The Category 1 incident recorded in the year was unique and is the first one since reliable records began, resulting from the failure of a number of storm pumps in a deep shaft, which we repaired as quickly as was possible. Category 2 incidents rose slightly but remain in low numbers at levels similar to previous years and much better than those experienced in previous regulatory investment periods.

Our total incident numbers (including Environment Agency (EA) Category 4 Incidents) actually fell by almost 30% on the 2009 levels based on the EA National Incident Recording System database. The rise in Category 3 incidents related particularly to combined sewer overflows which have been the subject of extensive media coverage. To address this we accelerated the roll-out of our Event Duration Monitoring investment and the development of enhanced monitoring systems during 2010, with the aim of improving the Company's knowledge of these assets and their performance characteristics and speed up response times to any temporary blockage problems.

For details of incidents and prosecutions please see the internet version of this report:
www.southwestwater-cr-report.co.uk

The other asset class that saw an appreciable increase in pollution incidents was sewage treatment works, with the increase generally occurring from November onwards and may have been related to the November floods and then the coldest December in England for 100 years disrupting process reliability. Continued planned capital maintenance investment efforts are expected to return the situation to normal and a national UK Water Industry Research project jointly sponsored with the EA has been commissioned to review how long sewage treatment processes need to recover from prolonged low temperatures and extensive snowfall such as those experienced last November, December and January.

There has been a reducing trend of other causes floodings and pollutions at CSOs and sewers over the last five years. Hydraulic overload floodings have been maintained at low numbers (0.003% of properties in 2010/11) with variation from year to year being determined by rainfall patterns in the year.

During the year the Company was convicted on five occasions for environmental offences and fined a total of £29,000 (2009/10 four convictions and fines of £11,500).

Water abstraction and leakage

Water is a valuable resource and we abstract from our rivers no more than we need to maintain a reliable supply. We are also committed to keeping leakage to a minimum and our leakage rate remains among the lowest in the industry at 5.5 cubic metres per kilometre of mains per day.

2010/11 Target

Achieve three year rolling leakage target of 84ML/d as set by Ofwat.

Met

Despite the coldest December in 100 years which caused a surge in burst pipes for both our customers and network, we still achieved our leakage target of 84 ML/day.

We have now achieved or beaten our leakage targets every year since they were first introduced in 1997/98.

Water efficiency

2010/11 Target

Provide support with water efficiency to business customers through Business Accounts Online, water efficiency calculator, audits, certification and our new Sustainable Economic Level of Water Efficiency (SELWE) quote and fit scheme.

Met

We work in a number of ways to promote water efficiency with domestic and business customers, which include:

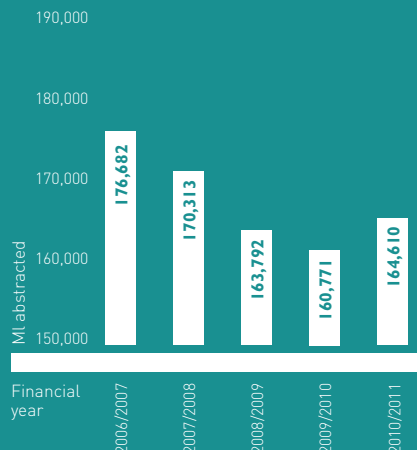
- guidance to customers via our free phone water conservation helpline and Company website
- provision of water audits
- educational materials for, and talks given, to schools
- promotion of discounted water butts for the region's gardeners.

14,198 free meters were installed in 2010/11. At 31 March 2011 71% of domestic premises were metered.

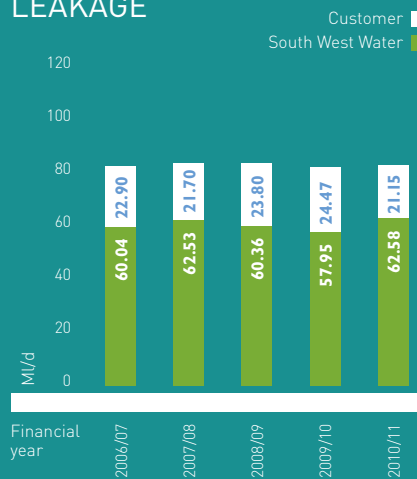


Helping our customers achieve water efficiency.

VOLUME WATER ABSTRACTED (MI)



LEAKAGE



Climate change adaptation

Water resources

Two disused china clay pits were acquired in 2006 and 2008, and have been converted into Park and Stannon Lakes. Park Lake became operational as our fifth largest reservoir in summer 2010, and Stannon Lake will become operational as our fourth largest reservoir this summer.

Upstream Thinking

2010/11 Target

Ensure effective liaison with 30 landowners and 10 stakeholder groups to develop support for catchment management projects .

Met

Our 'Upstream Thinking' strategy aims to improve water quality and control water treatment costs. This approach offers more sustainable management of climate change impacts by addressing risks and challenges at source, instead of incurring the additional capital and operating costs of more intensive water treatment. Benefits will also include lower carbon through reduced use of both energy and chemicals.

Within the price limits set for 2010 to 2015, Ofwat, our Economic Regulator, has supported this approach by enabling more than £9 million to be spent – equivalent to 65p on each customer's bill.

The Exmoor Mires Restoration project is a partnership between South West Water, Exmoor National Park, the Environment Agency, Natural England and English Heritage.

It won a Golden Green Apple Award in November 2010.

Between 2006 and 2010, a successful pilot project on 300 hectares of peatland demonstrated that rewetting peat captures and holds water in the uplands. Tempering the flow of water reduces sediment run off into the water courses has the potential to reduce the amount of treatment needed, including chemicals.

Rewetting the mires is beneficial for wildlife such as insects, amphibians, otters, adders, snipe and curlew.

This project is now being extended on Exmoor with the aim of restoring 3,000 hectares of Sites of Special Scientific Interest damaged by drainage ditches back into favourable condition. Within this area, the project aims to re-wet 2,000 hectares of peatland, with benefits to water quality, quantity, biodiversity and carbon storage. In 2010/11, 98.7 hectares were restored just below our target for the year of 100 hectares. In addition a programme of research and monitoring, working in partnership with the University of Exeter and the Environment Agency, will demonstrate the benefits of such catchment management.

The Dartmoor Mires pilot project was formally launched in February 2011. This is a partnership between South West Water, Dartmoor National Park Authority, the Duchy of Cornwall, the Environment Agency and Natural England with the support of the Ministry of Defence and Dartmoor Commoners' Council. The project will assess and restore 110 hectares of high-quality blanket bog, benefitting upland wildlife, improving water provision and increasing the potential of Dartmoor's blanket bog to store carbon and mitigate the impacts of climate change.

Re-wetting on Exmoor and Dartmoor will collect carbon dioxide and is a completely sustainable form of carbon capture and storage.

With funding from South West Water, the Westcountry Rivers Trust has successfully worked with landowners to reduce diffuse pollution and runoff above Upper Tamar Lake. We are now extending this work to provide landscape scale projects in West Penwith, the River Fowey, the Tamar, Wimbleball and Roadford catchments and the Otter Valley, working with the Westcountry Rivers Trust, Devon and Cornwall Wildlife Trusts and the Farming and Wildlife Advisory Group.



Launching the Dartmoor Mires project.



Water retention properties of sphagnum moss.



Re-wetted mire on Exmoor.

Climate change mitigation and carbon reduction

Carbon reduction targets are set for short, medium and long-term. The long-term aim, set out in our 25-year Strategic Direction Statement (published in 2007), is to meet the carbon reduction targets that emerge from the developing national framework. This targets a reduction of 80% of our carbon emissions by 2050 (on a 2006/07 baseline). Since 88% of our carbon emissions are associated with our consumption of energy, the largest opportunity to mitigate our carbon emissions comes from controlling our energy usage.

Initiatives to reduce energy use are described in the sections on 'energy efficiency' and 'renewable energy generation'.

2010/11 Target

Achieve 1.2% reduction in emissions compared with 2009/10 from energy use.

Not met

For 2010/11 the target set for the year was a reduction of 1.2% from energy use. Our actual performance was 0.7%, the shortfall being largely attributable to some clean water capital work taking longer than scheduled and requiring increased use of pumping facilities. The target for 2011/12 is a reduction of 3.3% carbon emissions from energy use from a 2009/10 baseline.

In 2010 we received certification under the Certified Emissions Measurement and Reduction (CEMARS) scheme for our carbon reporting: this accreditation is independently assessed and can only be achieved by organisations that have made credible emissions reductions over the past three years and have robust carbon reduction plans for the future. We achieved certification by demonstrating an absolute reduction in Greenhouse gas emissions over the last three years, and by proving more than 2.5% reduction in emissions intensity (tCO₂e/£ turnover) over the same period.



Energy efficiency

South West Water is one of the largest consumers of electricity in the South West, so an effective focus on energy efficiency is crucial, particularly as each year there is upward pressure on energy use arising from investment in new assets and in treatment processes required to meet higher drinking water and environmental standards.

In order to meet the European Bathing Water Directive, we have to intensively treat waste water effluent before discharge. 60 of our coastal treatment works have ultra violet disinfection, which operates all year round and consequently uses high levels of energy.

Due to the topography of the South West region it is necessary to pump water long distances and up steep gradients. Our 235 water pumping stations have to overcome an average lift of 135m. This is amongst the highest in the industry. As a result, around 80% of the Company's electricity usage is due to pumping which requires high levels of energy use, so we have a comprehensive pump testing and pump refurbishment regime in place. This ensures that our pumps run as efficiently as possible, extending their lifespan and minimising wasted energy from inefficient pumping.

The remaining 20% of South West Water's energy use comes from other on-site processes, treatment equipment and non-operational consumption, for example, heating, lighting, cooling and computer usage.

Operational usage reduction is also being targeted through the Company's Puros project, one of the focuses for this project being more efficient remote operation of equipment. Work being carried out includes network optimisation programmes, the use of 'smart pumping' technology and the optimisation of treatment processes.

2010/11 Target

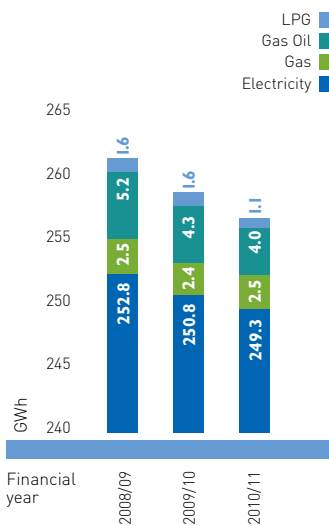
Achieve a further 3GWh (full year effect) energy saving through the 'PowerDown', pump efficiency and Puros programmes.

Met

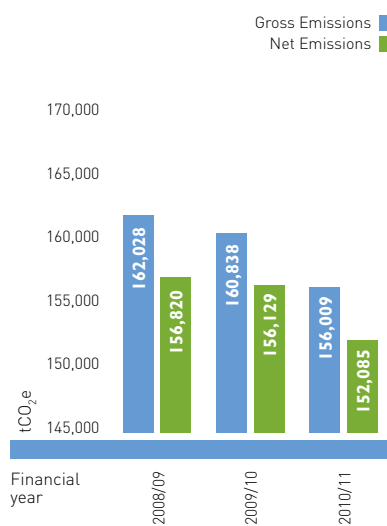


Receiving the Devon Environmental Business Initiative award.

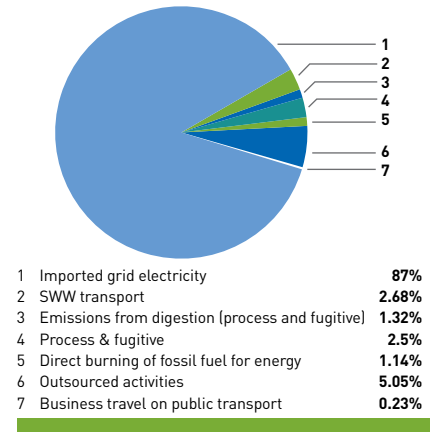
GWh ENERGY USE



CARBON FOOTPRINT



SWW GREENHOUSE GAS EMISSIONS BY CATEGORY 2010/11



POWERDOWN

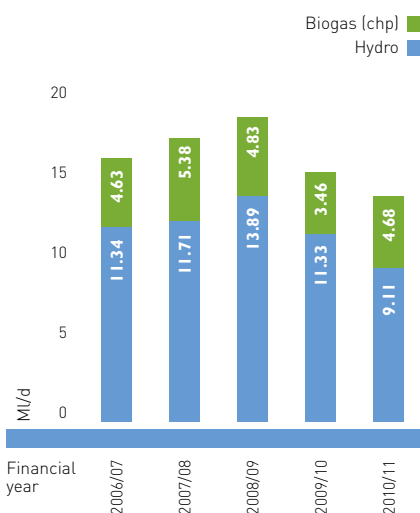
We launched our 'PowerDown' energy efficiency campaign in March 2010 to focus on non-pumping energy efficiency. This campaign engages the entire staff-base in helping the energy team deliver innovative energy saving ideas across the whole Company. A series of energy awareness events have been run in conjunction with the Energy Savings Trust. We have launched a website and introduced an energy savings ideas register. This together with our Upstream Thinking project, won the climate change innovation category of the Devon Environmental Business Initiative Awards.

As part of our South West Water Business Plan for the next 5 years, a non-pumping energy reduction target of 6.6GWh and a cost saving of £600,000 has been set under PowerDown. A realtime totaliser has been developed to demonstrate the savings made against the yearly targets. A reduction of 0.4GWh was achieved in 2010/11.

Specialist energy site surveys have been conducted, looking specifically at lighting, heating, cooling and other non process equipment areas and ways to improve efficiency on site. These surveys have led to some significant energy saving projects, targeting old inefficient lighting and heating regimes on larger operational sites, as well as simple solutions like the installation of lighting controls and timers and more versatile thermostat controls on existing heating systems.

Individual control and lighting replacements at the Company's headquarters in Exeter saw energy intensive halogen lamps replaced with low energy LED equivalents, with a resulting annual energy saving of 25MWh - equating to a cost saving of around £2,000.

RENEWABLE ENERGY GENERATION



Renewable energy generation

Renewable energy generation plays an important role in our plans to mitigate carbon emissions and ultimately to combat climate change.

2010/11 Target

Maintain self generated energy at a level of 15GWh or greater.

Not met

We generated 13.8 GWh in 2010/11– enough to power around 3,000 homes. The electricity generated is used on site as a preference, with generation above site demand being exported to the National Grid. Our long term aim remains to source 50% of our energy needs from renewable sources by 2030. Whilst we did not meet this year's target, steps are in place to achieve our long-term energy generation targets.

We generate renewable electricity by capturing methane gas from our anaerobic digestion plants at nine waste water treatment works. Work is underway to improve the efficiency of the current installed base of Combined Heat and Power (CHP) engines to maximise the use of additional quantities of biogas resulting from process improvements.

We also generate electricity from seven hydro electric power plants at water treatment works and are investigating the potential to install hydro electric power plants at all of our sites which have sufficient volume and pressure. Three sites are currently being fitted with new hydro-electric turbines with a further 450kW of capacity planned for installation in 2011/12.

There is significant potential in the South West Water region for the development of wind power which we could use on operational sites. This would reduce the amount of electricity that we import from the National Grid. Our plans to harness wind power at our sites took a step forward with planning permission granted for a turbine at Crowdy Water Treatment Works which when in place will supply half the site's energy needs.

We aim to increase our generation of renewable energy in line with Government targets. We have set the following targets:

- 30GWh of the energy we use will be generated from renewable sources by 2015
- We will source 20% of our energy use from renewable sources by 2020
- We will source 50% of our energy use from renewable sources by 2030.



Swallows.



Insect roosting box at Mary Tavy.

Waste management

As well as complying with legislation to pre-treat waste and dispose of hazardous waste, we continue to seek alternative disposal arrangements for our waste streams, in order to avoid landfill wherever possible. For example, it costs £500,000 per annum to landfill sewage grit and screenings which form part of the effluent received at our waste water treatment works. These waste streams are segregated at the head of the works and we are investigating opportunities to compost them for land remediation.

Biodiversity

Our operational sites are often located in remote locations adjacent to water courses, and consequently provide an ideal habitat for wildlife. For example, birds such as chiff chaff and swallows feed off flies on waste water treatment works with filter beds. Following surveys by the Devon and Cornwall Wildlife Trusts, we are optimising the wildlife value of our sites by appropriate grasslands management. In addition to encouraging biodiversity, by avoiding grass cutting, we are achieving cost savings. We continue to install wildlife boxes for birds, dormice and bats, made by Self Unlimited, the charity for adults with learning difficulties.

Conservation

Conservation, access and recreation activities are delivered at our inland waters by South West Lakes Trust, an independent charity, on behalf of the company.

The Natural Environment and Rural Communities Act 2006 (NERC) places a duty on all public organisations to promote biodiversity and habitat protection. The Department for Environment, Food and Rural Affairs identifies water companies as public bodies for this duty.

For details of our conservation designated landholdings please see the internet version of this report:

www.southwestwater-cr-report.co.uk

Sites of Special Scientific Interest (SSSIs)

In 2003 Natural England set a Public Service Agreement target which proposed that 95% of SSSIs should be in favourable or recovering status by 2010. We are delighted to report that 100% of SSSIs in South West Water's ownership are now in favourable or recovering status. We have worked in partnership with South West Lakes Trust to achieve this demanding target, and are making good progress towards achieving the 2020 target of all SSSI landholdings in favourable condition.



Bystock pond

Site	Area of SSSI (hectares)	Natural England Condition Assessment	Explanation
Burrator Catchment	0.51	Favourable	
Bystock Ponds	20.19	Unfavourable Recovering	Positive management confirmed by Natural England with regard to conservation status.
Countess Wear WwTW	18.26	Favourable	
Crowdy Reservoir	85.3	Unfavourable Recovering	In November 2009 Natural England granted Higher Level Stewardship funding to manage the Crowdy Special Area of Conservation (SAC). Working with South West Lakes Trust and the commoners, grazing control is now being established over this SAC.
De Lank WTW	0.5	Favourable	
De Lank WTW	1.48	Unfavourable Recovering	Natural England indicate status may be impacted by diffuse pollution which is outside South West Water's control.
Lopwell Dam	1.11	Favourable	
Lopwell Dam	0.46	Unfavourable Recovering	Natural England agree that South West Water assets form only a very small part of the SSSI and accept that the current management of these assets does not affect the status of the SSSI.
Mary Tavy Catchment	0.12	Favourable	
Phillack Service Reservoir	0.2085	Unfavourable Recovering	Natural England have approved management plan to improve condition.
Squabmoor Reservoir	1.44	Unfavourable Recovering	Positive management confirmed by Natural England with regard to conservation status.
Taw Marsh	0.0094	Favourable	
Taw Marsh	0.069	Unfavourable Recovering	Natural England agree that South West Water assets form only a very small part of the SSSI and accept that the current management of these assets does not affect the status of the SSSI.
Venford Reservoir	222.2	Unfavourable Recovering	South West Water management of site does not impact on conservation status. South West Water, as land owners, supports Environmentally Sensitive Area agreements between commoners and Natural England in improving conservation status.
Withycombe Raleigh	0.7	Unfavourable Recovering	Positive management confirmed by Natural England with regard to conservation status.
Total	352.5569		

Social sustainability

Customers

South West Water has consulted with customers about its priorities for 2010-2015 and this feedback has been central to the development of its customer service improvement plans to deliver its Pure Water, Pure Service and Pure Environment vision.

Assistance

Providing help and support to customers in need is at the heart of the Company's Pure Service strategy and accordingly the Company remains an industry leader in the provision of priority services to vulnerable customers. We provide such services to customers who need extra help, for example, the elderly, disabled, and those requiring large print / Braille bills or help in reading their meter.

Where customers have medical conditions necessitating a constant water supply, we arrange for water to be delivered in the event of interruptions to supply.

Our Priority Services Register is promoted in doctors' and dentists' surgeries and at Citizens Advice Bureaux and at 31 March 2011, we had nearly 8,000 customers on the register.

Our aim, as set out in the Strategic Direction Statement, is to treat customers appropriately to their circumstances, especially with regard to affordability and debt.

During the year we have been enthusiastic to promote practical ways to help customers struggling to pay their water bills and have introduced several new initiatives to provide additional options and support for customers. The measures available are:

- the WaterCare Scheme which has helped over 8,000 customers with long term debt problems and consists of offering benefits entitlement and tariff checks, water audits and free water-saving devices
- the Restart Scheme which has helped over 6,000 customers to reduce their debt by incentivising customers towards a pattern of making regular payments
- the Fresh Start Fund, managed by an independent Board, for one-off hardship cases
- a targeted campaign to promote and support low income customers who would benefit from metering
- fitting 5,000 free leak alarms in the year for vulnerable customers wary of metering
- providing training and administration resources over five years for Citizens Advice Bureau staff
- employing doorstep debt advisors to provide advice and access to support schemes
- introducing the WaterSure tariff: more than 9,800 households are on this tariff, one third of the national total for metered customers on a low income, who either have three or more children under 19 living at home, or who have a medical condition requiring high levels of water use.

2010/11 Targets

Introduce the new FreshStart Fund to assist customers, especially vulnerable customers seeking help with water debt

Met

Continue to operate and promote the WaterCare programme

Met

Continue to operate and promote the WaterSure tariff

Met

2010/11 Target

Roll out a pilot door step debt advice scheme

Met

Affordability and fairness

We have been working closely with Ofwat and Defra on providing appropriate advice to the Government, supported by the extensive research and analysis we have undertaken, to address the issues of affordability and fairness for customers in the South West, raised in the independent Walker Review.

In the consultation paper 'Affordable water: a consultation on the Government's proposals following the Walker Review of Charging' the Government indicated that public funding will be available to address the issue of fairness of charging for our customers, an issue that has arisen as a result of three per cent of the population funding the cleaning up of 30% of the nation's bathing waters since 1989. We will continue to work closely with the Government to examine the practicality of options to help our customers.

SWW AVERAGE HOUSEHOLD WATER BILL



Quality of service

The sustained investment in improving our key interactions with customers and refining working practices is yielding positive results with a reduction in complaints for the third consecutive year. Written complaints were down by over a quarter on 2009/10.

During the year we developed new and easier ways for customers to contact us, resulting in improved figures for call handling: the number of calls abandoned was down from 7.4% to 5.1% and calls met with an engaged tone down 0.32% to 0.17%.

We also developed online accounts, to enable customers to manage their water account without the need to call. This service was launched on 1 April 2011.

Customer satisfaction is monitored quarterly by means of an independent long term tracking survey. The average level of satisfaction for 2010/11 was 80.3%, with the level of dissatisfaction reported as 7.8%, following an improving trend from previous levels.

The Service Incentive Mechanism (SIM) has been introduced by Ofwat for reporting purposes during 2010/11. Incentives for the company associated with this measure will use results reported from 2011/12 onwards. As such, during the year the company has been working on strengthening reporting systems that support the quantitative element of the SIM measure.

Customers have told us of the crucial importance to them of a supply of water that they can use without worrying about its quality or reliability.

We test the quality of our drinking water, and this is overseen by the Drinking Water Inspectorate and published in their annual quality report. In the calendar year 2010, we achieved 99.97% compliance, with our customers continuing to benefit from very high water quality. There were no major or serious water quality incidents during 2010.

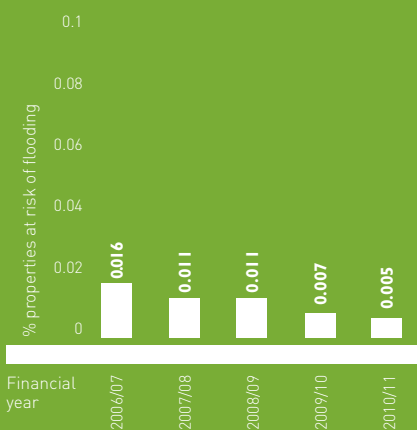
Surface water is discharged to the sewer system, in addition to waste water. Our waste water treatment works include storm water tanks to contain the high volumes of water which occur during rainfall events, pending treatment. However, when the system is overburdened, Combined Sewer Overflows (CSOs) operate to prevent flooding. We have 1,001 CSOs in our region. In spite of this, very occasionally properties are flooded. Whilst all foul flooding is regrettable and each instance represents a very unpleasant situation for a customer, the following chart details the low percentage of properties experiencing this problem. We are working with local authorities to identify ways in which surface water can be removed from our sewers in order to reduce overflow operation.

We carry out proactive sewer jetting and cleaning in high risk areas to help reduce the risk of foul flooding. We estimate that 3,000 tonnes of Fats, Oils and Greases (FOG) are discharged to our sewers per annum. Our FOG campaign informs customers about inappropriate use of sewers with the aim of reducing the risk of flooding incidents and environmental damage.

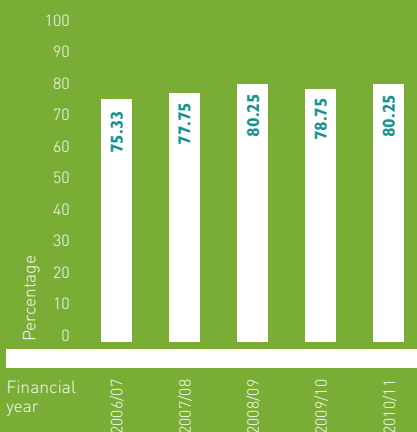
Water efficiency

The company continues to promote the efficient use of water with advice and practical support for householders and non-domestic customers. This is described more fully in the section in this report on Environmental Sustainability.

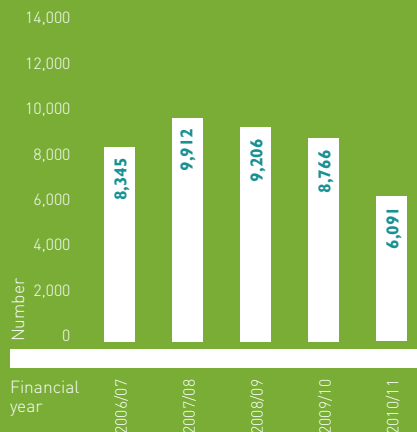
FOUL FLOODING



SOUTH WEST WATER CUSTOMER SATISFACTION SURVEY



SOUTH WEST WATER WRITTEN COMPLAINTS



DRINKING WATER QUALITY % MEAN ZONAL COMPLIANCE (MZC)



Our employees

South West Water’s people strategy continues to focus on recruiting and developing individuals who can support the delivery of the Company’s ‘Pure’ vision, enabling the provision of a high quality service to customers and the achievement of operational efficiencies.

The Company has in place a range of ‘Family Friendly’ policies, which exceed statutory requirements. Employees are entitled to participate in the Pennon Group Sharesave Scheme and the Pennon Group Share Incentive Plan, both of which are all-employee plans where performance conditions do not apply.

The Company remains committed to a non-discriminatory employment policy, making every reasonable effort to ensure that no current or future employee is disadvantaged because of age, gender, religion, colour, ethnic origin, marital status, sexual orientation or disability. In particular, the Company welcomes applications for employment from disabled persons and makes special arrangements and adjustments as necessary to ensure that disabled applicants are treated fairly when attending for interview or for pre-employment aptitude tests. Wherever possible, the opportunity is taken to re-train people who become disabled during their employment in order to maintain their employment within the Company.

Employee involvement and participation in all aspects of business and organisational change is encouraged and supported through the company’s Staff Council, and craft and industrial consultative forums.

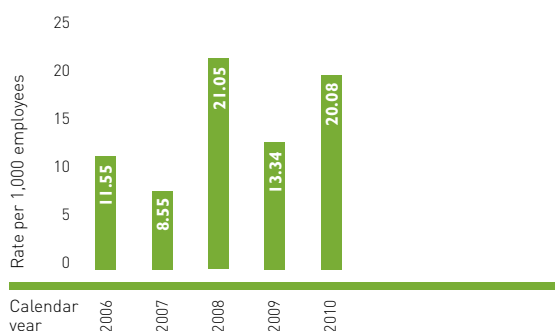
The safety of staff is paramount, and our Occupational Health and Safety strategy focuses on providing strong leadership, engagement with employees, building competence and measuring performance. These principles are promoted by a health and safety steering group comprising a cross-section of directors, managers and employee representatives. A revised and improved programme of Executive Management Team and Senior Manager health and safety site audits is currently being developed. We provide training and promote a health and safety culture. During 2010/11 we have been addressing short-term absence, musculo-skeletal problems and mental wellbeing in conjunction with our Occupational Health Advisor.

2010/11 Target

Target a one year RIDDOR incident rate of no more than 16 per 1,000 employees

Not met

RIDDOR RATES PER 1,000 EMPLOYEES



RIDDOR incidents per 1,000 employees totalled 20 in 2010 compared to 13 in 2009. Analysis has shown that behavioural and cultural factors are often a significant contributory factor to RIDDOR incidents occurring: a major behavioural safety programme badged ‘TAP’ (Think, Act, Prevent) has been launched and targets a substantial reduction in the number of accidents and RIDDOR incidents.

The Company holds the ‘Investor in People’ (IIP) Silver Status, which represents the achievement of a high standard in IIP evidence requirements.

Our employees are the foundation of our success. It is one of our core values that people matter, and we have programmes in place both to support their progress and to assure their safety at work. Examples of these include a Post Graduate Certificate in Management developed with the University of Exeter’s Business School, and the ‘GROW’ staff development programme providing training in personal growth and business strategy.

As part of the Company’s GROW programme, an eight-strong team of South West Water employees raised over £12,000 for the Prince’s Trust Million Makers Challenge in six months. The money will help young, disadvantaged people get into work, education or training.

Employees and the Company’s partners who deliver above and beyond what is required in their day-to-day jobs are eligible to be nominated for the Company’s Pure Award scheme in three categories – Pure Water, Pure Service and Pure Environment. Around 50 employees and partners were recognised for their additional contributions in this way last year.

2010/11 Target

Undertake detailed employee survey to ascertain satisfaction with South West Water as employer

Met

The Company conducts employee surveys, and one was completed in 2010/11. The survey asked general questions on how employees felt about their everyday role, their manager and the Company as a whole. A few more specific questions were asked, proposed by an employee focus group which was convened to help draw up the survey.

The survey identified a number of strong, positive themes:

- a strong passion and belief in the services we provide for each other and our customers
- a belief our work is important
- the confidence we have the skills to perform our jobs well
- a strong loyalty to South West Water.

Employee Survey Action Groups – with teams of employees representing all parts of the Company – were established to explore opportunities for improvement and drive implementation across all areas of the Company. The issues explored by these groups were:

- better communication of future plans
- consistency of management approach
- visibility of the leadership team
- providing more opportunities for people to fulfil their potential
- continuing the improvements we made with health and safety in the workplace.

Community engagement

We are committed to being a good neighbour and a trusted partner in the communities we serve.

Our annual Community Sponsorship is targeted at community projects and organisations which are linked to water, benefit the environment or promote youth participation. During 2010/11, £79,761 was allocated to a wide range of projects across the region. Examples included:

- funding to enable under privileged schools to visit the National Marine Aquarium
- Young Business Person of the Year Award
- Cornwall Wildlife Trust Your Shore project.

We contributed £10,000 towards the management costs of the Keep Britain Tidy Beachcare Project. This pilot project is aimed at reducing beach litter on Cornwall's beaches by involving communities.

In September 2010 we opened Mary Tavy hydro electric power station and Brokenbury waste water treatment works, Torbay to the public under the Heritage Open Days initiative.

2010/11 Target

Provide sites for Heritage Open Days

Met

Our employees continue to fundraise for WaterAid, raising nearly £40,000 during 2010/11. The total figure is likely to be considerably higher, given that the charity cannot break down into regions the amounts raised in one of the most popular events of the year, the CoastAlong walk, that takes place in September.

We are developing a programme of employee volunteering to engage with local communities, and a team of employees undertook scrub clearance on a Devon Wildlife Trust nature reserve. Further projects will work with schools, whereby employees will educate children about the water cycle and WaterAid. Other employees will visit Exmoor to help maintain the dam structures which have been put in place as part of the Mires restoration project.

Employee volunteering



Heritage Open Day at Mary Tavy



WaterAid



Access and recreation

South West Lakes Trust manages the majority of inland waters in Devon, Cornwall and on Exmoor. Facilities include campsites, activity centres and waymarked walks. Many lakes and their surrounding land are ideal for coarse or trout angling, watersports, picnicking and relaxing.

The Trust celebrated its tenth birthday in 2010, and received the Queen’s Award for Enterprise in the Sustainable Development category.

The Trust has significantly improved the recreational facilities at many sites, whilst retaining opportunities for quiet relaxation at others.

Further details are available on the South West Lakes Trust website: www.swlakestrust.org.uk

Events hosted during the year to 31 March 2011 included:

- May 2010 – Outdoor and Active Open Day at Stithians Lake, offering low cost ‘tasters’ to all
- June 2010 – Ironman triathlon at Wimbleball Lake, with 1,200 competitors and 6,000 spectators
- July 2010 – Launch of the Roadford Pond conservation project
- September 2010 – Official opening of the 1 South West cycle track at Siblyback (funded by the Rural Development Programme for England).



Kayaking at Stithians open day.



Ironman triathlon at Wimbleball.



Enjoying pond dipping at Roadford conservation pond.



Opening the cycle track at Siblyback.

For details of access and recreation please see the internet version of this report: southwestwater-cr-report.co.uk

Performance against targets

Progress against 2009/10 targets which were ongoing at year end 31 March 2010:

Ensure around 30 of our graduates complete the graduate development programme by 31 March 2010.	Met
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Ensure a further 50 operators complete the NVQ Level 2 Operating Process Plant (Water) by 31 March 2010, bringing the total number of employees completing this qualification to 130.	Met
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Progress against 2010/11 targets

We are pleased to advise that 12 of the 15 targets set for 2010/11 were met. Explanations are provided for targets which were not met. Failing to achieve some of our targets demonstrates that they were stretching.

1	Use stakeholder engagement research for Corporate Responsibility Reporting to develop improved engagement with up to ten stakeholders.	Met
2	Ensure effective liaison with 30 landowners and 10 stakeholder groups to develop support for catchment management projects.	Met
3	Undertake detailed employee survey to ascertain satisfaction with South West Water as employer.	Met
4	Continue to operate and promote take up of WaterSure Tariff.	Met
5	Continue to operate and promote the WaterCare programme.	Met
6	Introduce the new FreshStart Fund to assist customers, especially vulnerable customers seeking help with water debt.	Met
7	Roll out a pilot doorstep debt advice scheme.	Met
8	Provide sites for Heritage Open Days.	Met
9	Target a one year RIDDOR incident rate of no more than 16 per 1,000 employees in 2010.	Not met The RIDDOR incident rate was 20. A significant proportion of these incidents can be directly attributed to employee behaviours. To address this we have launched our comprehensive behavioural safety programme in April 2011 (the Think, Act, Prevent campaign) which is expected to have a positive effect on performance.
10	Maintain self generated energy at a level of 15GWh, or greater.	Not met Generated 13.79 GWh in the year. Much lower than average rainfall had a detrimental effect on the water resource available for hydro-generation, particularly from river catchment hydro-generation plants.
11	Achieve a further 3 GWh (full year effect) energy saving through the Powerdown, Pump Efficiency and PUROS programmes.	Met
12	Achieve 1.2% reduction in emissions compared with 2009/10 from energy use.	Not met Carbon emissions from energy use reduced by 0.74% Target missed partly due to an overrun of capital work at a pumping station which used an additional 2.5GWh that wasn't planned for.
13	Maintain certification to ISO 14001 across the company.	Met
14	Provide support with water efficiency to business customers through Business Accounts online, water efficiency calculator, water efficiency audits and water efficiency certification and our new "SELWE" Quote and fit scheme. (SELWE - Sustainable Economic Level of Water Efficiency).	Met
15	Achieve three year rolling leakage target of 84MI/d as set by Ofwat.	Met

2011/12 targets

- 1 Continue to work in partnership to deliver South West Water's 'Upstream Thinking' catchment management programme and develop the bid for continued funding between 2015-2020.
- 2 Provide a range of opportunities to supplement student education and enhance public awareness of South West Water's role and environmental issues.
- 3 At Stannon Lake in Cornwall, re-create semi-natural heathland, acid grassland and woodland habitats on former china clay mineral workings using anaerobic digestate and similar materials.
- 4 Set up appropriate plans at up to 25 beaches to inform beach/bathing water users as fully as possible of any relevant increase in risk to their health or welfare from events at a South West Water asset, so as to allow them to make an informed choice about their behaviour, and extend our BeachCare initiative.
- 5 Expand the FreshStart Fund to assist customers, especially vulnerable customers seeking help with water debt.
- 6 Provide sites for public visits as part of National Heritage Open Days event with target overall of 200 visitors.
- 7 Develop and implement a South West Water badged pilot employee programme of volunteering.
- 8 Target a one year RIDDOR incident rate of no more than 1,500 per 100,000 employees in the calendar year 2011, working towards an overall aim of zero accidents in the workplace.
- 9 Introduce an employee assistance programme, first day absence management system and telephone triage physiotherapy service.
- 10 Achieve a 3.3% reduction in operational carbon emissions from energy use from 2009/10 levels.
- 11 Continue to operate and promote the WaterCare programme including analysing the long term impact of water audits in assisting affordability in vulnerable households, and expand the programme to include the offer of energy saving advice.
- 12 Design and implement 50 new pressure management schemes to reduce the operating pressure in the areas of our water supply network where we have a high operating pressure and a high frequency of pipe bursts.
- 13 Increase the installed capacity of South West Water's Renewable Energy plant by at least an additional 450kW.
- 14 Save a further 3GWh from the combined energy efficiency projects under the Pump Efficiency and PowerDown programmes.
- 15 Maintain certification to ISO 14001 across the company.

Acona verification statement

This is the fourth year that Acona has been retained by the Sustainability Committee of Pennon Group to undertake an independent review of the South West Water Corporate Responsibility Report and provide assurance that:

- The quantitative data (including those relating to carbon emissions) are materially accurate
- The qualitative statements can be supported by evidence and properly represent activity across the company
- The report gives a balanced picture of performance
- Performance in respect of previously published targets is accurately reported

Responsibilities of South West Water and Acona Partners LLP

The information and statements contained within South West Water's Corporate Responsibility Report for 2011 (hereinafter the Report) are the responsibility of South West Water. This statement is the responsibility of Acona Partners LLP and represents our independent opinion of the content of the report and is addressed to Pennon Group's (South West Water's parent company) Sustainability Committee.

Scope and process

The review covered South West Water's operations for the period specified in the Report. Information subject to verification by other third parties – such as financial data included within the Annual Report and Accounts and other regulated information, including that presented to OFWAT – was outside our scope. However, we have relied on it in forming our conclusions.

In performing our work we adopted the following approach:

- Desk-top evaluation and detailed analysis of the raw data used to construct the Report, including comparisons with previous years
- Review of internal and external documents relating to Corporate Responsibility management, including policies, procedures and stakeholder comments, particularly ensuring that evidence was made available to support substantive comments and claims made in this Report
- Detailed interviews with employees involved in compiling the Report to test the accuracy of the data and underlying processes.

The work was undertaken by a multi-disciplinary team whose members have expertise in the areas of CR assurance and reporting, and of wider aspects of CR both within the water sector and more broadly. Biographical information – including details of individuals' experience and backgrounds – can be found on our website <http://www.acona.co.uk/who-we-are.html>

Opinion

Based on our work we conclude that:

- The Report correctly identifies the company's material social and environmental impacts and provides a balanced and comprehensive account of its performance in these areas
- The data, and inferences drawn from them, and substantive statements are materially accurate and are supported by a range of evidence from internal and external sources. Inaccuracies identified during the verification process were of a minor nature, were readily rectified and the report was amended accordingly
- Data relating to carbon emissions were reported in accordance with the guidelines contained within the UK Water Industry Research's Carbon Accounting in the UK Water Industry (which is consistent with the approach adopted by the WRI Protocol for Greenhouse Gas Emissions)
- Progress against a wide range of targets was accurately presented.

South West Water's approach to Corporate Responsibility reporting is well-established and closely aligned with the company's wider process of reporting performance and other information to its regulators and various stakeholders. The underlying systems used to capture and collate social and environmental data are robust and subject to regular internal and external scrutiny.

This year's report builds on these strong foundations and provides further information on the company's economic impact – something which is of particular importance given the scale of its contribution to the local economy. Recommendations made in previous years (in relation to how stakeholders' views are reconciled with the company's environmental objectives; including more detailed information on its "Upstream Thinking" initiative; and how it is seeking to influence the performance of its suppliers) have been acted upon. Overall, the report offers stakeholders a clear insight into how Corporate Responsibility and sustainability are integrated into both strategy and day-to-day operations.

Recommendations for future reporting

Our comments on the reporting process and report itself, together with suggested areas for improvement, will be raised in a letter to Pennon Group's Sustainability Committee. Neither the comments nor recommendations contained therein affect our opinion on the Report as set out in this statement. Our main recommendations are provided below.

In future Reports, the company may wish to consider the following areas for inclusion:

- Further information on the specific – and quantified – benefits that are likely to accrue both to itself and to other stakeholders from its Upstream Thinking initiative.
- Examples of how the company's collaboration with suppliers has helped to foster innovation that improves environmental and financial performance.
- How it is using its approach to Corporate Responsibility and sustainability to engage and motivate employees.



Paul Burke

Senior Partner

20th June 2011

Acona Partners LLP

Acona is an employee-owned consultancy, based in London but with employees all over the UK. We have broad expertise and advise large, mainly corporate, clients on the full range of social, environmental and ethical matters. More information on Acona can be found on our website – www.Acona.co.uk

With the exception of this work, Acona has no commercial relationship with Pennon Group and/or its subsidiaries. The total fees payable in respect of this work accounted for less than 10% of Acona's annual turnover.

Glossary of terms and abbreviations

Defra = Department for the Environment, Food and Rural Affairs.

RIDDOR = Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995, a legal duty to report work-related deaths, major injuries or over-three day injuries, work related diseases, and dangerous occurrences (near miss accidents).

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13	Cathy McGarvey	PowerDown and Upstream Thinking projects which won the Carbon Innovation category of the Devon Environmental Business Initiative award 2010
15	Richard Lawrence	Swallows feeding young
16	Karen Land	Bystock pond
20	Cathy McGarvey	Looking after wildlife at Mary Tavy
20	Mike Davies	Employee engagement at Devon Wildlife Trust nature reserve
20	Cathy McGarvey	Heritage Open Day at Mary Tavy
20	Neil Whiter	WaterAid project in Bangladesh
21	South West Lakes Trust	Kayaking at Stithians Lake
21	South West Lakes Trust	Ironman Triathlon at Wimbleball Lake (REINSTATE)
21	South West Lakes Trust	Pond dipping at Roadford conservation pond launch
21	South West Lakes Trust	Opening First South West cycle track at Siblyback Lake



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