

Chairman's statement



Sir John Egan, Chairman

As this report covers the last full year of my tenure as Chairman of Severn Trent Plc, I am pleased to report on yet another year of significant improvement. We faced the challenges of the coldest winter for 30 years and an economic environment which remains challenging, yet Tony Wray, our Chief Executive, and his team have delivered substantially increased group profit before interest, tax and exceptional items. We have continued to attain higher standards through process improvements, development of supporting technology and systems, and the training and development of our people.

Building on our track record of continuous improvement, the board has overseen the progression of Severn Trent Water from the final year of AMP4 to embarking on the next five year programme AMP5.

At a professional and personal level, it is particularly gratifying to have presided over five years during which we have moved from being a business with a number of serious problems to overcome, to a company recognised as offering good service, continuous improvement and well placed to deliver further advances.

This year, Tony and our employees achieved upper quartile performance in nine of our 20 Key Performance Indicators. Our dedicated employees have engaged in a range of activities which have helped to accelerate our efficiency programmes and achieved tangible improvements in customer service, sewer flooding reduction, health and safety performance and water quality.

We have succeeded in delivering this performance at the same time as offering the lowest average water and sewerage bills in England and Wales. The cost of all Severn Trent water and waste services is, on average, less than 83p per day, per household, with bills falling by 0.72% in 2010/11 and set to decrease by 4% in total over the next five years.

These advances in our regulated business are complemented by the expertise we have across global markets through Severn Trent Services, where our 'Blueprint for growth' will shape sustainable growth in the years ahead.

Group results

Group profit before tax, gains/losses on financial instruments and exceptional items was £338.4 million (2009: £273.5 million). Group profit before tax was £334.4 million (2009: £167.6 million).

The board is proposing a final dividend of 45.61 pence (2009: 41.05 pence) to be paid on 30 July 2010. This would give a total dividend of 72.32 pence per ordinary share, an increase of 7.4%.

Corporate responsibility performance

We develop, manage and operate Severn Trent for long term sustainable benefits for all our stakeholders.

I am proud to be able to say that 20% of Severn Trent Water's total energy requirements were met from our own renewable sources in 2009/10, and our target is to grow this to 30%. This year's performance has consolidated our leadership position in the sector on generation from renewable sources. Meanwhile, our continued focus on creating and maintaining a safe working environment resulted in a 17% reduction in group lost time incidents during 2009/10. This focus on health and safety has in turn driven improved processes and efficiency.

Board

Gordon Fryett, Director of Property at Tesco, was appointed to the boards of Severn Trent Plc and Severn Trent Water Limited from 1 July 2009, and his experience has already added value to the board's activities.

On 10 May 2010 we announced the appointment of Andy Duff as Chairman designate of Severn Trent. He brings with him the experience of running utilities and other essential infrastructure businesses at UK and international level, and I wish him every success.

As I report on page 35, we have set out our strong commitment to good governance at Severn Trent and have put in place solid foundations for the next period.

Outlook

I am pleased to confirm that we have delivered our planned operating costs savings over the past year, and delivered our capital programme for the AMP4 period.

By accelerating our new programmes ahead of AMP5, we have ensured Severn Trent's plans are well advanced. Innovation has been a key theme in completing the latter part of our AMP4 programme and will be central to meeting our targets during the next regulatory period: we have further developed our "one supply chain" with our contractors and suppliers, creating shared experience, knowledge and offices to deliver our capital programme.

Through our focus on continuous improvement, we plan to put Severn Trent Water ahead of the rest of the industry in operating efficiency by 2015, with customers still benefiting from the lowest average bills in England and Wales.

Meanwhile, Severn Trent Services overcame a difficult economic environment and delivered improved results during the second half of the year. The company continues to concentrate on higher growth and higher margin market segments where our water and waste water products and services meet a significant need.

As I prepare to hand over to a new Chairman, I believe we are on the threshold of great change across the water sector – be it within companies, among regulators or within the policy framework which shapes the industry and its conduct. Now is the time to change course while preserving the achievements of 20 successful years of water privatisation.

I will leave with the belief that longer term, our operational excellence, low cost base, geography and the growing expertise of Severn Trent Services as our non-regulated business gives confidence that Severn Trent is well placed to take advantage of the opportunities that change will bring.