

Chairman's statement



Sir Derek Wanless, Chairman

The water industry cannot be immune from economic difficulties facing the UK. This year brought us the challenges of falling industrial demand, volatile energy costs and greater difficulty in recovering customer debt. But, as the detail in this report shows, the Group again performed well.

Ofwat confirmed price limits for the period 2010-15 in November in response to our Business Plan, which reflected closely the views of customers and other stakeholders. The Board considered carefully whether to refer Ofwat's decision to the Competition Commission. We concluded not to do so and will tackle the challenges set. These include achieving significant operational efficiencies. As a heavily regulated business, we must continue to balance the interests of all of our stakeholders and we will seek innovative ways to deliver services efficiently while ensuring they remain affordable and sustainable.

For our customers, our £1.2 billion investment plan will allow us to tackle important infrastructure developments and maintenance. In Essex, after approvals from the Environment Agency and planning authorities, work on the expansion of Abberton Reservoir began. At a cost of £150 million it will secure supplies into the future.

For our shareholders, we expect to be able to continue to maintain our progressive dividend policy with annual growth of 3%, before inflation, over the next regulatory period. We have achieved that growth rate in recent years and are recommending it again this year, despite the impact of the recession.

The conclusion of the periodic pricing review gives us some certainty looking forward and our focus moves to delivering our plans. In addition to ensuring that our water resources are sufficient for likely future needs, we will also extend our work on water efficiency across the company as we strive to meet new targets for reducing per capita consumption. Essex & Suffolk Water has been a leader on water efficiency and we will build on this work and extend to the north east. The major issue for customers in the north east is sewer flooding which affects a relatively small number of customers but is a serious problem when it does occur. Changing weather patterns have increased its incidence; resolving local issues and minimising risks are key parts of the plan going forward. The investment programme will also address outstanding discoloured water issues; mains cleaning is a major part of this.

Customers are at the heart of everything we do. Customer satisfaction is again high as measured by our research alongside that of the Consumer Council for Water. Ofwat has introduced a new Service Incentive Mechanism to measure companies' performance and we are pleased that it takes more account of the quality of our customer response rather than just quantity. Getting it right first time and every time remains our prime commitment to customers.

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The needs of customers are met by an exceptional workforce. Our People Plan is designed to ensure that we develop the skills we need for the future and this year we met our Skills Pledge with 90% of employees reaching NVQ Level 2 standard. Over 70% of our employees responded to our employee survey and our target for our Employee Satisfaction Index, which covers everything from enjoyment of the job to reward, support and care, was met. Employees regard Northumbrian Water as a great company to work for and their pride in working for us is reflected in the service we give to customers.

We continue to support the communities in which we operate. Our community involvement has received widespread acclaim, including the Queen's Award for Enterprise in the category of Sustainable Development which recognises the work of all our employees. Significant achievements include the opening, in September, of Castle View Enterprise Academy in Sunderland, where we are lead sponsor. I was delighted to open the extension to Healthworks, a health centre based on our site in Easington providing important services to that community. We are also working with partners to explore ways of funding education around the Abberton project and have set up a Community Fund to support the local area.

John Cuthbert, Managing Director, retired at the end of March and the Board wishes him well. He led a great deal of successful change in his 19 years with the company creating a business which is well placed to continue to deliver. John also made an outstanding contribution to the UK water industry.

I am delighted to welcome Heidi Mottram as our new Chief Executive Officer from 1 April 2010. She has a reputation for inspirational leadership, working well with customers, employees, communities, regulators and shareholders in a very successful career in the rail industry. The Board looks forward to working with her. She has a clear focus on the needs of our customers and will continue to improve their experience of the company as she leads it through the changes to come. She too recognises the need to work with the communities we serve. We have carefully built partnerships to ensure that our voice is heard at every level. This will be important as discussions about the framework for regulation develop in future months.

I would like to thank Jenny Williams for her six years on the Board and her wise counsel and wish her well as she retires at the end of this year's AGM. I would also like to welcome Margaret Fay who is today appointed as a non-executive director of NWG and NWL. Margaret will shortly step down as Chairman of the regional development agency, One North East, and is a welcome addition to the Board.

Sir Derek Wanless

Chairman
1 June 2010



Sir Derek Wanless with Heidi Mottram, John Cuthbert and Chris Green