

## Chairman's statement

# CONTINUED DELIVERY

Andrew Duff, Chairman



*This has been an important year for Severn Trent. We have completed the final year of our AMP5 investment period in our regulated business and agreed a business plan with our customers and regulators for the next five years. At the same time, under the leadership of our new Chief Executive, Liv Garfield, and her team we have taken great strides in transforming our business to meet the challenges and opportunities of our evolving water sector.*

### Continued delivery

Looking back, the final year of AMP5 has again delivered significant value for our customers and our shareholders.

Total group revenue rose by 2.5% to £1,801.3 million, while underlying group profit before tax was 3.2% higher at £540.3 million. This resulted in adjusted earnings per share of 107.2 pence, up 15.9% from 92.5 pence.

For 2014/15, your board is proposing a final dividend of 50.94 pence to be paid on 24 July 2015. This will result in a total dividend for the financial year of 84.90 pence, representing growth of 5.6%. Since the start of AMP5, we've delivered a total shareholder return of 125.4%, well ahead of the 42.4% return from the FTSE 100.

For many people, being able to afford our services is key and so we're pleased to have had the lowest average combined water and sewerage bills in Britain for the last six years, a position which is set to continue at least to 2020. Our average bill in 2014/15 was £333, which is lower in real terms than at the start of AMP5.

As well as good value, our customers have also benefited from an improved level of operational performance. Over the last 12 months, we have further improved our ranking and performance in Ofwat's measure of customer service performance, the Service Incentive Mechanism (SIM), and I am confident that our rate of improvement will see us climb further over the coming years. We have also produced very good environmental performance with continuing strong results in leakage and significant reductions in the number of pollution incidents.

These efforts are reflected in rising customer satisfaction scores. This is an important indicator for us as we continue our journey to put customers at the heart of everything we do.

Performance has improved over the last five years and I am confident we will continue to deliver further improvements in our operational and customer service performance into AMP6.

## Underlying group PBIT\*

£540.3m

\* Before exceptional items

## Dividend

+5.6%

## Dividend

84.90p

**The next five years**

The last year has been necessarily dominated by our PR14 process, as we prepared and submitted our business plan for the next five years, and accepted Ofwat's Final Determination. It has been the culmination of over 18 months of work, which has benefited significantly from input from our customers and a wide range of other important stakeholders. This engagement has been an innovation in this price review and has helped us to better evaluate risk, quality and cost through the eyes of our customers.

Throughout, we have had a constructive dialogue with Ofwat and the outcome is a challenging settlement, but nonetheless a fair deal for our customers. We are undertaking one of our largest ever investment programmes with a total AMP6 expenditure of £6.6 billion, most of which will directly benefit our customers and the Midlands' economy. By 2020 the average annual Severn Trent Water bill will be £60 below the industry average.

Severn Trent Water has always had a good record on social tariffs for those customers who are struggling to pay. We plan to do even more in AMP6, with up to four times more people benefiting from our new special tariff scheme.

In accepting Ofwat's Final Determination, we have also committed to some stretching operational targets, through our Outcome Delivery Incentives (ODIs), and achieving operational efficiencies over the next five years. We also took the opportunity to assess the implications for our capital structure and dividend policy. After careful consideration, we decided to reduce the dividend by 5% in the coming financial year, with a policy of growth in subsequent years by no less than the Retail Prices Index (RPI) each year to 2020. We also announced that we would commence a share repurchase programme of up to £110 million of ordinary shares. This programme was considered a low risk method of returning capital to shareholders, satisfying future share awards and moving gearing in Severn Trent Water towards the 62.5% net debt/Regulated Capital Value (RCV) notional level used by Ofwat in the price review.

Severn Trent has one of the fastest growing RCVs in our sector and we are confident that we can continue our track record of delivering sustainable growth for our shareholders into the longer term. Our focus on operational excellence, and continuous innovation in the delivery of excellent customer service, gives us confidence that we can earn additional rewards through our new ODIs.

**Board changes**

Delivering for the future depends on many things, but the most important success factor is our people.

Leadership starts at the very top and at the beginning of the year we appointed Liv Garfield to be our Chief Executive to lead the next stage of your company's journey. Liv has identified that the commitment and skills of our people will be critical.

With this in mind she has created space for our managers to lead and empowered them to take accountability and to innovate. Delivering operational improvement, steering the price review process and at the same time building the organisational structure and culture necessary for success over the next five years has been quite an achievement in her first year.

During the year we also bade farewell to two board members who have made an enormous contribution to the success of Severn Trent in recent years, our Chief Financial Officer, Michael McKeon, and Richard Davey, who has served as Senior Independent Director and Chairman of our Remuneration Committee. I would like to place on record my personal thanks and that of your board for their distinguished contribution and service. At the same time, I'm delighted to welcome our new Chief Financial Officer, James Bowling.

**Our changing sector**

In transforming our business and preparing for a future in a changing sector, we are indebted to our people.

It is they who identified the need for change and throughout the changes we have made over the last year, they have unfailingly accepted the need to transform our business. The board and I are grateful to each and every one of them for all that they do and for the commitment they have shown.

Our sector is quietly evolving and the future is a world of increased competition and further opportunities in non-regulated water markets. We believe that the renewable energy market has growth potential for us and have made a significant financial commitment to increase our own energy generation. With our focus on operational excellence and our established track record of environmental guardianship and technical innovation, you can be confident that Severn Trent is well positioned to benefit from growth in these future markets.

As we conclude the final year of AMP5, we can look back on five years of continuous improvement. Looking forward to AMP6, we believe we've put the foundations in place to deliver continued long term sustainable growth for our shareholders and real benefits for our customers and the communities in which they live and work.



**Andrew Duff, Chairman**