

Chief Executive's review

CUSTOMER CULTURE

Liv Garfield, Chief Executive



It's the end of my first year as Chief Executive of Severn Trent and I have enjoyed every minute of the challenge of getting our business in the best possible shape for the next five years.

We are now facing the future with confidence, despite one of the toughest price settlements in our history.

When I took up my role in 2014, I was clear that in order to create the most trusted company in our sector we needed to focus on transforming our culture, driving operational excellence and putting customers at the heart of what we do. It's what successful businesses do, it's what we all want and it creates value for our customers and our shareholders.

The changes we have made over the last year have built those foundations, and I have been out to meet everyone in our business personally, to listen to their views and share our vision of the kind of awesome company we want to create. It's been a huge journey condensed down into a single year, but I genuinely believe that creating the right culture is how we'll get the whole organisation aligned as one and ready to deliver for the future.

Performance in 2014/15

Our performance over the last year has demonstrated where we are strong and the areas where we need to drive improvement.

Looking at our improvement areas first, no one in our business is in any doubt that water quality is a key focus area for us. We've made progress in the year, but our performance hasn't been as good as we would like it to be. So we have put together a seven point improvement plan and reprioritised £35 million of investment to replace and refurbish water quality assets nearing the end of their life, which will also provide a greater degree of resilience in both our networks and to our water treatment works. We will also put significant focus on investing in the professional expertise of our people and developing our process analytics to improve the reliability and availability of our assets.

Lowest average combined bill 2014/15

£333

Leakage over AMP5

-10%

Efficiencies identified

£300m

The other area where we think we can do better is around 12 hour interruptions to water supply to our customers. We are good at managing three hour interruptions, but we are not as sharp as we could be on the bigger, more complex events. We've done a lot of work over the last year to improve on that and we will continue to invest and use better technology to help our teams to improve our service for customers.

On waste water services, we are very good at the majority of measures, but if there's one area where we can do a better job, it's around sewer blockages and we have set the bar very high for the next few years.

Aside from these matters, there are also many highlights from the last year, where we are pleased with our performance.

Leakage performance has been very good over recent years and we have hit our target of a 10% reduction over AMP5. We've set ourselves tough targets and we're challenging ourselves to improve further. We remain confident about our continuing performance where we are strong and on many of our waste water measures we are already upper quartile in the industry.

We've been recognised by the Environment Agency as the only 4* rated company in 2014 across the entire sector for environmental performance. We're also proud of our focus on and commitment to catchment management and we are one of the few companies to have put in serious investment in the coming five year period.



Together with the lowest average bills in Britain, our customers increasingly feel that they are receiving good value for money, which is an encouraging sign that we are getting the balance right. ■■

We have also improved our customer service performance. During the year we created approximately 100 new frontline roles and have focused on resolving customer issues faster. Together with the lowest average bills in Britain, our customers increasingly feel that they are receiving good value for money, which is an encouraging sign that we are getting the balance right; although, of course, there is much more for us to do.

All of this makes us confident that Severn Trent will be one of the winners in the new world of ODIs from 1 April 2015, and in areas where we aren't currently doing as well as we would like, we have an opportunity to improve and then earn rewards.

A year of transformation

My fundamental belief is that successful organisations are customer focused ones, so we are focusing on operational excellence and embedding the customer in all that we do.

The strategy we have put in place over the last year is designed to deliver an outstanding customer experience, the best value service and environmental leadership. In doing so we will create long term value for all our stakeholders, our customers, our communities, our employees and our investors.

This is the bigger vision and the bigger context which is driving our thinking as we look forward to the future.

We want to be in the best possible shape to deliver our strategy so we made the decision over the year to create a different organisational structure and put in place a new management team. No one else in our sector has a structure like this and we believe it will give us an edge in an increasingly competitive world.

Chief Executive's review continued

We've chosen to bring together our water and waste water businesses into one Wholesale Operations business. This change will simplify our structure, speed up decision making and make us more efficient and agile as a business, enabling us to drive the operational excellence and innovation we're looking for. Our new Managing Director for our Wholesale Operations business is Emma FitzGerald who will, I am sure, bring her experience, passion and drive to deliver a great customer service through operational excellence.

The second structural change we've made is to create a Chief Customer Officer role, bringing together our IS function, our contact centres and transformation teams. Our industry needs to fully embrace digital technology to become more efficient and to deliver what our customers expect. Bringing everything together in one place creates a sense of a joined up business for our customers and allows us to fulfil our digital ambition. Sarah Bentley, who has previously looked after digital for Accenture, has joined as our new Chief Customer Officer.

In Severn Trent Business Services we have reorganised and brought together our non-regulated businesses, Operating Services US, Operating Services UK, including non-household retail and renewable energy, each with a very good management team in place and a clear future. With the sale of the Water Purification business the management team will be able to focus on creating value from these core businesses in water and waste services and renewable energy. Our new non-regulated businesses are led by Andy Smith who has extensive experience in the water sector having been the Severn Trent Water, Water Services Director for seven years.



The changes we've made will create a more dynamic, empowered culture, where the customer is very much at the heart of our business. ■■

To ensure we have the very best engineering expertise, we have created a Chief Engineering Officer function, led by Martin Kane. Martin's team will give us assurance that we are challenging ourselves to create the very best engineering solutions. We've got one of the biggest investment programmes we've ever had over the next five years and we need to ensure we have the right assurance that we are choosing the most cost-effective solutions. The Chief Engineering Officer function will also assist in bringing innovation to life within our business.

The final structural change we made during the year was the creation of a Chief Commercial Officer function, led by Helen Miles. We have a big agenda over the next five years and we want to drive significant efficiencies. We know what the drivers are and we now have a plan in place to deliver them, which has already identified over £200 million of AMP6 savings from the supply chain.

In addition to these structural changes, our Chief Financial Officer, Michael McKeon, has decided after nine years with Severn Trent to retire. I would like to sincerely thank Michael for his help in my first year in the role. He's been a superstar. I'm also delighted to have been joined by James Bowling as our new Chief Financial Officer, who I know will be excellent.

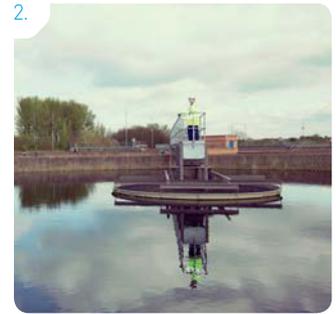
In transforming our business, we've also made difficult but important organisational changes, including significant reductions in our cost base and de-layering of management levels. These changes were tough, but will deliver over £100 million of savings for AMP6 whilst allowing more space for our managers to lead.

So together with £200 million of supply chain and other efficiencies that we have already identified, this now equates to £300 million already locked in, as at the date of this report, for the coming five year period, which is a significant way towards the £372 million target agreed in our Final Determination.

The changes we've made will also create a more dynamic, empowered culture, where the customer is very much at the heart of our business.

Our business plan for AMP6 promises better value, better services and a cleaner environment. I believe that with the changes that we have put in place we are well placed to deliver our commitments.

1. Water quality is a key focus area for Severn Trent. £35 million of investment has been reprioritised to replace and refurbish water quality assets.
2. Severn Trent has been recognised by the Environment Agency as the only 4* rated company in 2014 across the entire sector for environmental performance.



How we create sustainable growth

- Embed customers at the heart of all we do
- Drive operational excellence and continuous innovation
- Invest responsibly
- Change the market for the better
- Create an awesome place to work

Sustainable growth

Our strategy is to invest responsibly in sustainable growth. In our UK regulated business, our £6.6 billion AMP6 expenditure includes one of our biggest investment programmes and gives us a fantastic opportunity to outperform and grow our regulated asset base.

We also have an opportunity to earn additional rewards over the five years by performing well on our ODIs. There are bound to be good and bad years on various measures, but in aggregate we are confident that we're positioned to do well. As an industry and as a company we have lobbied hard for incentives and we're looking forward to the challenge.

Severn Trent has always been known for environmental leadership and we also see a positive future in green energy. We have announced over £190 million of new investment in renewable energy over the next five year period and in particular in anaerobic digestion and solar technologies.

This will take our self-generation of renewable energy from the equivalent of 28% of Severn Trent Water's gross energy consumption over 2014/15 to around 50% by 2020, providing efficient green energy and a long term hedge against volatile energy prices. Severn Trent remains the sector leader in this area.

Looking forward

I'm delighted to be part of Severn Trent and very excited about how Severn Trent and our people can play a part in changing our market for the better.

The future is a world where there will be more competition in the water sector and we are already seeing the start of a gentle disaggregation of the value chain. New markets are opening, including the retail non-household market in 2017. We want to be an active part of that, and we would also love to see a competitive market for sludge trading and water trading, as we believe they present opportunities for competition in the sector and value for our customers.

We've put in place the building blocks to ensure that Severn Trent is a leader in our sector: the lowest bills for customers; strategically well positioned in sludge, retail competition and water resources; a standard setter in renewables; and the right people, leadership and organisational structure to deliver.

So this has been a year of transformation, but for us there is always more to do, more efficiency to be found, more success to be had. It's the aggregation of small, marginal gains every year that you should expect from us and that will translate into long term shareholder value.

We've done some good work over the last 12 months and we know where we need to improve. It's the start of a brand new regulatory period and we feel we're building from a good place.

Liv Garfield, Chief Executive

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