

CEO Review

This has been another year of good progress for us, we have delivered a strong set of results, despite the difficult economic climate. We are continuing to embed sustainability into our business, monitoring our progress against our Corporate Responsibility (CR) policy, with our key areas of focus being climate change and the development of skills in engineering, science and technology.

Taking a balanced approach between medium and longer-term benefits in pursuing CR means that in the current difficult economic circumstances, we will continue to have regard to ensuring our services are meeting the needs of our customers, including addressing the issues of affordability, and to contributing to the communities we serve.

This year, in line with our strategy to reduce our carbon footprint we have produced our CR report exclusively online. This reduces the environmental impact of producing large numbers of paper copies and allows us to restructure our approach, including more information than previous reports allowed.

Improving operational performance

We continue to work hard on improving operational performance and have made good progress during the year. Although we are measured on many things, we have highlighted five key performance indicators against which our operational performance can be assessed.

These are: relative efficiency; security of water supply (leakage); serious pollution incidents; sewer flooding; and overall customer satisfaction in response to enquiries.

We are pleased to report that overall customer satisfaction is at its highest level for many years and that we met our leakage target for the third consecutive year, despite this year's harsher winter which made the target more challenging. We have also halved the number of serious pollution incidents over the last few years. Although we have made good progress, we know that there is more to do and are strongly focused on making further improvements.

Successfully delivering our 2005-10 regulatory contract

We have now completed four years out of our current five-year regulated water and wastewater contract in the North West of England. We are investing over £3 billion in our infrastructure between 2005 and 2010, which allows us to maintain and improve the service we provide to our customers and to meet tough environmental standards. We have a clear plan for the final year of this price review period and are confident of meeting our regulatory targets.

The 2009 water price review

2009 is an important year for the group as the economic regulator, Ofwat, will set price limits for the regulated business for the five years from 1 April 2010 to 31 March 2015. We submitted our draft business plan to Ofwat in August 2008 and our final plan in April 2009, which was welcomed by the Consumer Council for Water. The plan is the first step in our longterm vision for our business as it adapts to the changing climate and demographics in the North West. The proposed capital investment programme in our plan aims to safeguard existing standards of service, address new, higher quality standards and make provision for the challenge of climate change. We do recognise

that we need to maintain the affordability of customer bills, especially in what is a tough economic environment, and this was a key feature of the business plan we submitted to Ofwat. Whilst we expect to continue to fund significant levels of capital investment beyond 2010, we believe that our service, which on average costs domestic households around £1 per day for high quality drinking water and environmentally responsible wastewater collection and treatment, represents excellent value for money. We are also increasing the funding of our Charitable Trust by 67 per cent to £5 million per year to help more customers who are struggling to pay their water bills. With the proposals in our business plan, independent research indicates that we will support some 15,000 jobs in the North West region and approximately 20,000 jobs across the UK. Ofwat is expected to set out its initial thoughts on price limits and its final determination is scheduled for November 2009.

Our employees

I believe that a committed and motivated workforce is central to delivering our objectives. Clear goals, appropriate reward structures and good leadership are all important ways to increase employee motivation and companies with high employee engagement tend to be high performing companies. We survey our employees each year to ascertain the level of employee engagement and to understand the areas where we can improve. For example, after last year's survey, we took action to increase the accessibility and visibility of senior management within the business. We are benefiting from improvements in employee engagement but, like our operational performance, we still think that more can be achieved.

Our environment

Another key theme that is embedded throughout the business is the goal to operate in a more sustainable manner. As you would expect, we take a long-term view of our operations and we are committed to seeking to achieve a 26 per cent reduction in our carbon emissions by 2012. We have also factored into our business plan ways in which we can adapt to climate change with a strong focus on ensuring the continuity of water supplies for our customers.

Outlook

We expect to deliver a sound underlying financial performance in the final year of this price review period, although the group is experiencing ongoing revenue and cost pressures.

We will continue to implement our strategy of focusing on our core skills, with the aim of delivering benefits for all of our stakeholders. I am encouraged by the progress we have made and confident that we can build on this in the year ahead.

Philip Green, Chief executive officer