

Chairman's statement

£1.27bn

Investment programme
from 2010 to 2015



The water industry has been affected less by the current recession than many others but we are not immune. The decline in industrial demand for water has had an impact on revenue; many of our customers are finding it more difficult to pay their bills while our energy costs rose significantly.

Against that difficult and uncertain background we have submitted our Final Business Plan for 2010-2015 to Ofwat. The plan proposes an average real annual price increase over the five years of 3.4% to support a £1.27 billion investment programme – an increase of 20% on the amount being invested in 2005-2010. Ofwat will use the plan to set draft price limits in July 2009. We believe our plan is well balanced and reflects the views of customers, for whom affordability is a key issue, and all our other stakeholders and regulators. Everyone will have a further opportunity to comment before Ofwat's final determination of price limits in November 2009. In the plan, we are proposing major investment to alleviate

sewer flooding, to reduce the incidence of discoloured drinking water and to build a £150 million expansion of Abberton reservoir near Colchester to safeguard water supplies in the region.

We have also produced our carbon management plan aiming to reduce our own emissions by 35% by 2020. This year will see the completion of an advanced anaerobic digestion plant at Bran Sands. Together with planned works at Howdon, this will increase our use of renewable energy to over 20%, a significant step towards our target. We have also achieved a significant reduction in energy consumption as we strive to control use of energy and, therefore, our costs.

Our plans seek to build on the strong reputation we have gained over a long period by balancing and satisfying the needs of our customers, employees, investors and regulators. The evidence is that we have achieved that again this year.

Our customers tell us we have had another successful year with high levels of satisfaction reported through our own independent surveys and those of the Consumer Council for Water. We are not complacent, however, and the new 'Our Promise to You' customer service initiative promises to get things right first time and every time.

It is our employees who deliver these high standards of service. We are committed to supporting them through our 'People Plan' to ensure that all employees have the training, development and skills for their roles. We are determined to have the right people in place to take the business forward and to reward them fairly, in recognition of their important contribution.

Investors are vital to the delivery of our long term plans. We are pleased to recommend dividends in line with the progressive dividend policy we set out for this five year period.

Our regulators set many standards and in this report you will see the substantial progress we are making against these. This year, there has also been a great deal of discussion with all of our regulators as we move towards the new five year investment period to ensure we achieve an appropriate balance of cost, quality and risk.

At the heart of our approach to business we believe we have wide-ranging responsibilities to the communities we serve. We were delighted, therefore, to receive many important awards this year which recognise our success. The Queen's Award for Enterprise, in the category for Sustainable Development, was a particularly welcome accolade. The citation recognises work across the business to support society, the economy and the environment. This had been preceded by receipt of the

Utility Company of the Year award from Utility Week magazine. The judges nominated NWL for that award because it 'builds its business around customers and the community'.

We only receive such recognition because of the excellent work of our employees and from the productive partnerships with all those with whom we work. On behalf of the Board, I thank them all but I must make special mention of John Cuthbert, the Company's Managing Director, who has worked for companies in the Group for many years and who has led the Group since 2001. John is retiring on 31 March 2010 and will step down from the Board then. He has made an outstanding contribution both to the water industry and to creating a business which we all believe is well placed to build on its past successes and deliver more in the future.

Sir Derek Wanless
Chairman
2 June 2009

Sir Derek Wanless presents Malcolm Huggins with his Health & Safety award.

