

Response to PR09 Final Determination for 2010-2015

19 January 2010

Outcome

- We are not referring the Final Determination to the Competition Commission
- Final Determination close to our Final Business Plan in terms of allowed opex and capex
 - can deliver required regulatory outputs
 - customer average bills reduce in real terms
- Final Business Plan included some challenging efficiency plans
- Financing is challenging
 - Ofwat assumed WACC of 4.5% vs. 5.0% in FBP; gearing 57.5% vs. 60%
 - Return on equity 7.1% vs. 7.7% for AMP4

Delivering our plan

- We have prepared for AMP5 with “lead-in” investments in the final years of AMP4
 - SAP implementation (Phase 1 complete)
 - Safer, Better, Faster
 - Real estate management & Severn Trent Centre
- Electricity hedging
 - Power prices fully hedged for the first 3 years of AMP5
- Seeking further efficiencies in central functions
- As a result, in the AMP5 period, we expect to have
 - the lowest average household bills throughout the period
 - the lowest operating costs
 - one of the most efficient capital programmes

Financing and Dividend Policy

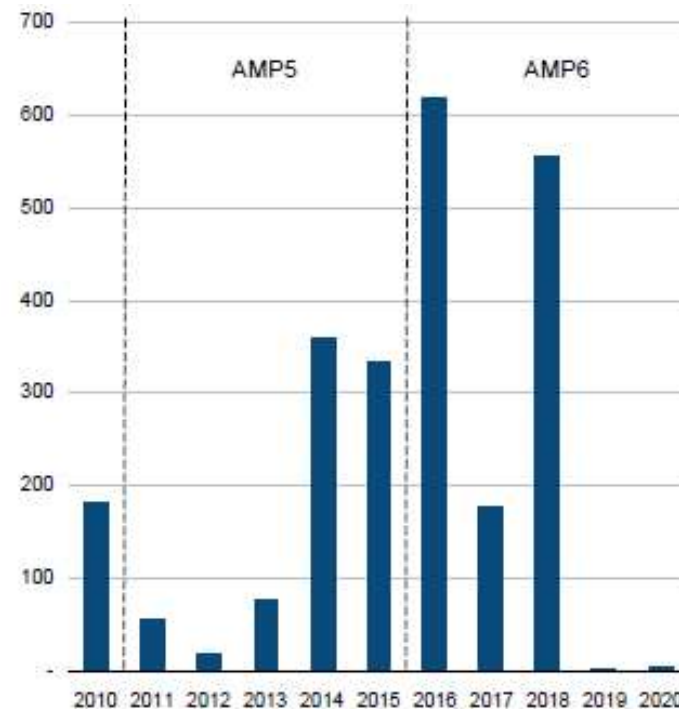


- Flexible and sustainable Balance Sheet
- Despite challenging efficiencies in our plan, allowed returns are lower, leading to a re-basing of the dividend
- Sustainable and progressive new dividend policy
 - FY 2010/11 dividend 10% lower vs. 2009/10, followed by growth as performance improves
- Current policy in place until end of this financial year 31 March 2010

Liquidity

- We maintain a strong liquidity position
 - fully funded until early 2011 by cash balances
 - longer if available bank facilities are drawn
- Cash on deposit £500m (30 Sept 2009)
- Average debt maturity c.19 years
 - c.£850m debt maturing during AMP5
 - c.£1.3bn debt maturing during AMP6
- Low debt repayments 2010 to 2013

Debt Maturity Profile 2009 – 2020 (£m)



Summary

- We are not referring the Final Determination to the Competition Commission
- We believe we can deliver:
 - required outputs; maintain the network; deliver service enhancements
- We have plans in place to achieve the efficiencies built into our Plan
- We have rebased our Dividend to be sustainable and progressive
- In AMP5 we expect to have:
 - The lowest average household bills throughout the period
 - The lowest operating costs
 - Efficient capital programme

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