



SEVERN

TRENT

Preliminary Results

Year ended 31 March 2008

Presentation – 5 June 2008

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Sir John Egan

Chairman



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Mike McKeon

Finance Director

Highlights

	2006/07 £m	2007/08 £m	Change %
Group Turnover	1,480	1,552	4.9%
Profit Before Interest and Tax (PBIT*)	405	470	16.0%
Profit Before Tax (PBT**)	252	292	15.9%
Adjusted Basic EPS*** (pence)	82.4p	97.8p	18.7%
Basic EPS (pence) from continuing and discontinued operations	114.7p	89.7p	(21.8)%
Total Ordinary Dividend (pence per share)	61.45p	65.63p	6.8%

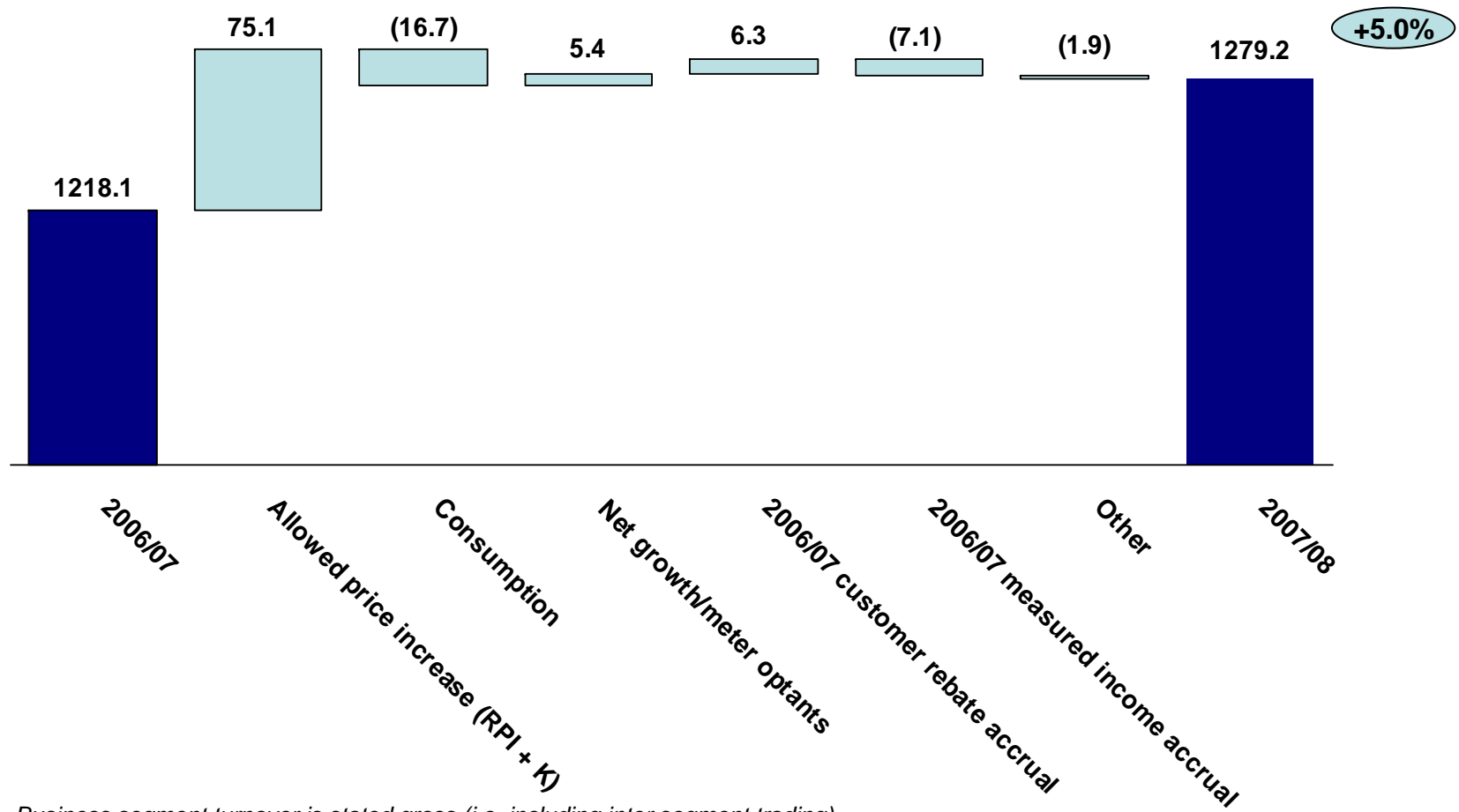
* Excluding exceptional items

** Excluding exceptional items and gains/losses on financial instruments

*** Excluding exceptional items, gains/losses on financial instruments and deferred tax

Water and Sewerage Turnover

Water and Sewerage Turnover
£m

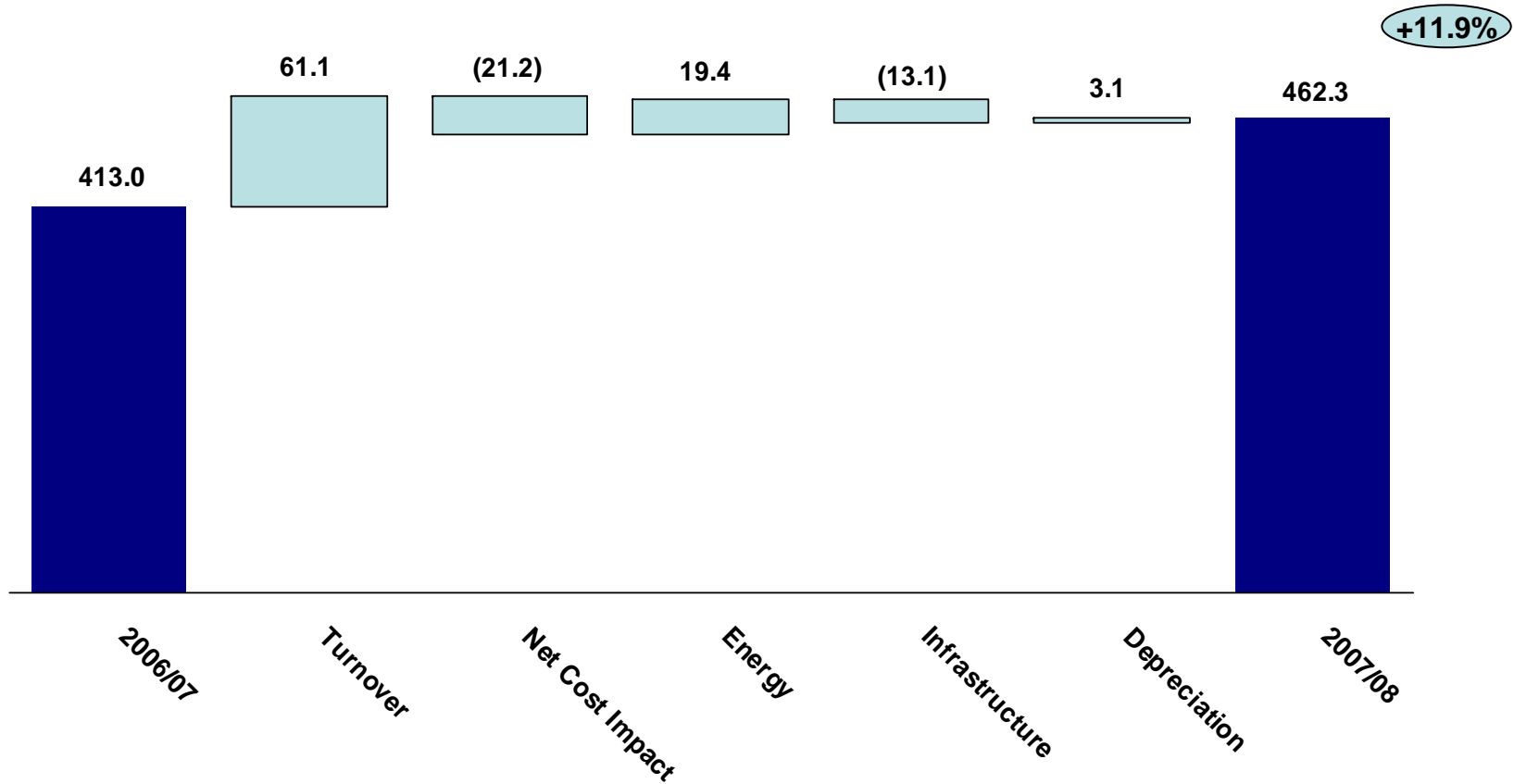


Business segment turnover is stated gross (i.e. including inter segment trading)

Water and Sewerage PBIT

Water and Sewerage PBIT

£m



Numbers shown before exceptional items

Water Technologies and Services performance

	2006/07	2007/08	Change %
Turnover ¹	£276.5m	£297.2m	7.5%
PBIT ^{1,2}	£18.9m	£21.6m	14.3%
ROIC ³	12%	12%	

■ Good underlying turnover and PBIT growth

1 Adjusted for acquisitions and disposals on a "like for like" constant currency basis

2 Excluding exceptional items

3 Return On Invested Capital (PBIT before exceptionals/Net operating assets plus gross goodwill from acquisitions)

Corporate & Other

	2006/07 £m	2007/08 £m	Change %
Corporate Costs	(25.3)	(10.9)	56.9%
Other	(1.0)	(0.3)	70.0%
PBIT*	(26.3)	(11.2)	57.4%

- **Target exceeded - Head office costs reduced by £14.4m over 2006/07**

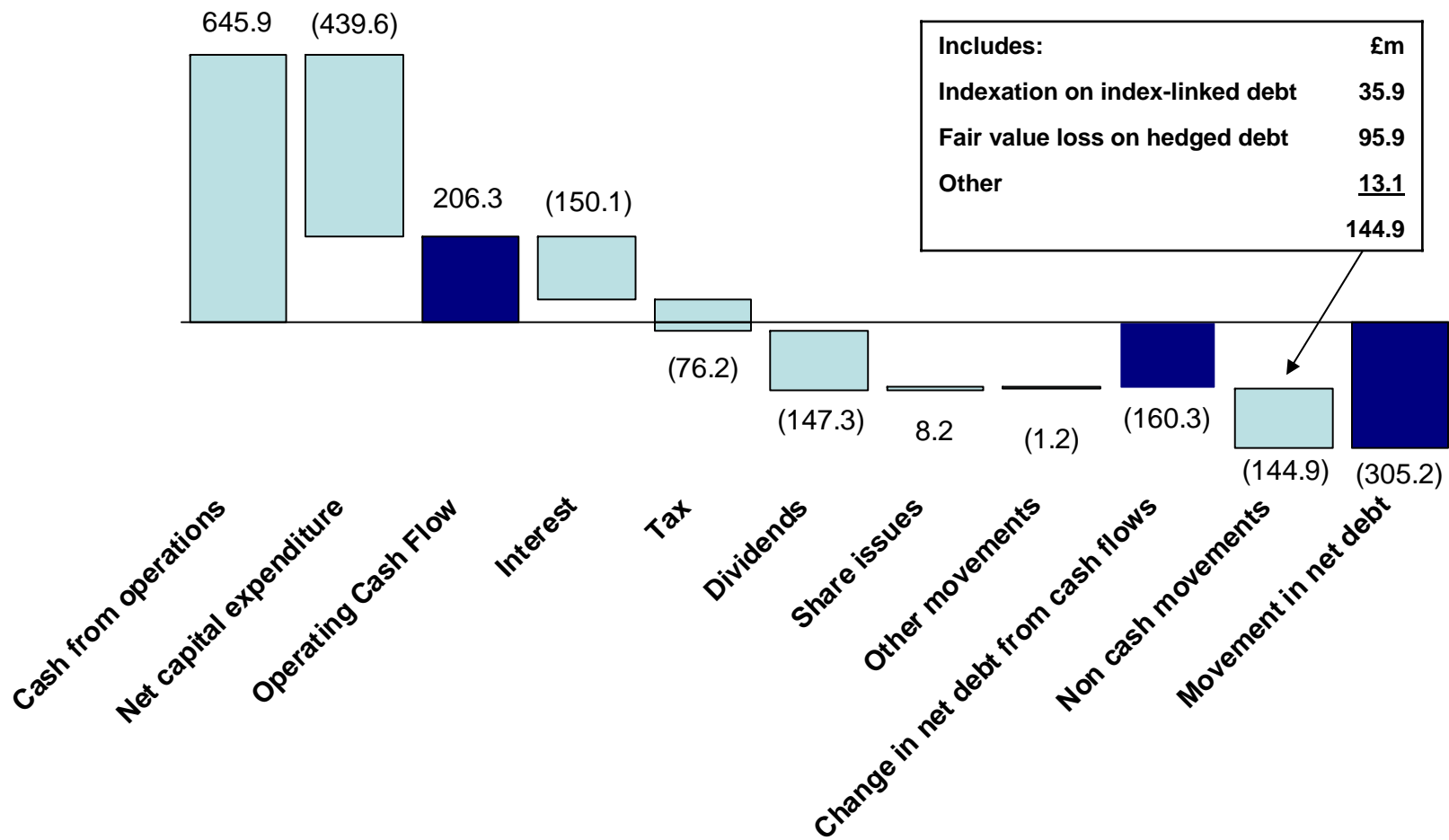
* Excluding exceptional items

Exceptional items charged in 2007/08

- **The 2007/08 exceptional charge of £68.8m comprised:**
 - Net exceptional flooding costs of £13.6m
 - Restructuring costs of £14.9m
 - Ofwat proposed fines of £35.8m
 - Arbitration costs of £4.5m

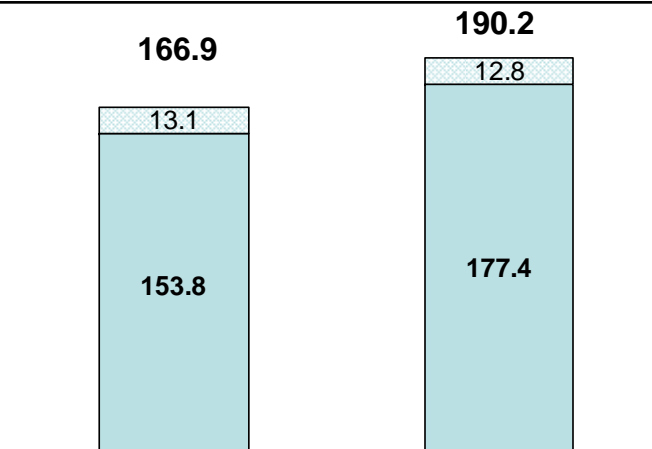
Cash Flow

2007/08 operating cash flow £m



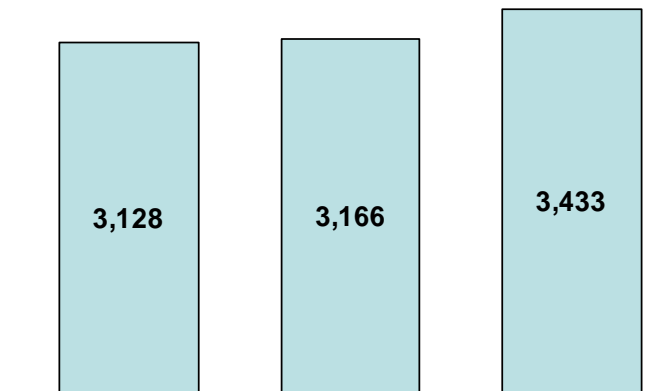
Group finance charges and net debt

Interest
£m



2006/07 2007/08
 □ Net finance cost □ Net pension credit

Net debt
£m



31 Mar 2007 30 Sept 2007 31 Mar 2008
 □ Net Debt*

- **Effective rate 5.8%***
- **Interest cover****
 - 3.7 times EBITDA***
 - 2.5 times PBIT

- **Fixed interest 70%**
- **Index linked 30%**

■ **Regulated entity (Severn Trent Water) net debt £3,480m**

* Excluding derivative financial instruments

** Excluding net pension credit

*** Profit before interest, tax, depreciation, exceptional items and amortisation of intangible assets

Gearing

- Target group net debt/RCV remains at 60%

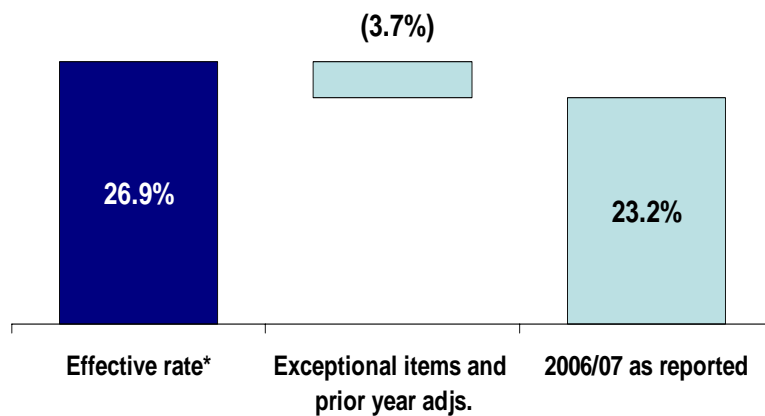
Net debt/RCV	At 31 March 2008
Severn Trent Plc	58.0%
Severn Trent Water	58.8%

Liquidity position

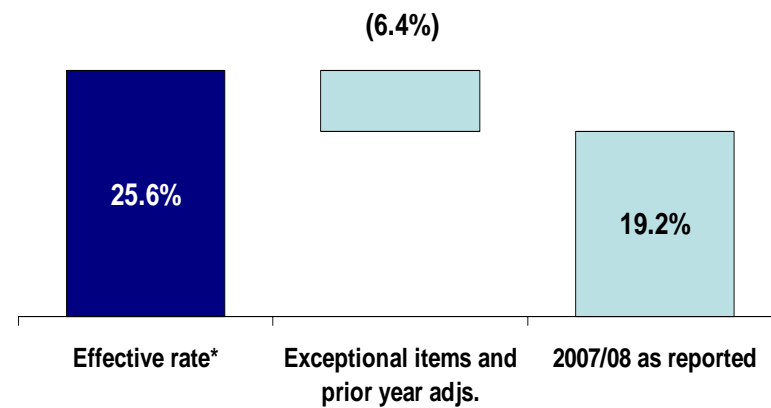
- **Cash on deposit in excess of £600m**
- **Un-drawn committed bank facilities of £580m**
- **£400m long dated index linked debt issued in year**
- **Debut €700m (£536m) Eurobond issued in March 2008**
- **Average maturity around 20 years**
- **Cash and committed facilities provide funding into AMP5**

Effective rate of current tax

2006/07 Effective current tax rate%



2007/08 Effective current tax rate%



2008/09 Full Year Severn Trent Group in range of 25%-27%

■ **Impact of IBAs on 2008/09 deferred tax charge around £170m**

**Attributable to PBT before IAS 39 fair value adjustments, exceptional items and share of results of associates and joint ventures. Excluding discontinued operations*

Financial summary

- **Delivering tangible results across the group**

- **Delivering benefits on costs**

- **Delivering on dividend growth**



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Tony Wray

Chief Executive

Focus on water – Continuous improvement

■ Delivering tangible results for

- Customers
- Regulators
- Shareholders

Higher standards



Greater efficiency

Continuous improvement

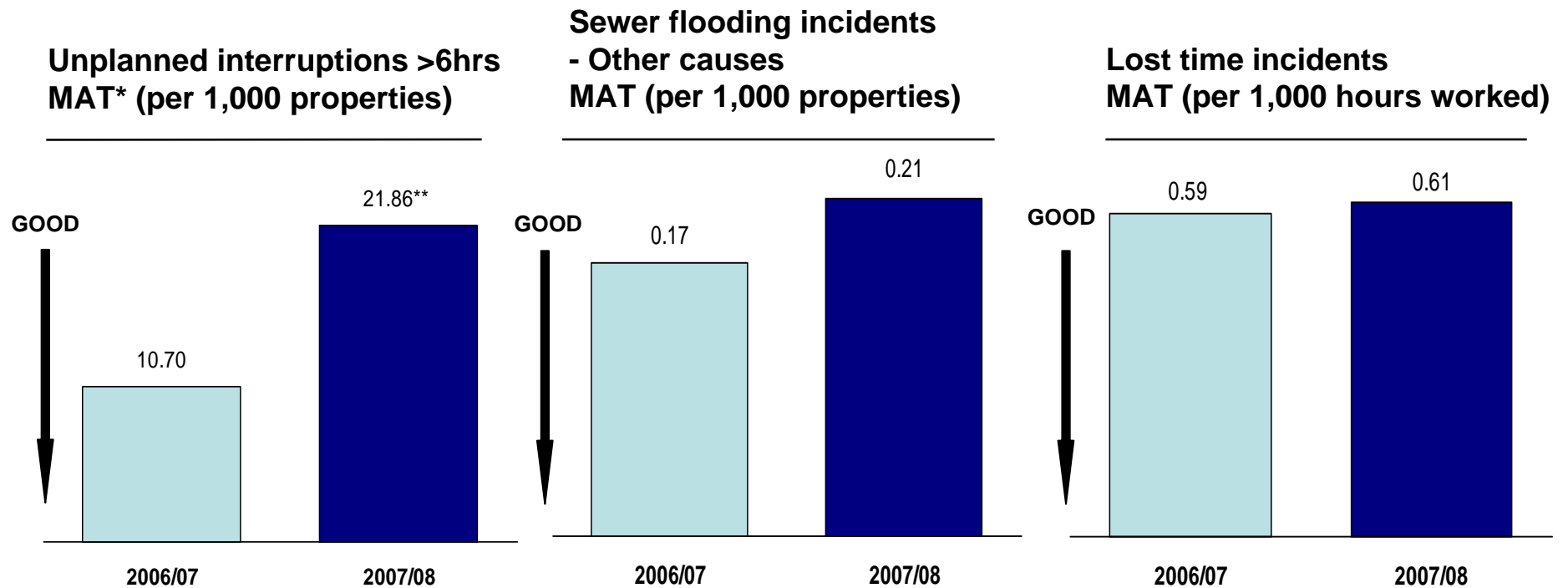
Focus on Water – delivering tangible results

■ KPI performance*

- 7 maintained at high standards
- 5 improved
- 4 static
- 3 deteriorated

** Excludes capital process quality KPI as no prior year data available*

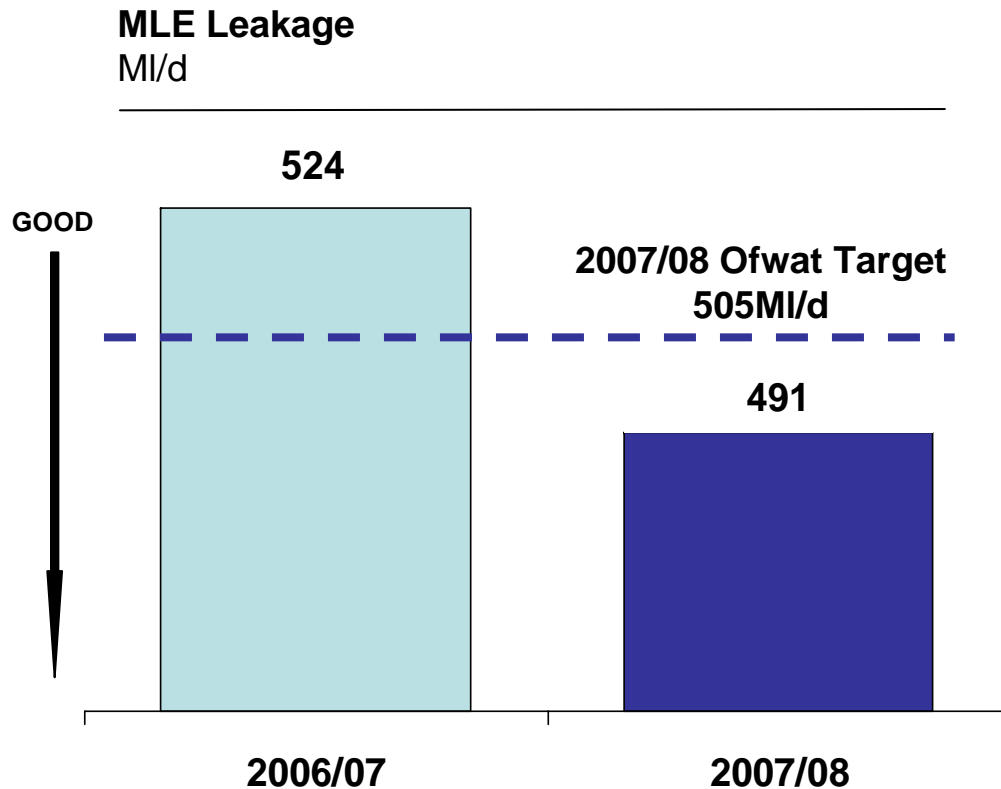
Continued focus required in some areas



• Moving Annual Total

** Unplanned Interruptions excludes impact of Summer 2007 Flooding, including flooding = 184.5

Significant progress in reducing leakage

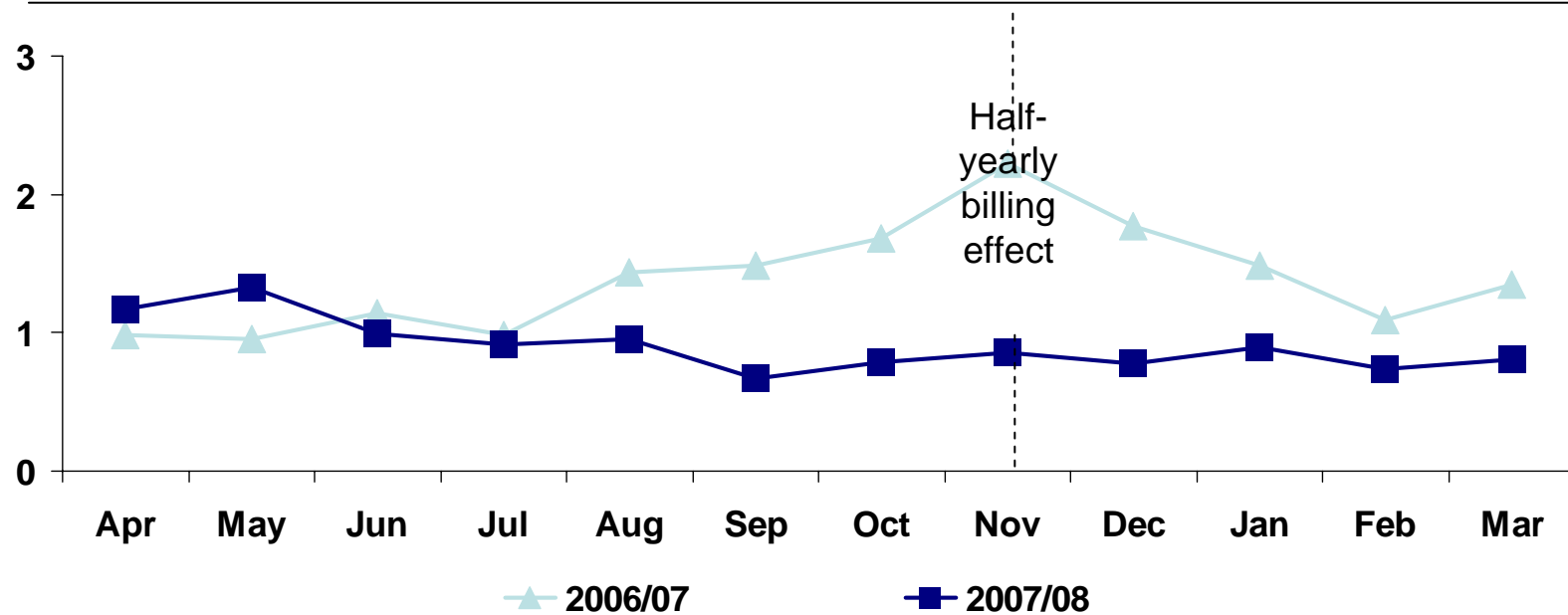


- Proactive leakage reduction campaign
- Increased number of leakage detection & repair staff
- Improved job scheduling

Outperformed Ofwat leakage target for 2007/08 by 14 MI/d

Continued progress in reducing customer complaints

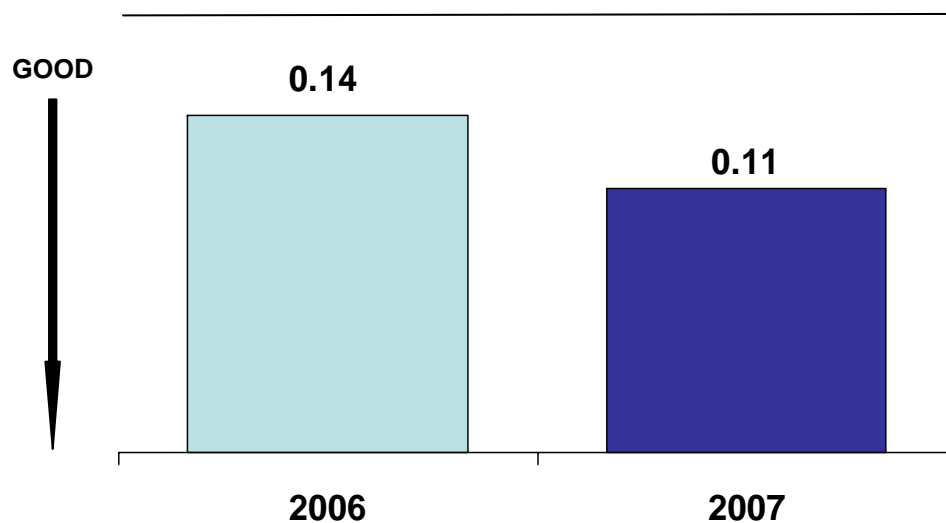
Customer written complaints
per 1,000 properties



Customer written complaints per 1,000 properties reduced by 34%

Pollution incidents reducing

Pollution incidents*
Moving annual total per 1,000 properties



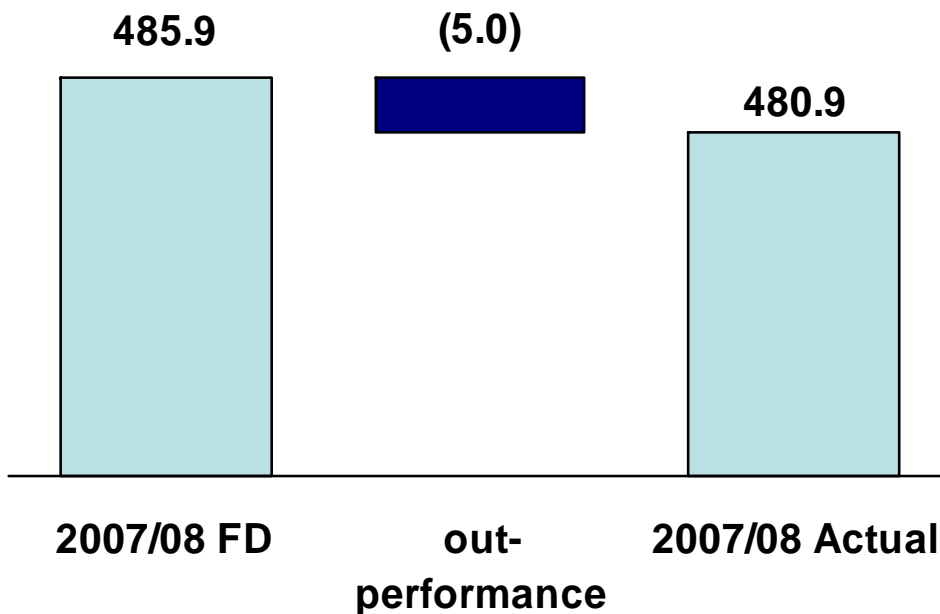
- **Action plan delivering improved preventative maintenance and faster response times**
- **Category 1, 2 & 3 pollution incidents reduced by 21% to 417**

Pollution reduction plan delivered 21% reduction in incidents

* At calendar year end to comply with Environment Agency confirmed incidents

Outperformed against Ofwat FD for operating costs

Operational costs vs. Ofwat Final Determination *
£m



- On track to deliver 3% out-performance over balance of AMP4
- Improvement plans to deliver £30m of opex. efficiencies over last 2 years of AMP4
- Majority of energy costs fixed for 2008/09 and 2009/10

Out-performed in 2007/08 by 1%

* UK GAAP

Remain on track to deliver 6% capex. efficiency

- **FY 2007/08 gross capex.* is £566.7m**
- **Delivery of Water and Waste AMP4 obligations on track**
- **Forecast 6% efficiency over AMP4**
- **This 6% efficiency to be invested in:**
 - Renewable energy
 - AMP5 investment programme - smoothing and improving supply chain
 - Technology and locations (Severn Trent Centre)

** UK GAAP before taking account of grants and other income*

Investing for growth in Water Technologies and Services

- **Good underlying performance in revenue, PBIT and ROIC**
- **Strategy focused on organic growth and building international presence**
 - Existing technologies into new markets
 - New technologies to existing markets

Outlook – continued improvement

■ **Severn Trent Water**

- Targeting annual opex. out-performance of 3% in 2008/09 and 2009/10
- Restructuring costs of around £24m over the balance of AMP4
- Remain on track to deliver 6% capex. efficiency

■ **Water, Technologies and Services**

- Continued delivery of revenue and margin growth, with appropriate ROIC

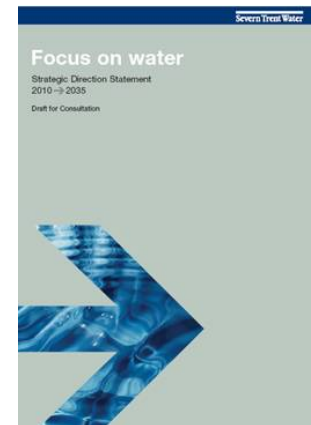
■ **Severn Trent Plc**

- Target net debt/RCV remains at 60%

PR09 and the longer term

■ Strategic Direction Statement

- Ofwat longer term view
- Consistent with Defra's "Future Water" report



■ Select Committee & Inquiry conclusions

www.stwater.co.uk/sds

■ PR09

- New requirements
- Continuous improvement driving efficiencies
- Capital programme of around £3bn
- Appropriate WACC and robust funding strategy

Focus on Water – Continuous improvement

■ **We have turned the corner and are focused on delivery**

■ **Delivering tangible results**

- Group PBIT up 15.8% at £469.5m
- Outperformed on operating costs against Ofwat FD
- Outperformed against Ofwat leakage target

■ **Delivering our investment programme and sustainable investment returns**



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Appendix

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Measuring our performance – Key Performance Indicators

1 of 2

Description		Basis	Note	Lower Quartile	Median	Upper Quartile
Lost time incidents per 100,000 hrs worked	2008	MAT	2		0.61	
	2007					0.59
Employee motivation	2008	QR	3			77%
	2007					76%
Water quality (mean zonal compliance) %	2008	MAA	1,4			99.96%
	2007					99.98%
Customer written complaints per 1,000 properties	2008	MAT	1,5	10.9		
	2007			16.58		
First time call resolution for billing %	2008	MAT	6			85%
	2007					80%
Unplanned interruptions > 6 hrs per 1,000 properties	2008	MAT	1,7	21.86		
	2007			10.7		
Properties at risk of low pressure per 1,000 properties	2008	NPR	8,9			0.06
	2007					0.09
First time job resolution	2008		6		85%	
	2007				84%	
Performance against Regulatory Obligations %	2008	QR	6		15%	
	2007				26%	
Capex (Gross) vs Final Determination %	2008	ATD	10			1.70%
	2007					2.70%
Capital process quality (no. of defects per £100k)	2008		6			0.03
	2007					N/A
Debtor days	2008		8,10		37.4	
	2007				37.5	
Opex vs Final Determination (UK GAAP) - £m	2008	MAT	10		480.9	
	2007			479.1		
Cost to serve per property - £	2008	MAT	11		236.82	
	2007				226.93	
Pollution incidents (cat 1, 2 & 3) per 1,000 properties	2008	MAT	4,12			0.11
	2007				0.14	
Sewer flooding incidents - other causes per 1,000 properties	2008	MAT	1,13	0.21		
	2007				0.17	
Sewage Treatment Works - breach of consents %	2008	PPS	1,8			0.00%
	2007					0.00%
Raw water storage %	2008	MAA	6			92%
	2007					90%
Net Energy Use – Kwh/MI	2008	MAT	6		608	
	2007				618	
Leakage MI/d	2008	MLE	1,14			491
	2007			524		

Measuring our performance – Key Performance Indicators

2 of 2

Notes:

All measures are for the period to 31 March 2008, except as stated.

MAT = Moving Annual Total

QR = Quarterly Review

MAA = Moving Annual Average

NPR = Number of properties on register

ATD = AMP4 to date

PPS = Percentage of population served

MLE = Maximum Likelihood Estimate

1. As reported in June Return to Ofwat. Performance figures are provisional at this stage as the June Return will be submitted to Ofwat on 13 June 2008.
2. Actual performance across all employees and agency staff. 2007 performance restated to include road traffic accidents.
3. Performance based on quarterly survey of 10% of permanent employees.
4. Measure for calendar year to 31 December 2007.
5. Performance excludes properties billed by other water companies.
6. Actual performance based on internal data.
7. 2007 performance restated to include the impact of unplanned interruptions over 6, 12 and 24 hours. 2008 performance excludes impact of Summer 2007 flooding. 2008 performance is 184.5 if impact of Summer 2007 flooding included.
8. Measure as at 31 March 2008.
9. 2008 performance excludes impact of new pressure loggers installed in 2007/08. Including pressure loggers, 2008 performance is 0.455.
10. Actual performance based on audited UK GAAP financial statements for the year ended 31 March 2008.
11. Actual performance based on audited regulatory accounts for the year ended 31 March 2008.
12. Restated to reflect all Environment Agency types of category 1, 2 & 3 pollution incidents.
13. 2007 restated to reflect numbers of incidents as opposed to number of affected properties.
14. 2007 restated to MLE leakage as opposed to DMA (District Metered Area) leakage.

Group income statement summary

Year ended 31 March 2008

2006/07 £m		2007/08 £m	Variance £m	Variance %
1,480.2	Turnover	1,552.4	72.2	4.9
(1,074.9)	Operating costs	(1,082.9)	(8.0)	(0.7)
405.3	Profit before exceptional items, interest and tax	469.5	64.2	15.8
24.7	Exceptional items	(68.8)	(93.5)	(378.5)
430.0	Profit before interest and tax (Operating profit)	400.7	(29.3)	(6.8)
(153.8)	Net interest	(177.4)	(23.6)	15.3
48.8	Fair value movements in treasury instruments	(31.0)	(79.8)	(163.5)
0.5	Share of results of associates and joint ventures	0.1	(0.4)	(80.0)
325.5	Profit before tax	192.4	(133.1)	(40.9)
(58.5)	Current tax	(56.2)	2.3	(3.9)
(18.4)	Deferred tax*	74.4	92.8	(504.3)
248.6	Profit after tax from continuing operations	210.6	(38.0)	(15.3)
20.0	Discontinued operations	0.8	(19.2)	(96.0)
268.6	Profit for the period	211.4	(57.2)	(21.3)

* 2007/08 includes £54.7m exceptional deferred tax credit arising on change of rate.

Group Earnings

Year ended 31 March 2008

2006/07 £m		2007/08 £m			
268.6	Profit for the period	211.4			
267.1	Attributable to - Equity holders of the company	209.5			
1.5	- Minority Interests	1.9			
Pence		Pence	Variance pence	Variance %	
	Basic earnings per share from continuing operations				
82.4	Adjusted basic EPS before exceptional items, gains/losses on financial instruments and deferred tax)	97.8	15.4	18.7	
106.1	Basic EPS	89.3	(16.8)	(15.8)	
	Diluted earnings per share from continuing operations				
81.6	Adjusted diluted EPS before exceptional items, gains/losses on financial instruments and deferred tax)	97.1	15.5	19.0	
105.1	Diluted EPS	88.7	(16.4)	(15.6)	

Group balance sheet

Year ended 31 March 2008

31 Mar 2007 £m		31 Mar 2008 £m	Movement since 31 Mar 2007 £m
5,521.1	Property, plant and equipment	5,731.2	210.1
150.3	Intangible assets	157.4	7.1
4.1	Other non-current assets	4.3	0.2
(357.9)	Working Capital/provisions	(388.1)	(30.2)
5,317.6	Capital employed	5,504.8	187.2
(59.0)	Tax creditor	(32.4)	26.6
(891.1)	Deferred tax provision	(808.3)	82.8
(3,127.6)	Net debt	(3,432.8)	(305.2)
(102.6)	Derivative financial liabilities	(26.1)	76.5
1,137.3	Net assets	1,205.2	67.9
73.3%	<i>Gearing*</i>	74.0%	

* Net debt divided by net debt and equity

Movements on shareholders' equity*

Year ended 31 March 2008

	2007/08 £m
At 1 April	1,137.3
Total recognised income for the financial period	205.2
Dividends**	(148.1)
Credit from share based payments charge	4.0
Tax on share based payments posted directly to reserves	(1.4)
Shares issued (net of shares purchased for ESOP)	8.2
At 31 March	1,205.2

• Equity attributable to the equity holders of Severn Trent Plc and Minority Interests

** £0.8m attributable to Minority Interests

Credit ratings

At 31 March 2008

Long-Term	Severn Trent Water	Severn Trent Plc
Moody's*	A2	A3
Standard & Poor's**	A	A-

Short-Term	Severn Trent Water	Severn Trent Plc
Moody's*	P1	P2
Standard & Poor's**	A1	A1

* Confirmed April 2008

** Confirmed February 2008

Segmental analysis of capital employed

Year ended 31 March 2008

Total 31 March 2007 £m		Net operating assets 31 March 2008 £m	Goodwill 31 March 2008 £m	Total 31 March 2008 £m
5,267.5	Water and Sewerage	5,431.2	-	5,431.2
128.7	Water Technologies and Services*	84.7	50.2	134.9
(78.6)	Other	(61.3)	-	(61.3)
5,317.6	Group	5,454.6	50.2	5,504.8

* Excludes goodwill of £40.8m previously written off against reserves and minority interests of £4.1m (2006/07 £3.1m)

PBITD* analysis

Year ended 31 March 2008

Group 2006/07 £m		Group 2007/08 £m
654.2	Water and Sewerage	689.8
26.3	Water Technologies and Services	27.0
(30.6)	Other	(15.5)
649.9	Group**	701.3

* Profit before interest, tax, depreciation and amortisation of intangible assets, excluding exceptional items

** Excludes businesses classified as discontinued.

Depreciation* analysis

Year ended 31 March 2008

Group 2006/07 £m		Group 2007/08 £m
241.2	Water and Sewerage	227.5
6.6	Water Technologies and Services	6.3
(3.2)	Other	(2.0)
244.6	Group	231.8

* Including amortisation of intangibles, excluding profit/loss on disposal of fixed assets and deferred income write back

Exceptional items

Year ended 31 March 2008

Total 2006/07 £m		Total 2007/08 £m
	Severn Trent Water programme to restructure and realign business	
(11.9)	Write off of decommissioned assets	-
(3.0)	Restructuring costs	(14.9)
(16.7)	Demerger and related costs	-
56.3	Disposal of property and businesses	-
	Summer 2007 Flooding	
-	Gross costs	(29.6)
-	Insurance	16.0
	Legacy issues	
-	Ofwat proposed fine	(35.8)
-	Third party legal costs (Water, Technologies & Services)	(4.5)
24.7	Net exceptional (charges)/gains on continuing operations	(68.8)
(31.5)	Impairment of goodwill relating to US Laboratories	-
(2.4)	Loss on disposal of US Laboratories	-
9.5	Profit on disposal of Biffa Belgium	-
(24.4)	Net exceptional charges on discontinued operations	-

Capital expenditure (net cash)*

Year ended 31 March 2008

2006/07 £m		2007/08 £m
(323.8)	Water and Sewerage	(436.6)
(3.3)	Water Technologies and Services	(7.0)
11.3	Other	4.0
(315.8)		(439.6)
(35.7)	Discontinued businesses	-
(351.5)	Group	(439.6)

* Net of grants received and proceeds of sale

Water and Sewerage – income statement highlights

Year ended 31 March 2008

2006/07 £m		2007/08 £m	Change £m	Change %
	Turnover			
1,206.9	Severn Trent Water	1,265.3	58.4	4.8
13.7	Retail & Utility Services	15.0	1.3	9.5
(2.5)	Intra segment trading	(1.1)	1.4	(56.0)
1,218.1		1,279.2	61.1	5.0
	Operating Costs			
(797.8)	Severn Trent Water*	(808.9)	(11.1)	1.4
(9.8)	Retail & Utility Services	(9.1)	0.7	(7.1)
2.5	Intra segment trading	1.1	(1.4)	(56.0)
(805.1)		(816.9)	(11.8)	1.5
413.0	PBIT	462.3	49.3	11.9

* Operating costs include profit on disposal of non-current assets of £1.6m (£Nil)

Severn Trent Water – turnover

Year ended 31 March 2008

	£m	%
Year to 31 March 2007	1,206.9	
RPI + K	75.1	6.2
	1,282.0	6.2
Consumption		
Reduced consumption	(16.7)	(1.4)
Net growth/meter optants		
New customers/Income protection	10.6	(0.9)
Meter optants	(5.2)	(0.4)
	1,270.7	5.3
2006/07 Measured income accrual	(7.1)	(0.6)
Other	(4.6)	(0.4)
	1,259.0	4.3
2006/07 Rebate accrual	6.3	0.5
Year to 31 March 2008	1,265.3	4.8

Severn Trent Water – operating costs

Year ended 31 March 2008

2006/07 £m		2007/08 £m	Variance £m	Variance %
474.5	Direct operating costs*	475.6	1.1	0.2
225.2	Depreciation**	222.1	(3.1)	(1.4)
98.1	Infrastructure renewals	111.2	13.1	13.4
797.8	Total	808.9	11.1	1.4

* Net of other income £3.9m (£3.6m) but excluding management charges

** Net of amortisation of grants and contributions and profit on disposal of property, plant and equipment, and after profit on disposal of non current assets of £1.6m (£Nil)

Severn Trent Water – capex reconciliation

Year ended 31 March 2008

	2007/08
	£m
UK GAAP gross capex	566.7
Less grants and contributions	(45.6)
<hr/>	
UK GAAP net capex*	521.1
Treated as IFRS infrastructure operating expenditure	(111.3)
<hr/>	
	409.8
Movement on capital creditors	29.1
Proceeds on sale of fixed assets	(2.9)
Other	0.6
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IFRS capex (net cash)	436.6
<hr/>	

* Capex at outturn prices after deduction of grants and contributions

Severn Trent Water – RCV

Year ended 31 March 2008

£m	2005/06	2006/07	2007/08	2008/09	2009/10
Per Determination*	4,853	4,981	5,107	5,191	5,292
STW Actual/Estimated Outturn**	5,209	5,546	5,922	6,238	6,519
Ofwat Actual/Projected Outturn***	5,209	5,546	6,022	6,120	6,239

* 2002/03 prices

** At year-average outturn prices, including inflation assumption of 3.6% and 2.5% in years, 2008/09 and 2009/10 respectively

*** Ofwat estimated outturn using year end 2007/08 RPI Source Ofwat website

Water Technologies and Services performance

Year ended 31 March 2008

Turnover				PBIT*		
2006/07 £m	2007/08 £m	Change %		2006/07 £m	2007/08 £m	Change %
276.5	297.2	7.5%	“Like for like” constant currency	18.9	21.6	14.3%
7.6	-		Exchange rate impact	0.3	-	
284.1	297.2	4.6%	As reported before acquisitions & disposals	19.2	21.6	12.5%
4.8	-		<i>Disposal:</i> Pipeline Services	0.5	-	
-	0.1		<i>Acquisition:</i> Micro Dynamics	-	(0.9)	
288.9	297.3	2.9%	As reported	19.7	20.7	5.1%

* Excluding exceptional items

Segment Reporting

Year ended 31 March 2008 proforma for change in segmental reporting

	Water and Sewerage	Water Technologies and Services	Corporate and Other	Eliminations	Consolidated
	£m	£m	£m	£m	£m
Total Sales <i>(as reported)</i>	1,279.2	297.3	5.2	(29.3)	1,552.4
Retail & Utility Services	(15.0)	15.0			-
Total Sales <i>(proforma)</i>	1,264.2	312.3	5.2	(29.3)	1,552.4
PBIT* <i>(as reported)</i>	462.3	20.7	(11.2)	(2.3)	469.5
Retail & Utility Services	(5.9)	5.9			-
PBIT* <i>(proforma)</i>	456.4	26.6	(11.2)	(2.3)	469.5

* Excluding exceptional items



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