

Shareholder summary 2010

SEVERN
TRENT

Welcome to our shareholder summary 2010. This summary is distributed with your Notice of Meeting each year. It provides high level information from our financial results together with a summary of our performance, and brief details of this year's final dividend and our AGM.

The full report and accounts, together with additional company information, is available on our website www.severntrent.com



Sir John Egan, Chairman

“Building on our track record of continuous improvement, I am pleased to be able to report today growth of 23.7% in underlying group PBT, achieved through our focus on delivering further improvements in efficiency, processes and standards. In line with our current policy to the end of March 2010, our full year dividend has grown by 7.4% to 72.32 pence per share, an increase of 3% above the rate of March RPI inflation.

During my tenure as Chairman, Severn Trent has successfully dealt with a number of challenges and transformed itself into a company with a clear focus on water, and on delivering improved performance year after year. Looking ahead, Severn Trent Water has already taken a number of actions to prepare for the next five year regulatory period, such as significant AMP5 lead-in investments and an early start to its contractor programme, leaving it suitably positioned to deliver higher standards and sustainable, attractive returns to shareholders.”



Tony Wray, Chief Executive

“These results demonstrate that we continue to deliver on our plans, focusing on raising standards, process and efficiency improvements, delivering the lowest possible bills for customers, developing our people and growing shareholder value.

Over the AMP4 period (2005/06 to 2009/10) Severn Trent Water has delivered an improved operational performance. We were pleased to receive the maximum score for our customer service in Ofwat's most recent assessment. We have nine KPIs where we are achieving upper quartile performance (2008/09–11), with nine at median (2008/09–8) and two at lower quartile (2008/09–1). The movement between categories is partly due to improved benchmarks, which we update in September every year, but there are still areas where we need to do more. I am pleased to confirm we exceeded our planned operating cost savings this year and delivered our capital programme for the AMP4 period.

Severn Trent Services was impacted by challenging economic conditions during the year, but made good progress in reducing its cost base and positioning for growth – our Operating Services business performed well, while in Water Purification many projects were delayed but not cancelled. Analytical Services consolidated its facilities while expanding its service offering, and will benefit from new contracts in the year ahead.”

2010 Severn Trent group highlights

Group turnover £m

£1,703.9m

2010

2009: £1,642.2m

Group profit before tax £m

£334.4m

2010

2009: £167.6m

Underlying group profit* £m

£338.4m

2010

2009: £273.5m

Dividend pence per share

72.32p

2010

2009: 67.34p

Earnings per share† pence

122.8p

2010

2009: 92.7p

- **Group profit before interest, tax and exceptional items up 18.6% to £557.1 million**
- **Full year dividend up 7.4% to 72.32 pence per share (3% above March 2010 RPI inflation)**
- **Exceeded planned operating cost savings in Severn Trent Water**
- **Severn Trent Services positioned to capture future growth opportunities**

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

†before exceptional items, gains/losses on financial instruments and deferred tax

Severn Trent Water

Our industry

The achievements of the water industry in the 20 years since privatisation are well documented – service to customers has improved, new drinking water standards have been met, tighter environmental standards have been achieved and new investment attracted.

These successes have been driven by an effective regulatory framework which has incentivised companies to become more efficient, so keeping bills lower than they would otherwise have been. The framework has also provided investor confidence, allowing companies to attract financing for an investment programme of around £85 billion over the last 20 years to deliver the improvements.

However, the successes of the last 20 years have not been without consequences. Water company debt has increased significantly, customers face higher bills and carbon emissions have increased.

In addition, there is a significant projected level of capital investment required over the next 20 years to deliver further statutory environmental improvements and adapt our services and provide asset resilience in the face of climate change.

Changing course

Given these circumstances, we believe now is a critical time for all of us with a stake in the industry to question what future direction we should take. We have therefore developed our position on these issues and published a report, entitled 'Changing Course: Delivering a sustainable future for the water industry in England and Wales', which sets out six key changes we believe are required to meet these continuing challenges.

We believe that implementing these changes would deliver better outcomes for customers, investors and the environment. The report is available on our website, www.stwater.co.uk/changingcourse

We have engaged with our key stakeholders in developing our thinking and we believe there is a degree of consensus about the need for, and the direction of, change.

We will continue to develop our thinking on these issues and work with our stakeholders to influence the way in which the sector develops.



There are some very significant challenges ahead and we need to ensure we plan effectively our own destiny.



Michael McKeon
Finance Director



We've taken the first step in setting out how we believe the industry should change. We now want to work with government, our regulators and other companies to make it happen.



Tony Ballance
Strategy and Regulation Director



It's no longer enough just to meet regulatory requirements – regulators and politicians want to know you're prepared to go further. As a business that's what we want too – we know we've got a lot more to give, that's one of the reasons we're so excited about the future.



Tony Wray
Chief Executive

Changing course – six key changes required to meet future challenges

Policy changes

- More flexible implementation of EU Directives to ensure a better trade off between costs and carbon emissions.
- Developing competition through water trading, which would also optimise resources nationally rather than just regionally.

Regulatory changes

- A more flexible approach to environmental consents to allow for more cost effective approaches.
- An improved price setting process to provide the right incentives for sustainable financing, more sustainable solutions and increased innovation.

Industry changes

- Companies must take the lead in driving innovation, both in terms of the strategic and technical solutions they pursue and in shaping the wider direction the sector takes.

Changes to the institutional framework

- Government should prioritise national policy outcomes and ensure the regulatory framework is set up to deliver them.

Our Group

Providing high quality water and waste water services

Severn Trent Water – Performance

In the final year of AMP4 we continued to improve our financial and operational performance, and make our corporate responsibilities part and parcel of the way we operate and plan for the future. At the same time we prepared for AMP5 with lead-in capital investments, putting us in a strong position to meet the challenges of the new regulatory period and beyond.

We delivered a strong operational and financial performance in 2009/10. Planned cost savings were exceeded, while operational expenditure was lower year on year, against our target of stable costs, despite an increase in bad debt charges of £3.3 million. The capital programme for the year and for AMP4 was successfully completed according to plan, and we met our regulatory commitments.

During the second half of the year we accelerated a number of our efficiency programmes, investing £36.2 million in total for the year vs. our initial expectation of £20 million, in restructuring the business and in process improvements. This additional investment of £16.2 million will deliver sustainable annual operating cost savings totalling some £13 million, around 50% of which will be realised in 2010/11. For example, as a result of efficiencies gained from our SAP implementation, the first phase of which went live in December 2009, and other programmes, we are able to reduce the number of business services positions from 1,100 by around 275 posts. Most of those leaving will exit the business during the first half of this current financial year (2010/11). The reduced headcount and move to Severn Trent Centre later this year should allow further property rationalisation.

Our 20 Key Performance Indicators (KPIs) remain the primary basis through which we measure our performance and during the year we continued to improve our scores in many key areas of the business and achieved our targets.

Full details of our performance can be found on www.severntrent.com

Turnover £m
2009/10 (up 4.6%)



Profit* £m
2009/10 (up 18.7%)



*before interest, tax and exceptional items



Severn Trent Water website
www.stwater.co.uk

Severn Trent Services – Performance

Our Severn Trent Services business is one of the world's leading suppliers of water and waste water operational and treatment solutions. We have a reputation for continuous innovation, reliable and quality services and leadership in our selected markets.

Severn Trent Services made good progress in positioning for growth and responding to the challenging economic conditions during the year. Operating Services delivered growth year on year, building on its presence in the US and UK, with a strong pipeline of contract bids presenting further opportunities. Water Purification and Analytical Services experienced challenging conditions due to the economic climate, but took the opportunity to restructure their businesses, lowering the cost base and improving efficiency, while investing in higher growth areas. In Water Purification, many projects were delayed, but not cancelled, resulting in the largest ever order book at year end of around \$100 million and a strong start to 2010/11. Analytical Services also streamlined its operations while expanding its service offering and will benefit from new contracts, most notably with Yorkshire Water which began on 1 April 2010.

Turnover £m
2009/10 (down 0.8%)



Profit* £m
2009/10 (down 5.9%)



*before interest, tax and exceptional items



Severn Trent Services website
www.severntrentservices.com

Chief Executive's outlook

Looking to the long term

As we make the transition from one regulatory period to another, the water industry in England and Wales is reaching a critical point.

At Severn Trent we believe we are in a strong position to deal with the challenges ahead. Our operational performance, financial strength, geography and low cost base differentiate us from other companies. We relish the challenge of finding innovative solutions to tough problems and are firmly committed to delivering the lowest charges in England and Wales for our customers. We will also continue to support our complementary business Severn Trent Services.

We are, of course, committed to responsible business conduct. Every day we're delivering water and waste water services and treatment solutions to customers globally, we're investing in local, regional and national economies, and we're doing this with a focus on minimising our carbon footprint. This is the real heart of corporate responsibility and for us it's business as usual. It's about keeping our prices down for our customers, being a good, safe and attractive employer and safeguarding the environments in which we work.

Last, but by no means least, we have a great team of people in both Severn Trent and in our supply chain partners. Wherever I go in our business I'm impressed by the motivation and commitment of our people, whether they're keeping our customers supplied with quality water, reducing pollution incidents and sewer flooding, producing record levels of renewables, improving customer service metrics in a tough economic environment, or delivering technological solutions and getting it right first time. It's thanks to them that we move into AMP5 with confidence and the kind of strength you would expect from a company with ambitions to be the best water and waste water company in the UK.

Finally, may I take this opportunity to thank Sir John for his huge contribution to Severn Trent over the past five years, and his exemplary leadership through some challenging as well as successful times for our company. I wish him all the best for the future, and give him my personal thanks for the unstinting support that he has given to me in my role as Chief Executive.

Dividend information

The directors are recommending a final dividend of 45.61p per ordinary share, for the 2009/10 financial year.

If approved by shareholders at the company's AGM, the dividend will be paid on 30 July 2010 to shareholders on the register of members on 18 June 2010.

Together with the interim dividend of 26.71p per ordinary share, paid on 15 January 2010, this will bring the total dividend, for 2009/10, to 72.32p per ordinary share.

The company's financial calendar, with details of future results announcement dates and dividend payment dates, is available at www.severntrent.com

Details of our AGM

This year's AGM will be held at the International Convention Centre, Broad Street, Birmingham B1 2EA at 11am on Tuesday 20 July 2010. Full details, including the business to be considered and explanatory notes for each resolution, can be found in the enclosed Notice of Meeting.

The doors will open at 10am. There will also be the opportunity to meet with your board of directors before the meeting begins and to register for this year's Shareholder Networking Programme.

Whether you are planning to attend the AGM or not, you can still register your vote by returning the enclosed Form of Proxy or, alternatively, by registering your vote electronically at www.sharevote.co.uk

Contact information

For shareholders:

Visit www.severntrent.com to access the full report and accounts and for additional company information.

If you have any queries relating to your Severn Trent shareholding you can contact our registrar, Equiniti, via one of the following:

By post: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA

Tel: 0871 384 2967*

Textphone: 0871 384 2255*

Email: severntrent@equiniti.com

A range of frequently asked questions is also available at www.shareview.co.uk

For customers:

Customers of Severn Trent Water can find further information by visiting www.stwater.co.uk

If you have any queries related to our services you can contact us via one of the following:

Email: customer.relations@severntrent.co.uk

For billing queries call 08457 500 500 (8am to 8pm Mon-Fri and 8am to 1pm Sat).

For operational emergencies (24 hour service) please call 0800 783 4444.

* Calls to these numbers are charged at 8 pence per minute from a BT landline. Other telephony providers' costs may vary.