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Full Year Results

Full Year to 31 March 2007

Presentation – 6 June 2007



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Sir John Egan

Chairman



SEVERN

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Mike McKeon

Group Finance Director

Financial Highlights

	2005/06 £m	2006/07 £m	Change %
Group Turnover	1,455	1,480	1.7%
Profit Before Interest and Tax (PBIT*)	393	405	3.1%
Profit Before Tax (PBT**)	230	252	9.5%
Adjusted Basic EPS [#] (pence)	71.4p	82.4p	15.4%
Basic EPS (pence) from continuing and discontinued operations	95.9p	114.7p	19.6%
Total Ordinary Dividend (pence per share) (2005/06 Rebased)	57.00p	61.45p	7.8%

NB: All numbers are for continuing operations, except where stated

* *Excluding exceptional items*

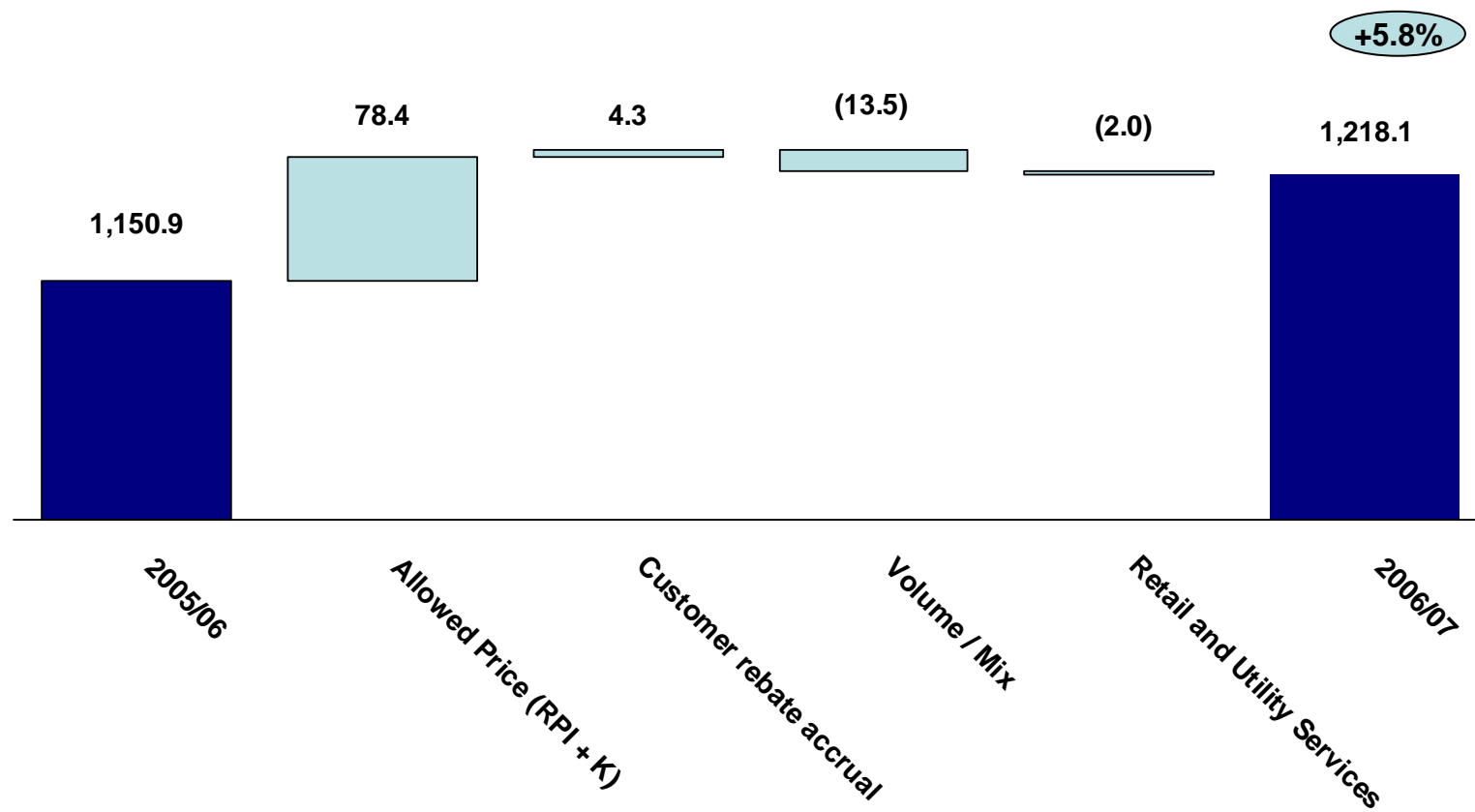
** *Excluding exceptional items and IAS 39 fair value adjustments*

Excluding exceptional items, IAS39 fair value adjustments and deferred tax

Water and Sewerage Turnover

Water and Sewerage Turnover

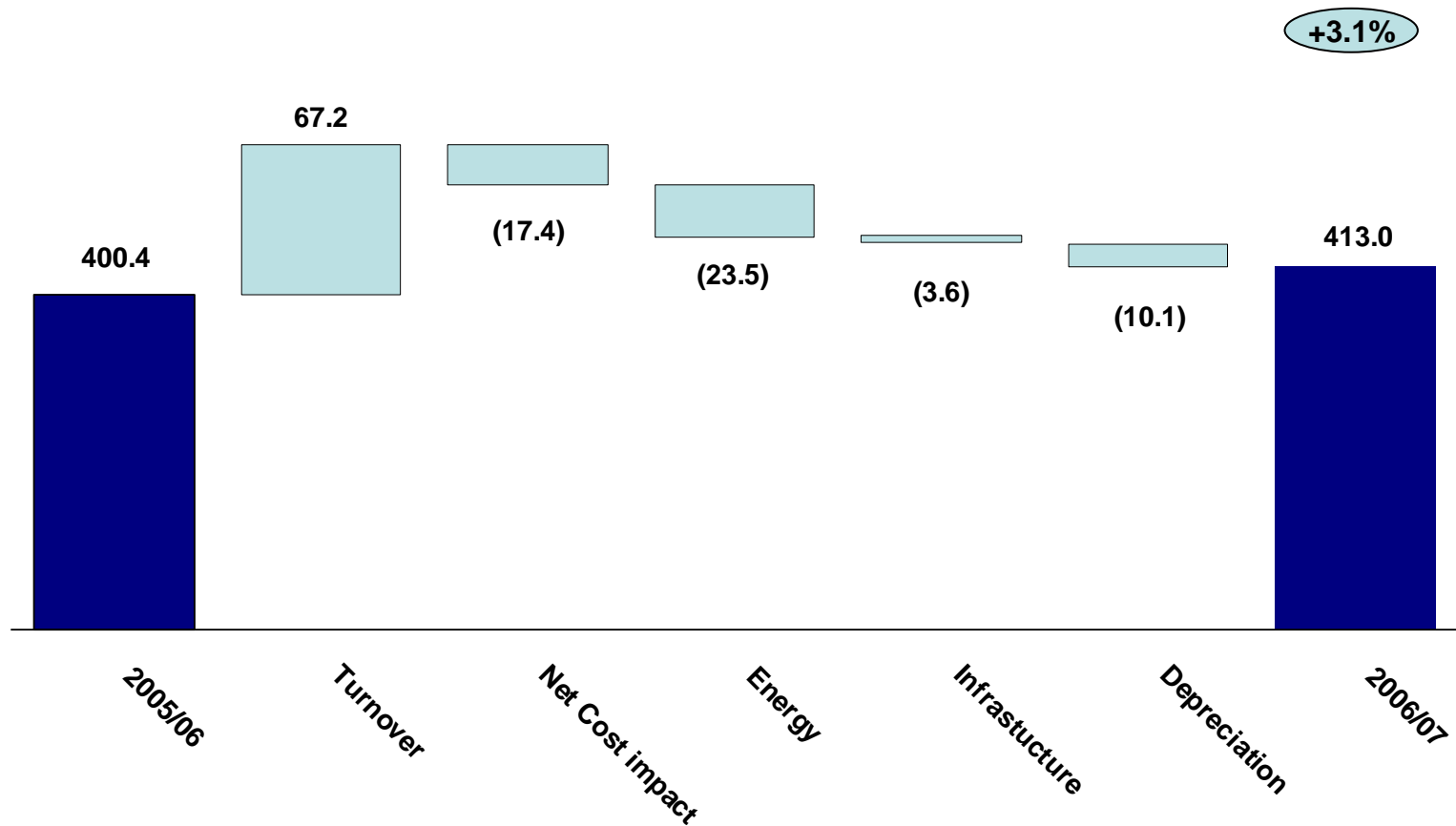
£m



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

Water and Sewerage PBIT

Water and Sewerage PBIT £m

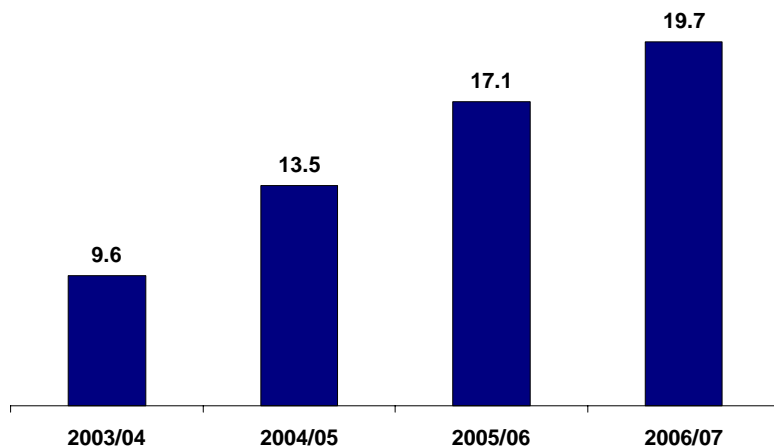


Numbers shown before exceptional items

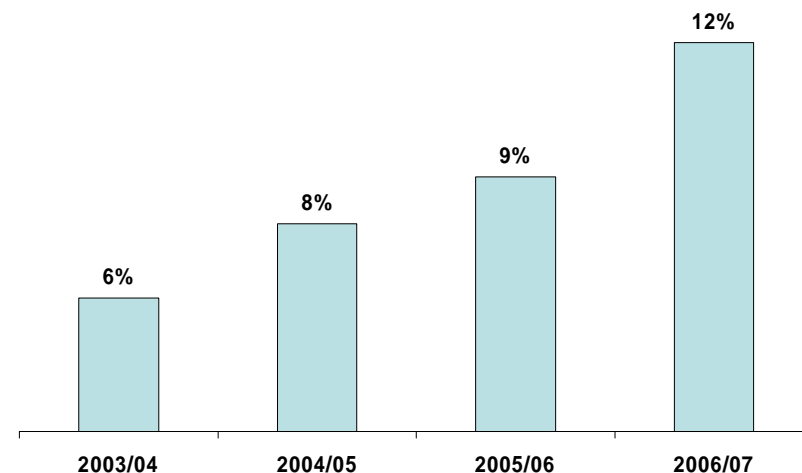
Water Technologies and Services performance

PBIT £m*

CAGR 24%



Return* On Invested Capital **



	31 March 2007 £m	31 March 2006 £m
Turnover	288.9	299.8
Pipeline Services	(5.1)	(14.0)
	283.8	285.8
Exchange rate impact	8.8	-
	292.6	285.8

* PBIT before exceptional items

** Net operating assets plus gross goodwill from acquisitions

Corporate & Other Businesses PBIT performance

	2005/06 £m	2006/07 £m	Change %
Profit Before Interest and Tax (PBIT*)	(25.7)	(26.3)	2.3%

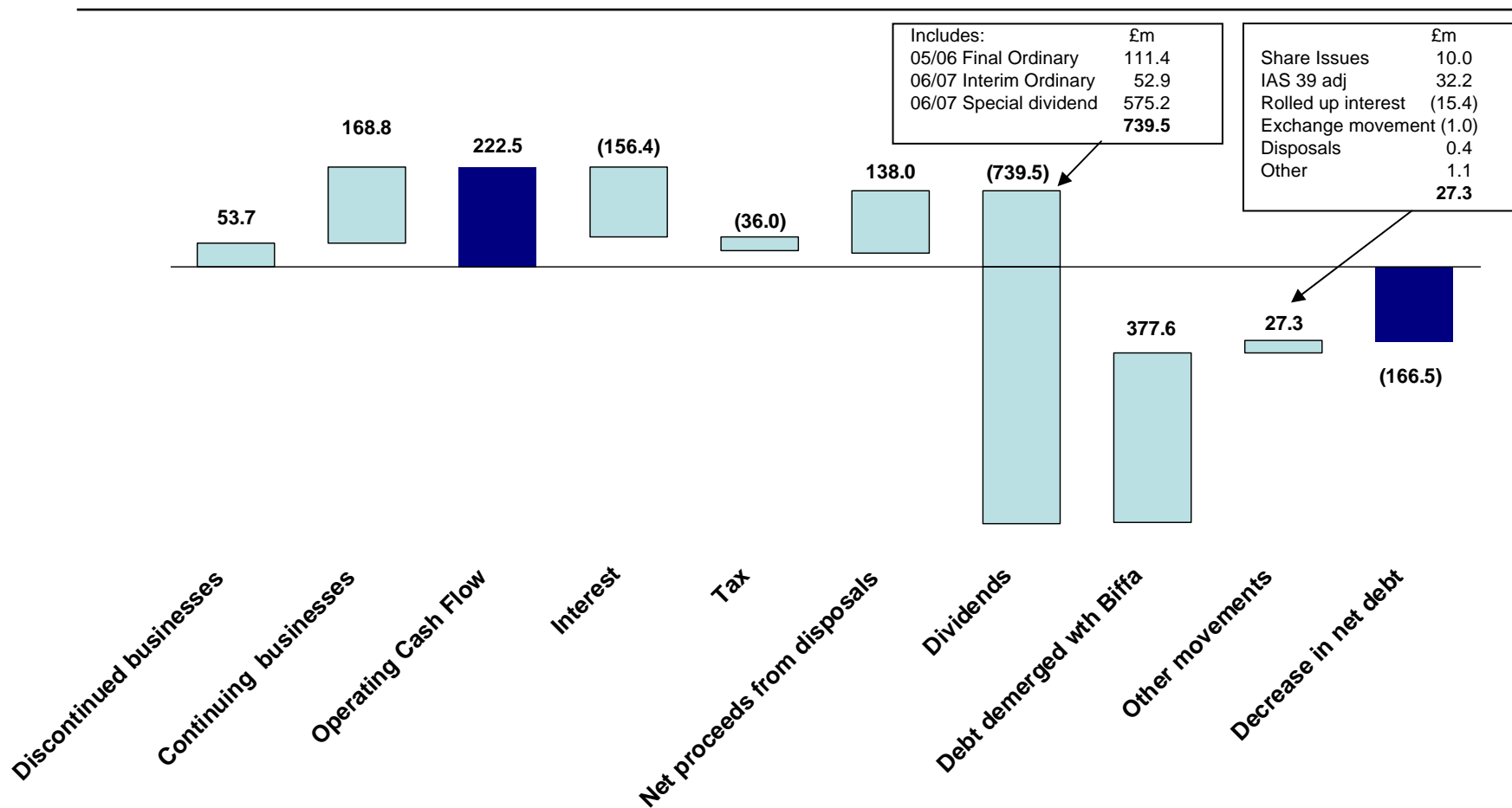
- Integration of Head Office functions well advanced
- On track to deliver £6m - £10m of recurring savings over the next 12 months

* Excluding exceptional items

Cash Flow

2006/07 operating cash flow

£m



Group finance charges and net debt

Net finance costs

£m



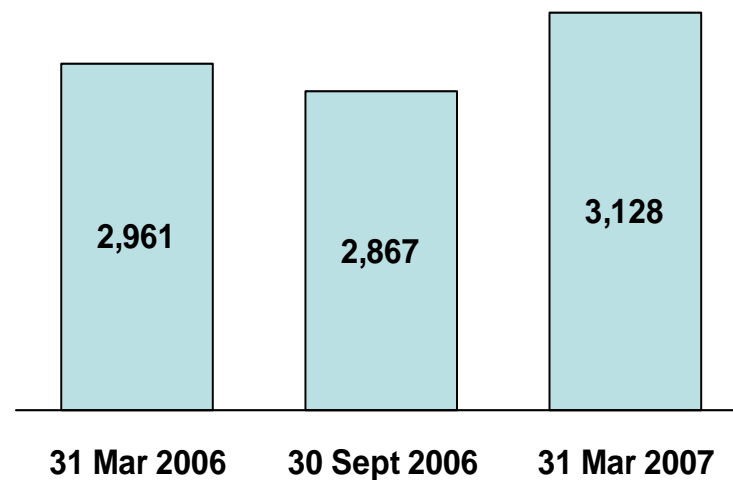
- Effective rate circa 5.8% *
- Interest cover*:
 - 4.2 times EBITDA **
 - 2.6 times PBIT

* Excluding IAS39 fair value adjustments

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

Net debt

£m

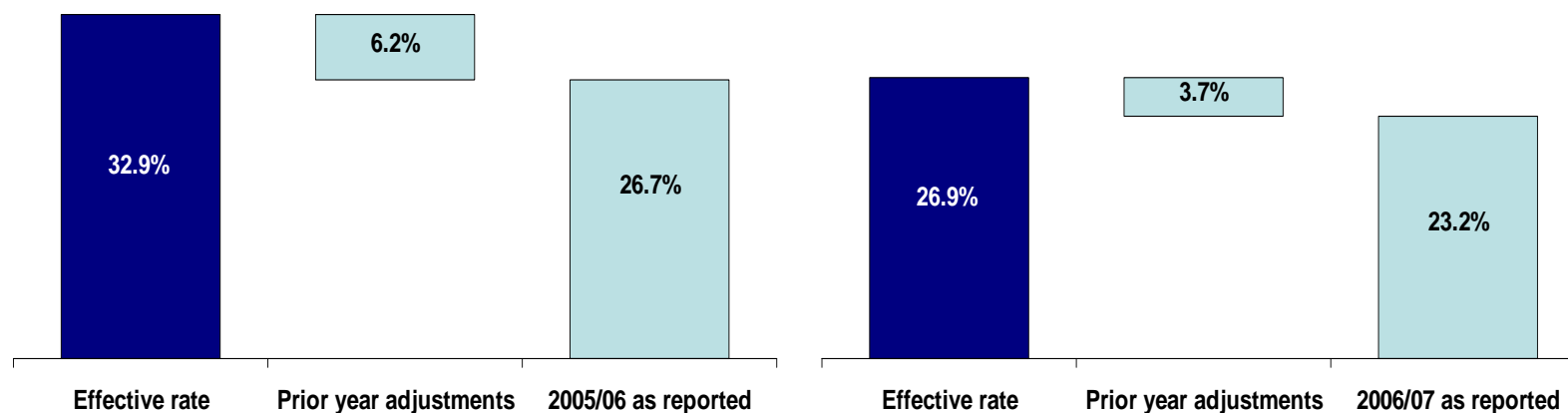


- 68% at fixed interest rates*
- Average maturity at 31 Mar 2007 14 years
- Gearing 73.3%% (net debt/ net debt & equity)
- Group net debt/RCV 56.4%
- Water net debt/RCV 56.3%

Effective rate of tax

2005/06 Effective current tax rate*%

2006/07 Effective current tax rate*%



2007/08 Severn Trent Group in range of 25%-28%

*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

- **Strategic transformation complete**

- Special dividend of £575 million paid
- Clear commitment to move to 60% gearing
- Delivering on 3% real growth in dividends

- **On track to deliver overhead cost savings of £6-10 million over the next 12 months**

- **Continued organic growth in Water Technologies and Services**
- **Solid performance in Severn Trent Water**



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Colin Matthews

Group Chief Executive

Focus on Water

- **Transformation complete**
 - **Biffa Demerger 9 October 2006**
 - **Disposal of non-core businesses**
 - **Integration of “Group” and “Water” leadership**

- **Focus on Water**
 - **Securing the basics**
 - **Radical improvement**

Higher standards



Greater efficiency

Continuous improvement

Securing the Basics

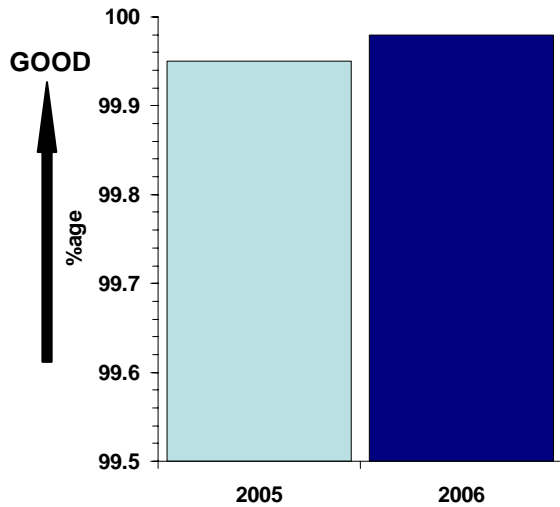
- **Progressing investigations**
- **Strengthening controls**
- **Tackling operational performance**

Strengthening Internal Control Environment

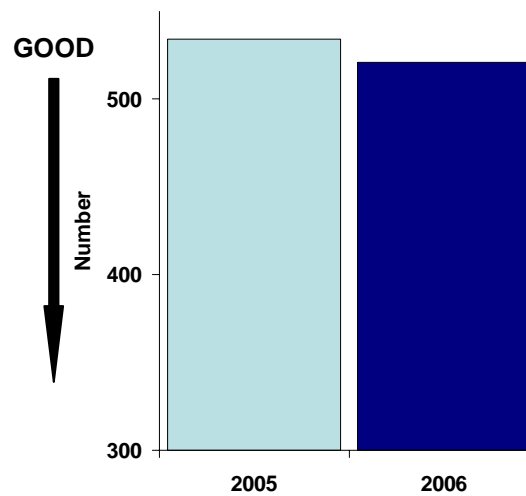
Controls	Reviewer	Improvement actions
Capitalisation	External	15
Accruals & Provisions	External	22
Income & Billing	External	35
Close the Books	External	11
Statutory & Regulatory Reporting	External	21
Procurement	External	58
Customer Relations/ Guaranteed Service Standards/ MD220 Letter	External/ Internal	25
Information Technology	External	9
Entity Level Controls Review	Internal	10
JR06 – Development of Directorate improvement log	Internal/ External	350
JR07 – Process Description Templates	Internal	1450

Good performance in some key areas...

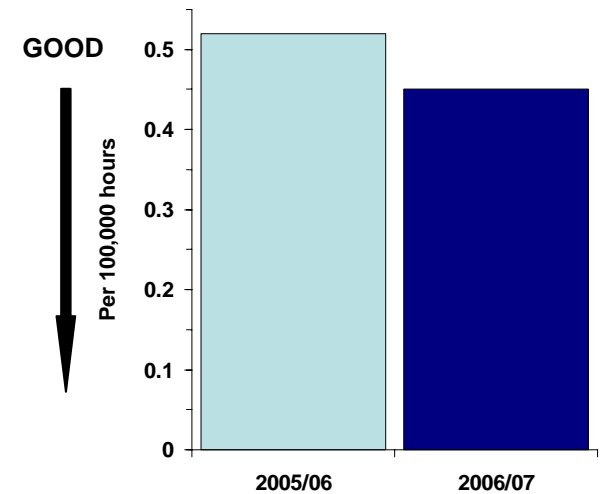
Good Water Quality
Mean zonal compliance



Pollution incidents improving
Category 1, 2 and 3



Safety improving
Reportable accidents per 100,000 hours

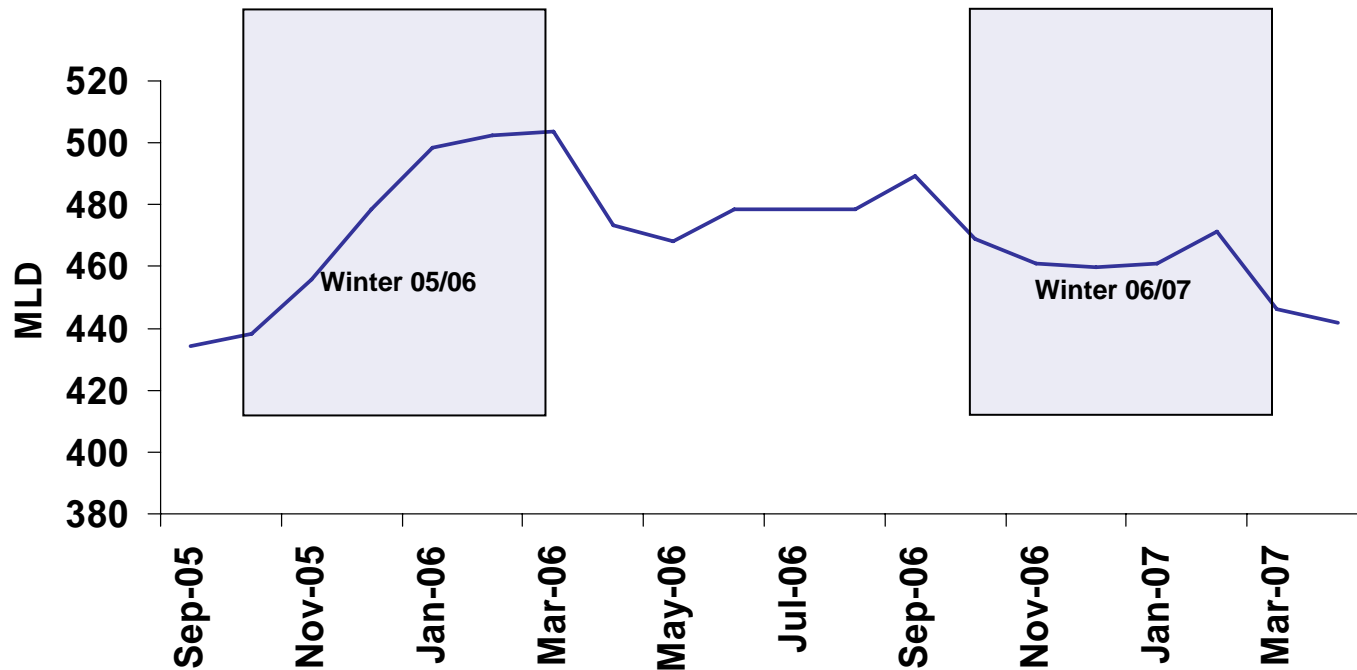


	<u>2005</u>	<u>2006</u>
Cat 1&2	15	10
Cat 3	519	511

but managing leakage has been challenging....

DMA leakage profile**

September 05 to April 07

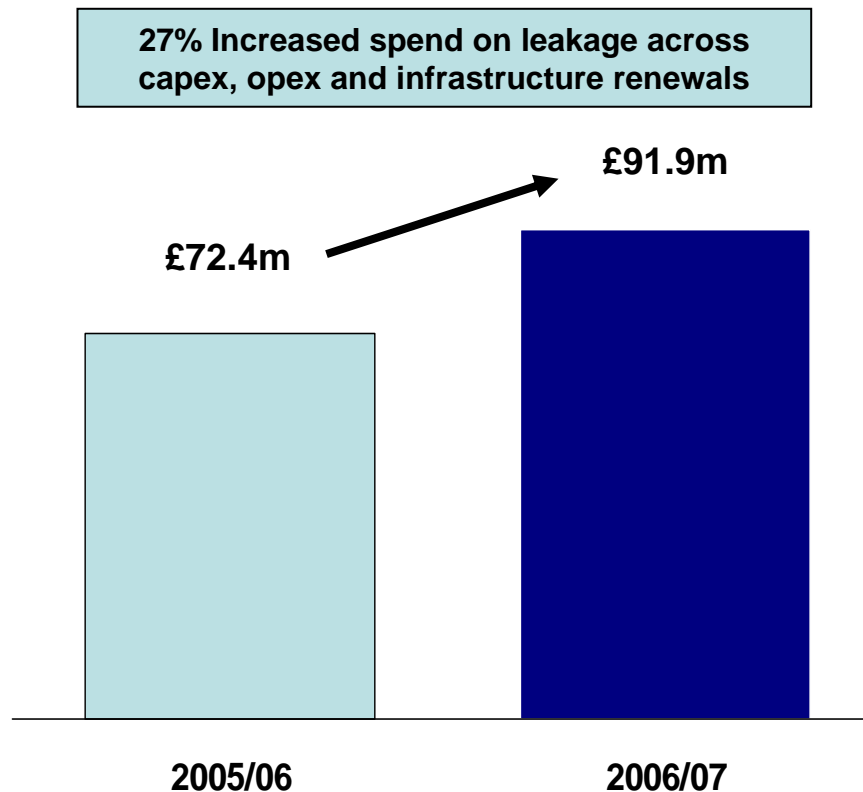


- The summer dry spell diverted resources, to maintain supply
- Increased focus and additional resource in place from October
- Leakage reduced since and the winter peak managed effectively

** Excludes hot weather weeks

and we have increased our investment in leakage management

Total expenditure
£m

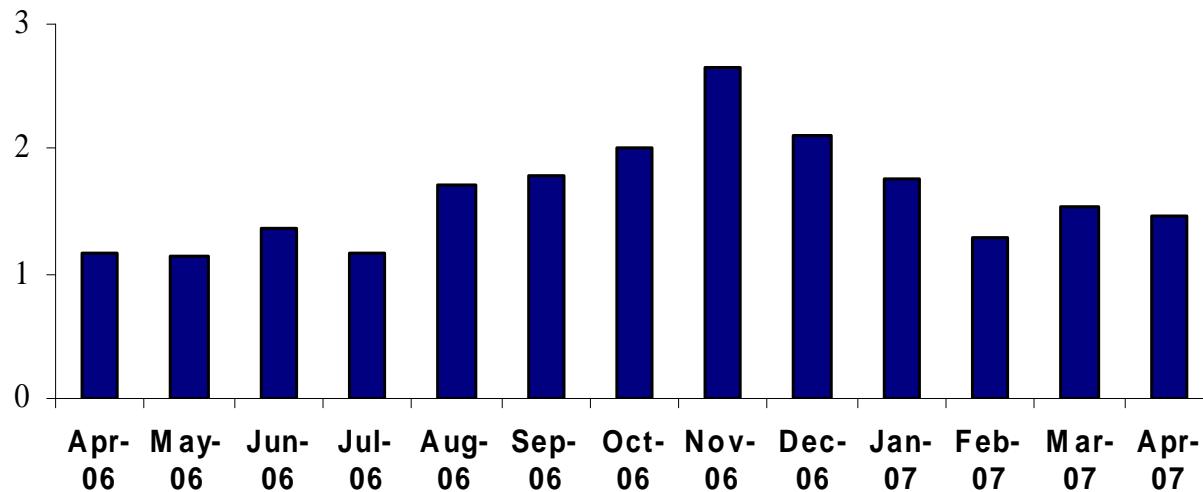


Mains renewal programme:

- At £45m, represents 49% of total spend in 2006/07, 29% greater than Ofwat Determination

and improving customer services has been demanding

Customer written complaints per 1000 properties



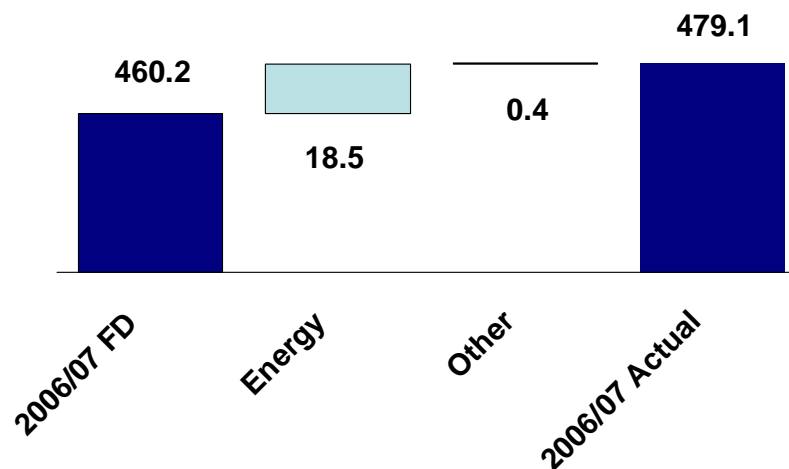
- Implementation of higher quality standards of responses to customer enquires → longer call duration → more engaged lines → more abandoned calls → increased customer written complaints.
- Increased focus and additional resource put in place
- Customer written complaints have reduced, and will continue to do so

Operational Performance

Operational costs vs. Ofwat Final Determination

2006/07 £m

UK GAAP



2007/08:

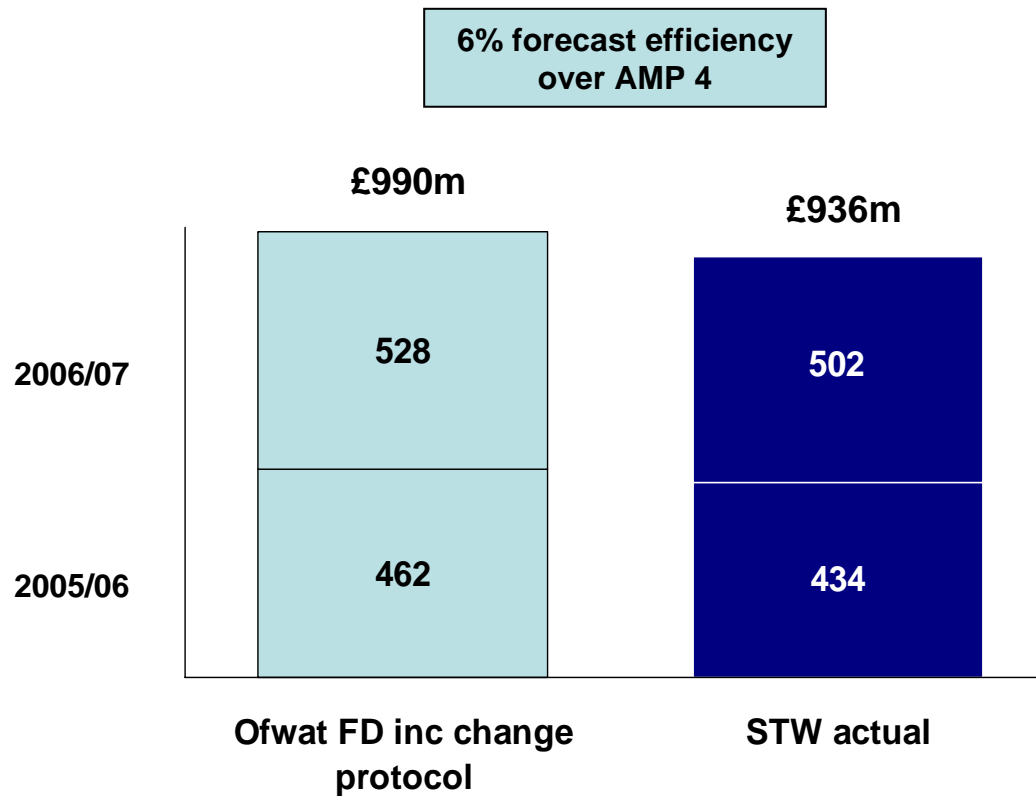
- We aim to meet the Ofwat Final Determination for 2007/08
 - Energy costs now fixed for 2007/08, £17m lower than 2006/07
 - Improvements and efficiencies £5m

We remain on track to deliver required outputs and achieve 6% capex efficiency

Outperformance subject to Ofwat agreement of change protocol

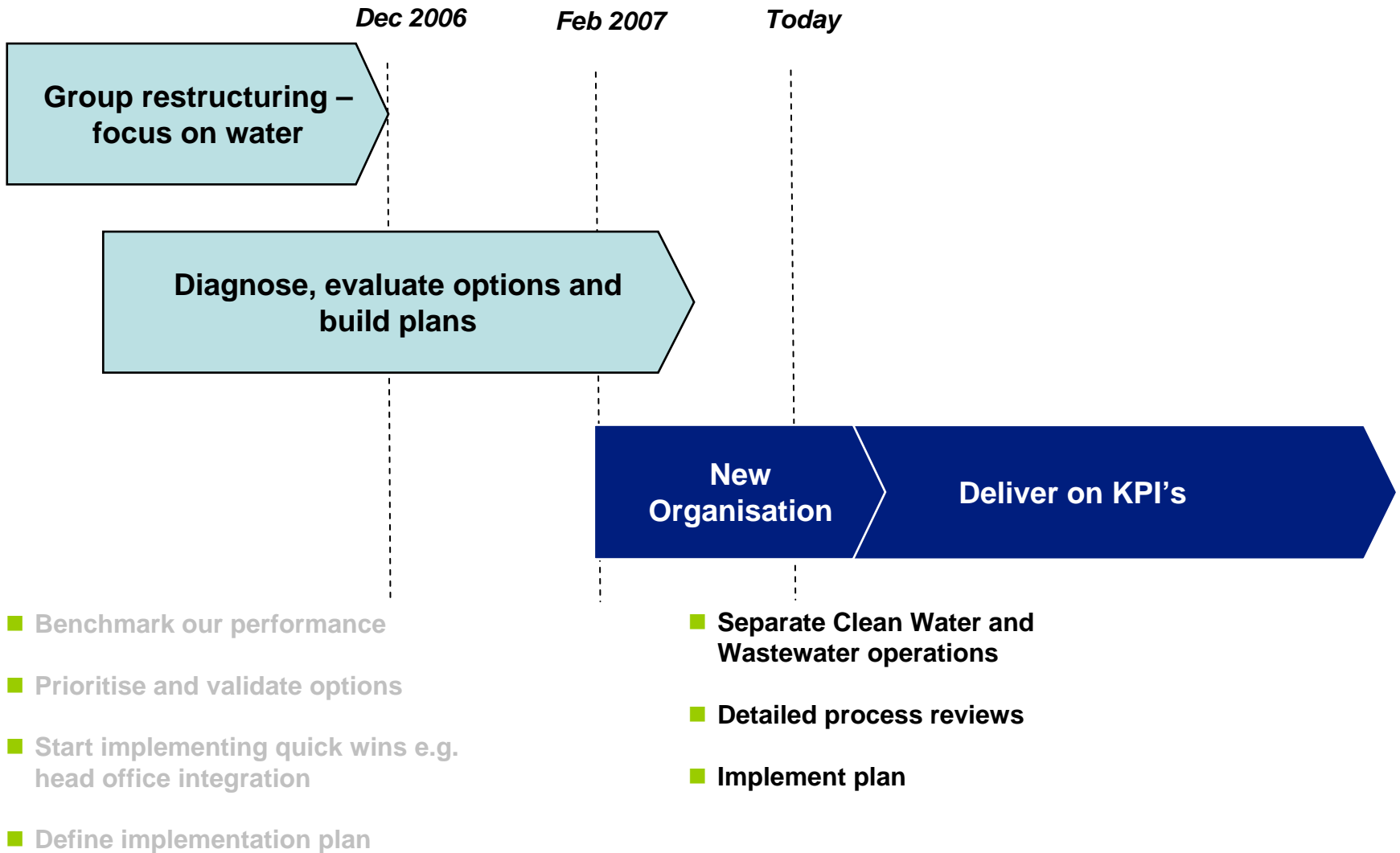
UK GAAP

CAPEX, gross* at outturn prices, £m

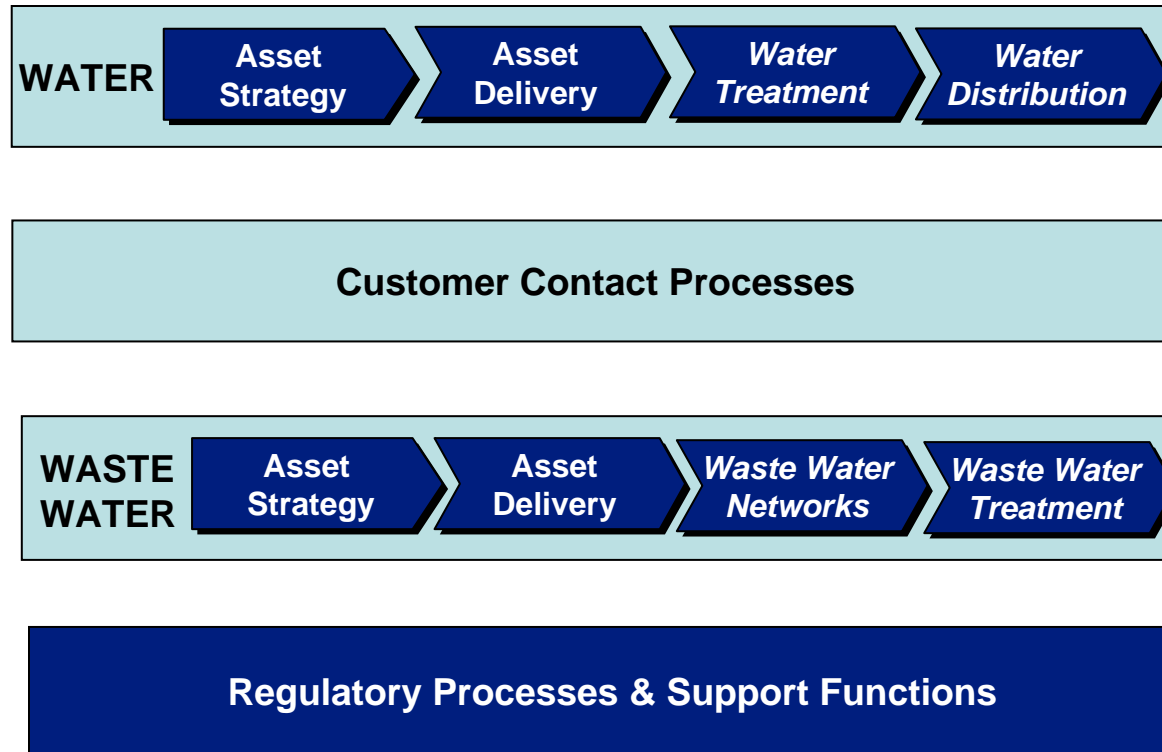


* i.e. at outturn prices before taking account of forecast grants and other income

Focus on Water



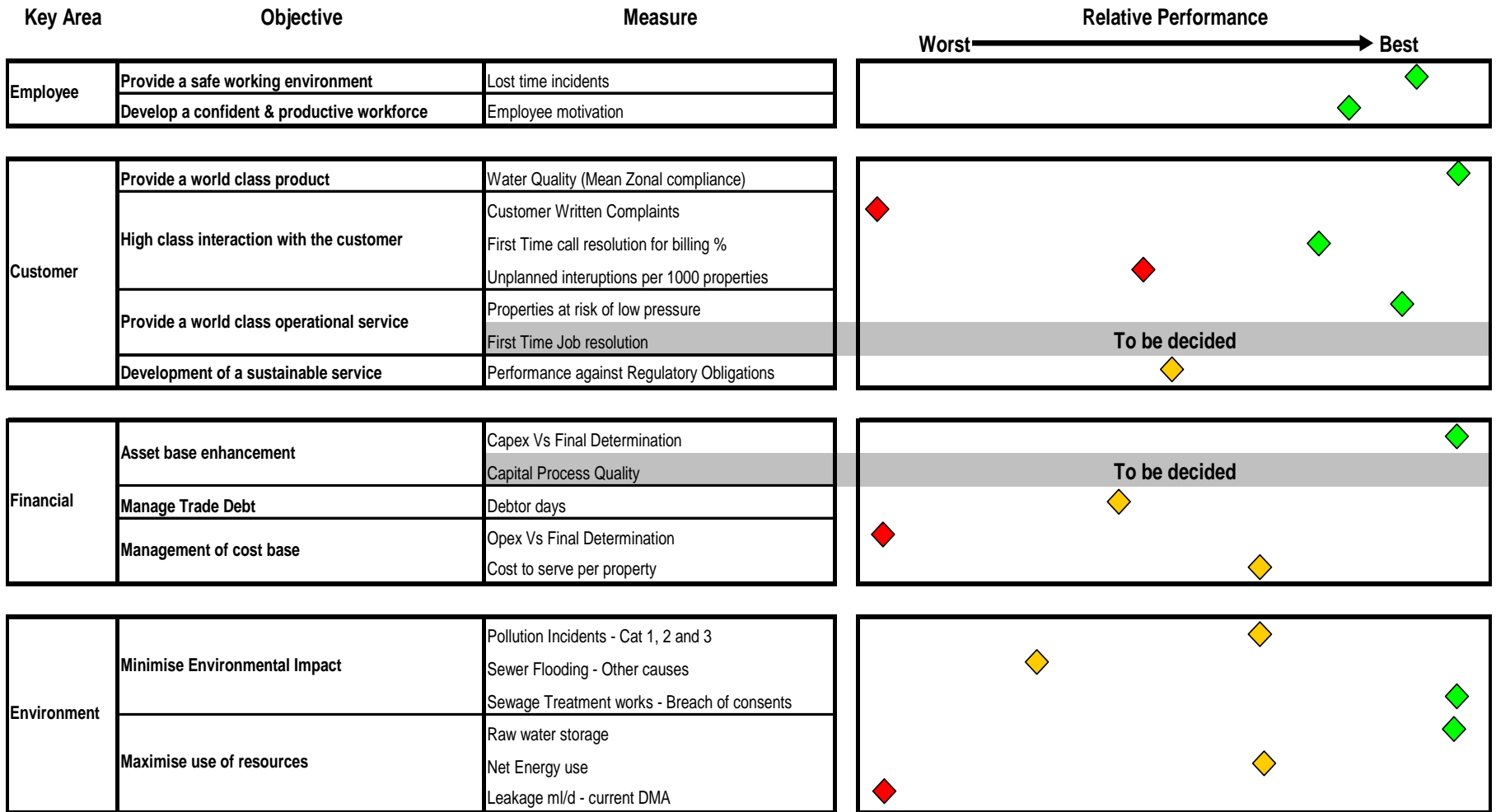
Greater efficiency through organisational alignment



New organisation drives productivity:

- Group and Water Executives Team reduced from 22 to 14
- Two boards, common membership

Driving higher standards



Severn Trent opening position at 1 April 2007:

lower quartile

median

upper quartile

Outlook for the remainder of AMP4

- Opex:
 - Meet Ofwat Final Determination for 2007/08
 - Plan to outperform by around 3% for the balance of the AMP4
 - Reduction of 130 heads in 2007/08
- Overhead costs
 - On track to deliver £6m - £10m of recurring savings over the next 12 months
- Exceptional costs
 - Restructuring costs of around £24m over balance of AMP4, around £8m in 2007/08
- Capex:
 - Remain on track to deliver 6% efficiency

Focus on water

- **Securing the basics**

- **Implementing radical improvement plan**

- **Good start to multi year programme**

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Q & A



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Appendix

Contact Details – Investor Relations

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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	MAT	4			0.50
Employee Motivation	Annual survey	3			76%
Water Quality (mean zonal compliance)%	MAA	1,9			99.98%
Customer Written Complaints per 1,000 properties	MAT	1	19.06		
First Time Call resolution for billing %	MAT	5			80%
Unplanned Interruptions per 1,000 Properties	MAT	1	6.95		
Properties at Risk of low pressure per 1,000 Properties		1,10			0.09
First Time Job Resolution		2	To be determined		
Performance against Regulatory Obligations %		5,11		26%	
Capex (Gross) vs Final Determination %	MAT	1,6			2.7%
Capital Process Quality (no defects at handover %)		2	To be determined		
Debtor Days		6,10		37.5	
Opex vs Final Determination (UK GAAP) - £m	MAT	6	479.1		
Cost to Serve per Property - £	MAT	7		226.93	
Pollution Incidents (cat 1,2 & 3) per 1,000 Properties	MAT	1,9		0.08	
Sewer Flooding Incidents - Other causes per 1,000 Properties	MAT	1		0.16	
Sewage Treatment Works - Breach of Consents %	MAT	1			0.00%
Raw Water Storage %	MAA	5,10			90%
Net Energy Use - kwh/ml	MAT	5		618	
Leakage ml/d		8	446		

Notes:

All measures are for the period to 31 March 2007, except as stated.

MAT = Moving Annual Total

MAA = Moving Annual Average

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 15 June 2007.
2. Measure and relative performance yet to be determined.
3. Performance based on annual all employee survey and quarterly survey of 10% of permanent employees.
4. Actual performance across all employees and agency staff.
5. Actual performance based on internal data.
6. Actual performance based on audited UK GAAP financial statements for the year ended 31 March 2007.
7. Actual performance based on audited UK GAAP financial statements and regulatory accounts for the year ended 31 March 2007.
8. DMA leakage performance measured monthly. Month of March 2007 DMA performance disclosed in table above. Annual measure is MLE leakage the calculation of which has not been completed as at 6 June 2007.
9. Measure for calendar year to 31 December 2006.
10. Measure as at 31 March 2007.
11. Measure for quarter ended 31 March 2007.

For a number of KPIs, we have only commenced capturing the data and measuring our performance during the current financial year and therefore corresponding amounts for the previous financial year are not available. For others, the corresponding amounts are available and these are as follows; Water Quality – 99.95%, Customer Written Complaints – 10.04, Unplanned Interruptions – 4.5, Properties at Risk of low pressure – 0.10, Capex vs. Final Determination – 6%, Debtor Days – 31.76, Opex vs. Final Determination – £446.5m, Cost to Serve per Property – £219.56, Pollution Incidents – 0.11, Sewer Flooding Incidents – 0.14, Sewage Treatment Works Breach of Consents – 0.31%.

Group income statement summary

Year ended 31 March 2007

31 Mar 2006 £m		31 Mar 2007 £m	Variance £m	Variance %
1,455.3	Turnover	1,480.2	24.9	1.7
(1,062.3)	Operating costs	(1,074.9)	(12.6)	(1.2)
393.0	Profit before exceptional items, interest and tax	405.3	12.3	3.1
(15.7)	Exceptional operating costs	24.7	40.4	257.3
377.3	Profit before interest and tax (Operating profit)	430.0	52.7	13.9
(163.9)	Net interest	(153.8)	10.1	6.2
(36.7)	Fair value movements in treasury instruments	48.8	85.5	232.9
1.1	Share of results of associates and joint ventures	0.5	(0.6)	(54.5)
177.8	Profit before tax	325.5	147.7	83.1
(61.5)	Current tax	(58.5)	3.0	4.9
7.3	Deferred tax	(18.4)	(25.7)	(352.1)
123.6	Profit after tax from continuing operations	248.6	125.0	101.1
99.4	Discontinued operations	20.0	(79.4)	(79.9)
223.0	Profit for the period *	268.6	45.6	20.4

Group Earnings

Year ended 31 March 2007

2005/06 £m		2006/07 £m			
223.0	Profit for the period	268.6			
221.6	Attributable to - Equity	267.1			
1.4	- Minority Interests	1.5			
Pence		Pence	Variance pence	Variance %	
	Basic earnings per share from continuing operations				
71.4	Adjusted basic EPS (before Biffa Plc, exceptional items, IAS 39 fair value adjustments and deferred tax)	82.4	11.0	15.4	
52.9	Basic EPS	106.1	53.2	100.6	
	Diluted earnings per share from continuing operations				
70.8	Adjusted diluted EPS (before Biffa Plc, exceptional items, IAS 39 fair value adjustments and deferred tax)	81.7	10.9	15.4	
52.4	Diluted EPS	105.1	52.7	100.6	

Group balance sheet

Year ended 31 March 2007

31 March 2006 £m		31 March 2007 £m	Movement since 31 March 2006 £m
5,743.1	Property, plant and equipment	5,521.1	(222.0)
618.7	Intangible assets	150.3	(468.4)
29.8	Other non-current assets	4.1	(25.7)
(482.5)	Working Capital/provisions	(357.9)	124.6
5,909.1	Capital employed	5,317.6	(591.5)
(48.8)	Tax creditor	(59.0)	(10.2)
(870.2)	Deferred tax provision	(891.1)	(20.9)
-	Dividends payable	-	-
(2,961.1)	Net debt	(3,127.6)	(166.5)
(130.0)	Derivative financial liabilities	(102.6)	27.4
1,899.0	Net assets	1,137.3	(761.7)
60.9%	<i>Gearing*</i>	73.3%	

* Net debt divided by net debt and equity

Movements on Severn Trent shareholders' equity

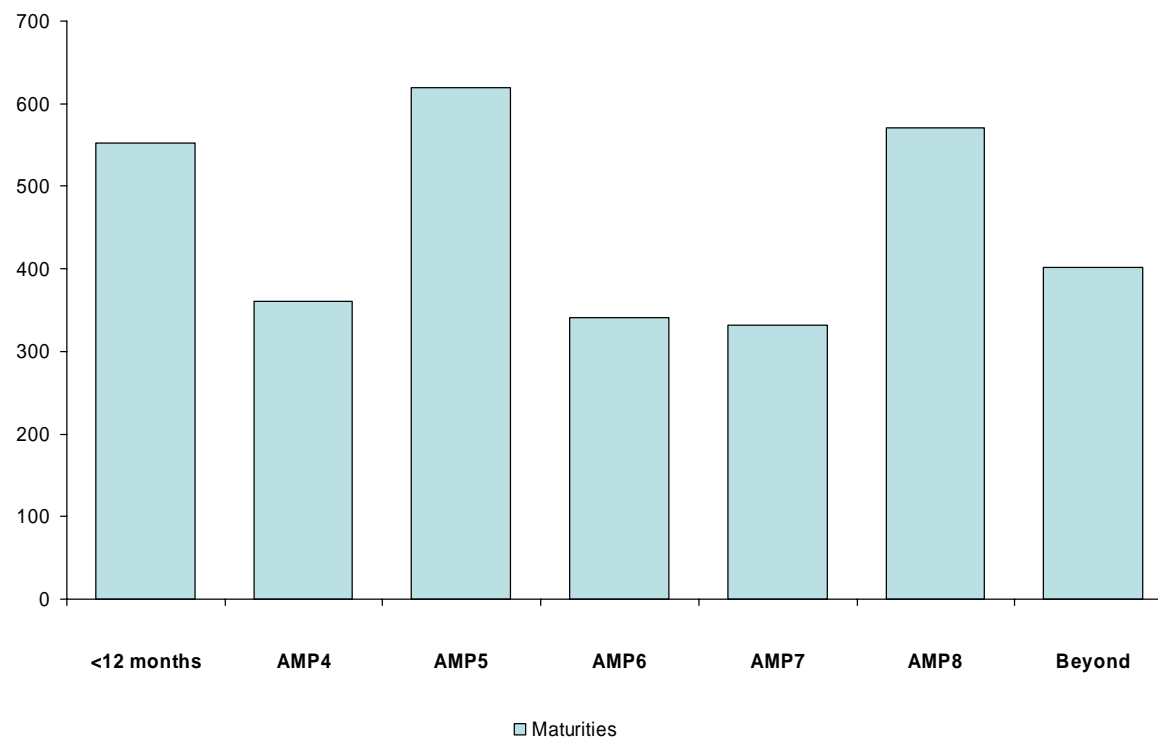
Year ended 31 March 2007

2005/06 £m		2006/07 £m
1,847.6	At 1 April as previously stated	1,896.4
(57.8)	Change of accounting policy – IAS 32 and IAS 39	-
1,789.8	At 1 April restated	1,896.4
261.4	Total recognised income for the financial period	243.7
(171.3)	Dividends	(739.5)
15.7	Shares issued (net of shares purchased for ESOP)	13.6
0.8	Deferred tax	0.6
-	Demerger of Biffa Plc	(280.6)
1,896.4	At 31 March	1,134.2

Group debt funding

Maturity Profile*

£m



Structure of current portfolio *

- 23% bonds
- 14% EIB
- 36% EMTN
- 13% Leases
- 14% other

- Of which, 17% is RPI linked debt

Recent issuance, post 31 Mar 2007:

- 2 tranches 50 year index linked debt, total £200m
- Index linked debt now 23% of total debt portfolio

* As at 31 March 2007

Credit ratings

At 31 March 2007

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 by Rating Agencies post demerger and return of capital.

Segmental analysis of capital employed

Year ended 31 March 2007

Total 31 March 2006 £m		Net operating assets 31 March 2007 £m	Goodwill 31 March 2007 £m	Total 31 March 2007 £m
5,037.6	Water and Sewerage	5,386.9	-	5,386.9
178.4	Water Technologies and Services	106.2	49.1	155.3
(79.3)	Other	(224.6)	-	(224.6)
5,136.7		5,268.5	49.1	5,317.6
645.6	Waste Management	-	-	-
126.8	US Laboratories	-	-	-
5,909.1	Group	5,268.5	49.1	5,317.6

PBITD* analysis

Year ended 31 March 2007

Total 2005/06 £m		Total 2006/07 £m
620.1	Water and sewerage	654.2
23.8	Water Technologies & Services	26.3
(24.8)	Other	(30.6)
619.1	Group**	649.9

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

** Excludes businesses classified as Discontinued.

Disposals

Year ended 31 March 2007

	Proceeds on disposal	Net surplus on disposal
	2006/07	2006/07
	£m	£m
Biffa Belgium	23.7	9.5
Aquafin	29.3	14.7
Property	31.9	5.4
US Laboratories	77.1	(2.4)
Impairment of goodwill	-	(31.5)
Total	162.0	(4.3)
Sale of properties in Severn Trent Water*	41.0	36.2

* Includes sale of property to Prologis on 7 November 2006

Exceptional items

Year ended 31 March 2007

Total 2005/06 £m		Total 2006/07 £m
(4.8)	<p>Severn Trent Water programme to restructure and realign business</p> <p>Write off of decommissioned assets</p> <p>Restructuring costs</p> <p>Redundancy program undertaken to meet AMP4 efficiency targets</p> <p>Demerger and related costs</p> <p>Settlement of pension obligations</p> <p>Other demerger costs</p> <p>Disposal of property and businesses</p> <p>Profit on disposal of properties in Severn Trent Water</p> <p>Profit on disposal of Aquafin NV</p> <p>Profit on disposal of Severn Trent Property and other property assets in Severn Trent Plc</p> <p>Loss arising in Systems relating to cessation of trading with external customers and disposal of the Worksuite and CIS operations</p>	<p>(11.9)</p> <p>(3.0)</p> <p>(7.8)</p> <p>(8.9)</p> <p>36.2</p> <p>14.7</p> <p>5.4</p>
(15.7)	Net exceptional gains on continuing operations	24.7
	<p>Impairment of goodwill relating to US Laboratories</p> <p>Loss on disposal of US Laboratories</p> <p>Profit on disposal of Biffa Belgium</p>	<p>(31.5)</p> <p>(2.4)</p> <p>9.5</p>
-	Net exceptional charges on discontinued operations	(24.4)

Water and Sewerage – income statement highlights

Year ended 31 March 2007

2005/06 £m		2006/07 £m	Change £m	Change %
	Turnover			
1,137.7	Severn Trent Water	1,206.9	69.2	6.1
15.6	Retail and Utility Services	13.7	(1.9)	(12.2)
(2.4)	Intra segment trading	(2.5)	(0.1)	(4.2)
1150.9		1,218.1	67.2	5.8
	Operating Costs			
(740.0)	Severn Trent Water*	(797.8)	(57.8)	(7.8)
(12.9)	Retail and Utility Services	(9.8)	3.1	24.0
2.4	Intra segment trading	2.5	0.1	4.2
(750.5)		(805.1)	(54.6)	(7.3)
400.4	PBIT**	413.0	12.6	3.1

* Operating costs include profit on disposal of non-current assets of £Nil (£2.5m)

** Net of other income £3.6m (£3.5m)

Severn Trent Water – turnover

Year ended 31 March 2007

	£m	%
Year to 31 March 2006	1,137.7	
RPI + K	78.4	6.9
	1,216.1	6.9
Growth		
New customers	8.7	0.7
Income initiatives	(0.7)	-
Conservation		
Metering impact	(5.6)	(0.5)
Reduced consumption	(9.2)	(0.8)
	1,209.3	6.3
Other	(6.7)	(0.6)
	1,202.6	5.7
Rebate accrual (2005/06 - £10.6m, 2006/07 - £6.3m)	4.3	0.4
Year to 31 March 2007	1,206.9	6.1

Severn Trent Water – operating costs

Year ended 31 March 2007

2005/06 £m		2006/07 £m	Variance £m	Variance %
430.4	Direct operating costs*	474.5	44.1	10.2
215.1	Depreciation**	225.2	10.1	4.7
94.5	Infrastructure renewals	98.1	3.6	3.8
740.0	Total	797.8	57.8	7.8

• Net of other income £3.6m (£3.5m) and profit on disposal of non current assets

** Net of amortisation of grants and contributions and profit on disposal of property, plant and equipment

Severn Trent Water – UK GAAP to IFRS reconciliation

Year ended 31 March 2007

Total 2006/07 £m		Total 2006/07 £m
446.7	UK GAAP Operating costs, per comparison to FD	479.1
(3.5)	Other income	(3.6)
(0.7)	Exceptional costs	(3.0)
(2.5)	Profits on disposal	
440.0	UK GAAP Operating costs*	472.5
(11.6)	Pensions	0.8
2.0	Other adjustments	1.2
430.4	IFRS Operating costs*	474.5
194.9	UK GAAP depreciation	206.9
91.2	UK GAAP infrastructure renewals charge	102.3
286.1		309.2
215.1	IFRS depreciation	225.2
94.5	IFRS infrastructure renewals expenditure	98.1
309.6		323.3
13.9	Net impact UK GAAP to IFRS	16.1

* Net of other income £3.6m (£3.5m), but excluding management charges

Severn Trent Water – direct operating costs

Year ended 31 March 2007

	2006/07 £m	% of total change
Full year ended 31 March 2006	430.4	
Inflation	16.1	3.7%
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	446.5	
Real opex increases	28.0	6.5%
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Six months ended 31 March 2007	474.5	10.3%
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* Net of other income £3.6m £(3.5m) but excluding management charges, and excluding exceptional charges

Severn Trent Water – RCV

Year ended 31 March 2007

At each price review, Ofwat sets price limits which it considers will enable companies to earn a reasonable return on capital. Ofwat bases that return on the regulatory capital value (RCV). The actual outcome for the RCV from the December 2004 determination through AMP 4 is as follows at each 31 March year end:

£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	5,889	6,136	6,412
Ofwat Actual/Projected Outturn***	5,209	5,546	5,803	5,898	6,013

* 2002/03 prices

** Including inflation assumption of 2.5% from 2007/08 to 2009/10 using year average RPI

*** Ofwat estimated outturn using year end 2006/07 RPI Source Ofwat website



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