

Sustainable growth

Shareholder summary 2011

SEVERN
TRENT

Welcome to our shareholder summary 2011. 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 how we are meeting our strategy of sustainable growth, 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



Andrew Duff,
Chairman

"At the end of my first financial year as Chairman, I'm pleased to report that we have made a good start to delivering our targets for the new AMP5 regulatory period and are realising the benefits of our efficiency improvement programmes. As expected the price reductions at the start of the five year determination have reduced profitability below prior years' levels but from this base Severn Trent Water has continued to outperform.

I am delighted to find, at Severn Trent, a strong board of executives, very capably led by Tony Wray, that is committed to operational excellence and continuous improvement. Momentum within the company is strong and we have the ambition to be recognised as a top performer in our sector. I am also grateful to the management team for the wholehearted support that they have given to me in my first year as Chairman.

We have a solid track record of financial performance and the board is proposing a final dividend of 39.05p, to be paid on 29 July 2011. This will give a total dividend of 65.09 pence per ordinary share."



Tony Wray,
Chief Executive

"Our strategy of sustainable growth through a focus on water and waste water operations in the UK and internationally, continues to deliver significant overall value. In the UK, Severn Trent Water made a good start to the new five year regulatory period, performing broadly in line with expectations. In a challenging year, I would like to pay tribute to our people, who professionally handled both difficult operational circumstances and significant internal change.

Group profit before interest, tax and exceptional items is down 7% due to expected price reductions in the first year of the AMP period for Severn Trent Water and a disappointing second half performance in Severn Trent Services, in challenging market conditions.

From the new dividend base of 65.09p we will grow the dividend by 3% above RPI each year up to 2014/15.

Underlying financial performance remains strong and we continued to outperform our regulatory targets."

2011 Severn Trent group highlights

Group turnover £m

£1,711.3m

2011

2010: £1,703.9m

Group profit* £m

£288.6m

2011

2010: £338.4m

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

Dividend pence per share

65.09p

2011

2010: 72.32p

Group profit before tax £m

£253.0m

2011

2010: £334.4m

Earnings per share* pence

105.6p

2011

2010: 122.8p

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

- Good start to AMP5 regulatory period – realising benefits of efficiency improvement programmes and planned outputs delivered
- Severn Trent Water opex below level allowed in Final Determination
- Self-generated renewables now supplying 22% of Severn Trent Water's power requirements
- Real price reduction in first year of new AMP has rebased underlying profitability
- Full year dividend 65.09 pence per share. Dividend for 2011/12 to grow by 7.7%* to 70.10p
- On track to deliver further efficiencies – ambition remains to outperform over AMP5

* November 2010 RPI of 4.7%, + 3%

Severn Trent Water

Performance summary

Severn Trent Water provides high quality water and sewerage services to over 3.2 million households and businesses in the Midlands and mid-Wales.

Key strengths

- We are committed to the long term sustainable stewardship of the business, the environment, customers and the communities in which we live and work.
- Our efficiencies and high standards help us keep our costs low and generate progressive, sustainable returns for our shareholders.
- We continually work to improve our performance and deliver cost and operational efficiencies against 18 Key Performance Indicators (KPIs), each of which is aligned to our long term strategy.
- Our bills for water and sewerage combined are the lowest on average in England and Wales.
- We have one of the lowest reported per capita consumption rates in the UK.
- We have a strong management team, a clear business plan and we launched our long term plans in our 25 year Strategic Direction Statement in 2007.

9%

increase in our production of renewable energy

82p

Average customer pays just 82 pence per day

Our industry

The water industry in England and Wales invests more than £3 billion a year and employs over 27,000 people. There are currently 10 water and sewerage companies in England and Wales.

Our sector is facing significant long term challenges. The privatisation of the industry just over 20 years ago led to improvements in services to customers, better quality drinking water and higher environmental standards. It also attracted new investment. Those successes, however, have also had consequences, such as high levels of debt, rising prices for customers and increased carbon emissions. Our proposals for changes in our industry are helping us to play a role in shaping the debate.

Our business

Severn Trent Water is a regulated business. We work within five year price cycles, with the prices we charge our customers set at the beginning of each cycle by our economic regulator, Ofwat. These five year cycles are known as Asset Management Plan (AMP) periods. We have just reached the end of the first year of AMP5.

Our performance

Every June, all water companies submit a detailed annual breakdown of their performance, known as the June Return, to Ofwat. Ofwat uses this information to monitor and compare companies' performance.

As well as being regulated by Ofwat, our performance is monitored by:

- the Drinking Water Inspectorate (DWI), which is responsible for making sure we comply with drinking water quality regulations.
- the Environment Agency, which controls water abstraction, river pollution and flooding.

We also work with the government (including the Department for Environment, Food and Rural Affairs (DEFRA) and the Welsh Assembly government) and other agencies such as the Consumer Council for Water (CCWater) and Natural England to make sure we meet the highest customer service and environmental standards, while offering our customers the lowest prices.

Our vision for the future

Our 25 year Strategic Direction Statement sets out the long term direction and development of our Group for the years 2010–35. You can find the full report on our website: www.stwater.co.uk/sds

Drinking water supplied per day

1.8bn litres

Waste water collected per day

1.4bn litres

Employees

5,128

As at 31 March 2011

Turnover £m

2010/11 (up 0.3%)

2011	1,389.8
2010	1,385.3

Severn Trent Water

Profit* 2010/11

£503.7m

(down 6.9%)

* before exceptional items, interest and tax

Severn Trent Services

Performance summary

Severn Trent Services is one of the world's leading suppliers of water and waste water treatment solutions.

We are known for continual innovation, reliability, quality services, and leadership in our chosen markets.

Key strengths

- Our business has a clear strategy for growth, which focuses on the growing global demand for clean water and safe, efficient waste water treatment.
- We are known for our quality, reliability and stability.
- We provide operating services to an increasing number of utilities, municipalities and commercial customers in targeted countries.
- We are a leader in high growth technology markets such as disinfection, filtration, adsorption and marine/offshore waste water treatments.
- We have a track record of growth and efficient operations.

Our industry

The market for water and waste water products and services is large with substantial prospects for growth in the areas we serve. That is because the drivers of the water and waste water business – water scarcity, population growth, climate change and more stringent regulatory requirements – remain strong.

Our business

Severn Trent Services provides water and waste water treatment and operating services to utilities, municipalities and commercial customers around the world.

We focus on the high growth markets and geographies where our broad line of products and services meet the significant needs of our customers.

We have three principal business streams:

- **Operating Services** provides contract operating services to manage and maintain water and waste water plants and networks in selected countries worldwide. We are a leading provider in the United States and United Kingdom, one of the few integrated water operators in Italy and are building a strong presence in Ireland.
- **Water Purification (Products)** is one of the leading global providers of advanced technologies and integrated solutions for water and waste water disinfection, filtration, adsorption and marine/offshore waste water treatment.
- **Analytical Services** is a leader in UK environmental water testing services.

Our performance

We measure our performance against our Key Strategic Initiatives.

Where we operate

Our activities are focused in four regions – the Americas, Europe, Middle East and North Africa (MENA) and Asia Pacific. Operating Services operates in the US, UK, Ireland and Italy. Water Purification operates in all four regions and Analytical Services operates in the UK.

90%

of employees feel we meet the needs of our customers

Number of countries with operating entity

11

Employees

3,056

As at 31 March 2011

Turnover £m

2010/11 (down 0.1%)

2011	336.1
2010	336.5

Severn Trent Services

Profit* 2010/11

£25.7m

(down 10.5%)

* before exceptional items, interest and tax

Looking forward

Since privatisation our industry has experienced two decades of improvement. But the world today is a very different place and if we are to meet our vision of creating a sustainable water industry, we need some changes. We are playing an active role in shaping the future of the water industry in the UK.

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; this 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.

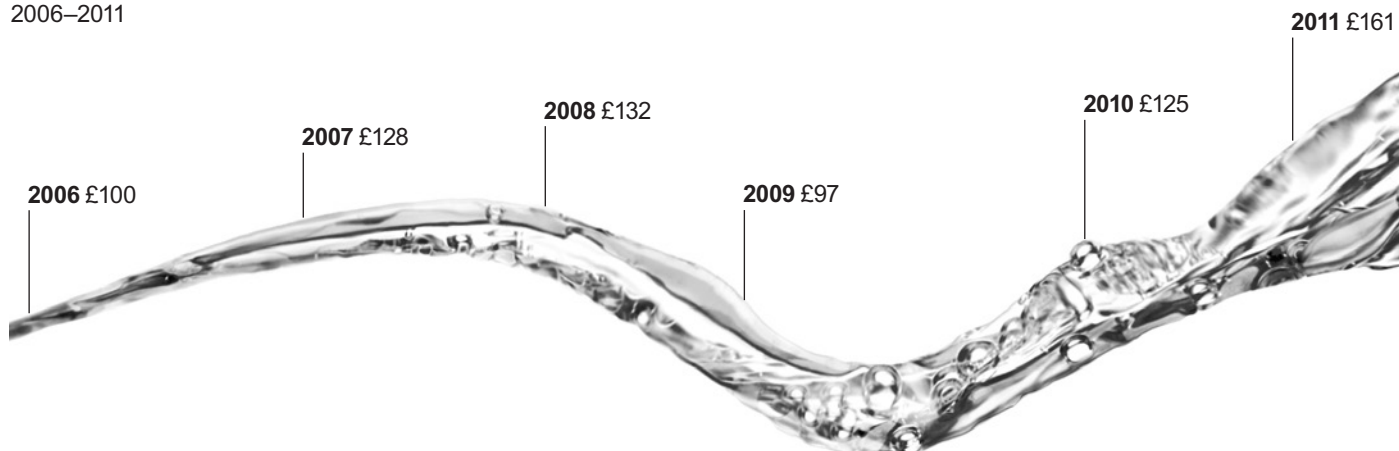


A digital version of the Changing Course report is available at www.stwater.co.uk



Information for shareholders

Total shareholder return 2006–2011



Dividend information

The directors are recommending a final dividend of 39.05p per ordinary share, for the 2010/11 financial year.

If approved by shareholders at the company's AGM, the dividend will be paid on 29 July 2011 to shareholders on the register of members on 24 June 2011.

Together with the interim dividend of 26.04p per ordinary share, paid on 14 January 2011, this will bring the total dividend, for 2010/11, to 65.09p 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 Wednesday 20 July 2011. 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 be 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 providers' costs may vary.