

Severn Trent Services

Our Severn Trent Services business is one of the world’s leading suppliers of water and waste water treatment solutions. We operate at the forefront of new water technology, are known around the world for our quality, reliability and stability and enjoy a strong position in our chosen markets.

We have three principal business groups

Our three principal business groups are Water Purification, Operating Services and Analytical Services. Water Purification is a leader in developing advanced technologies and products focused on water and waste water disinfection, filtration, arsenic removal and marine/offshore waste water treatment. Operating Services is a leader in managing and maintaining water and waste water treatment plants and networks around the world. Analytical Services is a leader in UK environmental water testing services.

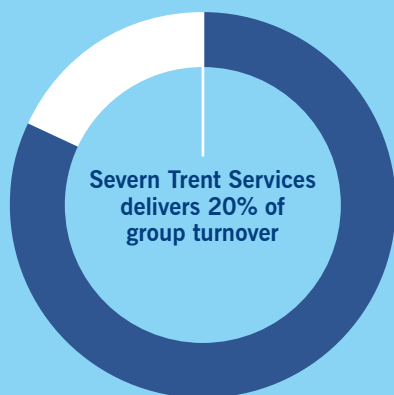
We have a clear strategy for growth

We are implementing a strategy for growth, building on our brand recognition and reputation, our strong market presence, our global scale and financial position and our advanced technologies.

To achieve our growth objectives we are focusing on four key strategic initiatives. First, to continue the geographic expansion of our products and services. Second, to expand the scope of our operating services in both our home countries and other international markets. Third, to enhance products and operations to improve our effectiveness and efficiency. And fourth, we aim to continue to develop new technologies that are at the forefront of water and waste water treatment solutions.

Turnover in Severn Trent Services was £339.3m in 2008/09, up 8.4% on 2007/08. Profit before interest, tax and exceptional items was £30.5 million, up 14.7%. Profit before interest and tax for our three principal business groups was up 17.4%. Turnover for these businesses was up 0.5% to £319.0 million.

On 13 May 2009, consistent with our strategic aim of geographic expansion of our products and services into selected markets, we completed the acquisition of PS Apliclor S.A., a small assembly and distribution business in Spain.



2009	£339.3m
2008	£313.0m

Turnover up 8.4%

Business highlights

Profit*
£30.5m (2008: £26.6m)

* before interest, tax and exceptional items

Profit for our three principal business groups
+17.4%*

* before interest, tax and exceptional items and at constant exchange rates



Len Graziano

President and
Chief Executive Officer

In 2008/09 we pursued our growth strategy, reorganised our structure to support our strategy and performed well across all three of our principal business groups.

The global market for water and waste water is substantial and growing at around 4% per year. Although growth has slowed since last year in the face of the global economic downturn, the fundamental drivers; water scarcity, higher regulatory requirements, population growth and climate change remain strong.

Within this global growth business, we focus on the higher growth and higher margin market segments and geographies where our particular products and services meet a significant need.

Focusing on our four key strategic initiatives

Continuing the geographic expansion of our products and services

We have been increasing our local presence in key areas around the world in order to reduce costs, improve service and maintain quality for our customers. In China, for example, we converted our sales office into a registered foreign invested commercial enterprise able to handle sales, purchasing, marketing and product assembly. The new branch has already bid for and won its first filtration order and we have also been sourcing some of our components in China via this branch.

Established in 2007/08, our branch in Abu Dhabi has exceeded our expected turnover this year and has also been organising local sourcing and assembly. We have, for example, built a number of reverse osmosis units in Abu Dhabi for the Middle East market.

Expanding the scope of our operating services around the world

We have focused on expanding into new geographic territories, through a dedicated International Operating Services team which is currently involved in a number of project proposals.

We have also focused on expanding the scope of our work into design, build and operate contracts and have won awards in both Italy and the UK this year.

Enhancing products and operations to improve our effectiveness and efficiency

We continue to improve the effectiveness and efficiency of our products. This year our product development group carried out extensive technology roadmapping for all our disinfection and filtration product groups. This has allowed us to focus where we have technology gaps and how best to fill them and also which of our existing technologies need enhancing to meet future needs.

For example we have developed and patented TETRAFlex®. An enhancement to our TETRA® brand of filtration products, TETRAFlex® allows more flow to go through filters during peak periods. We have also developed TETRAFlumeFlow®, a new low pressure underdrain block which reduces the cost of installation and enhances the existing technology.

Developing new technologies at the forefront of water and waste water solutions

We have, for example, taken BALPURE®, our patented system of ballast water treatment within ocean going vessels, from new design to shipboard piloting and independent laboratory testing. With the International Maritime Organisation (IMO) regulation driving ballast water treatment coming into effect in January 2010, we believe that BALPURE® has an exciting future.

We also introduced VEGA™, a new gas chlorinator vent exhaust arrestor. Launched in October 2008, this disposable non-hazardous way of keeping chlorine out of contained buildings has been well received by the market.

Reorganising our structure to support our strategy

In order to support our growth strategy as effectively as possible, we reviewed and reorganised our structure around four major regions: the Americas, Europe, Middle East and North Africa and Asia Pacific. This will allow us to get closer to our customers and develop better solutions for them more quickly and cost effectively.

In line with last year's centralisation of product development, this year we also consolidated our products group into one in order to better serve our customers and our markets, streamline our procedures and decision making and in turn be more efficient and effective.

Performing well across our three principal businesses

Water Purification

Our Water Purification business had a strong year, with turnover up 15%.

We continued to focus on advanced water and waste water treatment technologies, building on our strong market positions in areas such as denitrification, arsenic removal and alternative disinfection technologies.

In our seawater electrochlorination business, we won our first order for marine waste treatment technology, from South Korea. We improved the technology this year, ahead of new regulatory requirements due in 2010 and have received third party certification.

We also received a multi-million dollar order for onsite hypochlorite generation at multiple sites in Abu Dhabi. This is the first application of the technology to disinfect waste water effluent in the region.

In our filtration business, we won a US\$12 million order for the Miami Dade Water and Sewer Department in Florida, US, to provide deep bed filtration technology as part of a high level disinfection project designed to enable the Department to meet the rising demand for sustainable water resources in the face of an increasing population.



Historic water treatment facility opens in Ho Chi Minh City

Facing chronic water shortages, residents in Ho Chi Minh City, Vietnam, had been using water transported in barges from a nearby district until the opening of its first water treatment facility for processing salt water into clean drinking water on 8 August 2008. Using Severn Trent Services' UAT™ Series BW brackish water reverse osmosis

membrane filtration system which serves the drinking water needs of 66,000 district residents, the facility supplies more than 1.3 million gallons (5 megalitres) of potable water per day. Its capacity is scheduled to nearly double within about one year. The historic project increases the availability and affordability of drinking water in a region where potable water is scarce.



For more detail the full case study can be viewed at:
www.severntrentservices.com

Building on our success in arsenic removal, we are expanding our technology into inorganic treatment. In Florida for example, we won an order to remove iron and manganese.

MicroDynamics®, our patented microwave ultraviolet (UV) technology, was piloted and then selected for the Kent County regional water treatment facility in Delaware, US. The UV system will replace chlorine at the site, thereby reducing chemical use and simplifying regulatory compliance. The system's flexibility was another attraction, it can be turned on and off in line with the site's peaks and troughs in demand. MicroDynamics® has also been selected for a pilot in a Chicago facility and other proposals are in the pipeline. Our product development team has been working on enhancing the system and we plan to introduce a new version of the technology in 2009/10.

In Ho Chi Minh City, Vietnam, their first water treatment facility for processing salt water into clean drinking water is using our reverse osmosis membrane filtration system (ROMFS). It will help reduce water shortages in the city's Tan Gio district.

Operating Services

Turnover at our Operating Services business increased 6%.

We performed very well in the US, where we are one of the top tier suppliers with nearly 400 service contracts and a renewal rate of 96%. We won a three year contract to operate and manage a waste water treatment plant in the city of Danville, Virginia building on last year's contract win in Virginia, which was at the time a new territory for us. We were also successful in renewing a contract for Jackson Mississippi, valued at US\$7 million per year for five years.

In the UK, we continued the excellent performance of our Coast to Coast Water (C2C) joint venture. C2C serves some 1,500 UK Ministry of Defence sites in a 25 year £1 billion Private Finance Initiative contract that began in 2005.

In addition, a large UK dairy has given board approval to Severn Trent Services for two design, build and operate opportunities due to commence in 2009.

We were one of the first businesses to be awarded a water supply licence by Ofwat. This year we have been working with a number of large commercial customers and will be signing the first water supply contract in 2009/10. This will ensure we are positioned at the forefront of competition as the market evolves.

We also had a very good year in Italy, where we are one of the few integrated water operators. We won a number of new contracts, including a 20 year £55 million design, build and operate contract for a waste treatment plant.

Building on our strengths in the US, UK and Italy, we are also focusing on expanding Operating Services in other countries. This year we bid and are in the final positions for a number of contracts in Ireland and the Middle East.

Analytical Services

Turnover in Analytical Services was £32.4 million, with good performance in the utility sector despite less demand in the

commercial sector. In the financial year, we restructured the business to reduce costs and improve efficiency.

During the year we won a 10 year contract with Yorkshire Water and a three year contract with South Staffordshire Water for analytical services. We also won a prestigious award from the Institution of Water Officers (IWO) for a new analytical method of investigating pesticides in drinking water.

In November 2008, we acquired a small technology company called Cybersense. As a result we can now offer our clients an enhanced service combining the speed of onsite sophisticated analysis tools with the quality and reliability of our laboratory testing.

Living up to our corporate responsibilities

We are committed to doing business in a responsible manner throughout Severn Trent Services.

We have maintained our focus on improving health and safety in all areas of our business. In 2008/09, we succeeded in reducing the number of lost time incidents per 100,000 hours worked by 28%.

Severn Trent Services also achieved an 11% reduction in RIDDOR incidents.

Our laboratories business is in the final phase of achieving Occupational Health And Safety OHSAS 18001 certification. All our other UK and Italian operating services businesses now have this accreditation. Our UK meter installation unit Integra won a silver award from the Royal Society for the Prevention of Accidents.

In Operating Services, our C2C joint venture started an apprenticeship programme and achieved Investors in People accreditation.

In 2007/08, we commissioned an independent business wide employee engagement survey. During 2008/09, we focused on sharing the results of this survey with all employees and developing actions for improvement. In 2009/10, we will carry out another survey to measure the results of our actions.

We maintained our focus on reducing energy consumption. In the US for example, we are producing Site Energy Management Plans for the larger plants we operate. To date, we have produced five plans and they have all led to reductions in energy use and, in turn, costs.

Looking ahead

We will continue to focus on implementing our growth strategy. Building on the successes of this first year of implementation, we will maintain our focus on our four key strategic initiatives, continue to improve cost control and efficiency in all our businesses and look to make the most of opportunities to improve and extend our technologies and solutions for our customers around the world.

Len Graziano

President and Chief Executive Officer
Severn Trent Services