

Board of Directors



Tony Ballance
BSc (Hons) MA (Econ)
PhD (44)
E

Tony joined the board on 2 October 2007. He joined Severn Trent Water as Director of Regulation and Competition in August 2005. Prior to that he was an economic consultant in the utilities sector, working as a Director for Stone and Webster consultants and London Economics. He was formerly Chief Economist, Office of Water Services (Ofwat).



Bernard Bulkin*
BS PhD FRSC FRSA FIE (67)
A C N R

Bernard joined the board on 1 January 2006. He is Chairman of AEA Technology Plc, Chairman of Swedish company Chemrec AB and a non-executive director of Accelergy Corporation in California. He is also a Venture Partner at Vantage Point, an international venture capital firm and a Commissioner on the UK Sustainable Development Commission. In 2003 he retired as Chief Scientist at BP Plc, where he had worked for 18 years.



Richard Davey*
BA (60)
A N R

Richard joined the board as senior independent non-executive director on 1 January 2006. He is non-executive Chairman of London Capital Holdings Plc and a non-executive director of Yorkshire Building Society and Amlin Plc. He also served as a non-executive director of Freeserve Plc from 1999 to 2001 and of Scottish Widows Fund and Life Assurance Society from 1996 to 2000. The majority of his executive career was spent in investment banking at N M Rothschild & Sons where he served in various roles including Head of Investment Banking. Prior to that, he worked at various organisations including Merrill Lynch International Limited and Exco International Plc.



Martin Lamb*
BSc MBA (49)
N

Martin joined the board on 29 February 2008. He has enjoyed a long career with IMI plc, an international engineering business headquartered in Birmingham, joining as a graduate engineer in 1985, appointed to its board in 1996, and becoming Chief Executive in January 2001. He has extensive experience of managing and developing large engineering businesses in all parts of the world. His strong commercial acumen, experience of managing complex projects, and familiarity with current market pressures as a serving Chief Executive leave him well placed to add value to the Severn Trent business. He holds a degree in Mechanical Engineering from Imperial College London and an MBA from Cranfield Business School. He is a former non-executive director of Spectris plc where he chaired the Remuneration Committee.



Michael McKeon
MA CA (52)
E

Michael joined the board on 13 December 2005 as Finance Director. Prior to that, he was Group Finance Director of the buildings materials group Novar Plc. He worked for Rolls Royce Plc from 1997 to 2000 in various senior roles including Finance Director of the Aerospace Group. He has extensive international business experience, having worked overseas for CarnaudMetalbox, Elf Atochem and Price Waterhouse. Michael is a Chartered Accountant and a Member of the Institute of Chartered Accountants of Scotland. He was appointed a non-executive director of The Merchants Trust Plc, with effect from 1 May 2008.



Baroness Noakes*
DBE LLB FCA (59)
A N

Sheila Noakes joined the board on 29 February 2008. She is the Senior Independent Director of Carpetright Plc and a director of the Reuters Founder Share Company. Sheila has also been a non-executive director of ICI Plc and Hanson Plc, and a member of the Court of the Bank of England. She is a Fellow of the Institute of Chartered Accountants in England and Wales and spent most of her career in KPMG where she was a senior partner until 2000.

Board committees

Audit Committee

Baroness Noakes (C)*
Dr Bernard Bulkin*
Richard Davey*
Kerry Porritt (S)

Corporate Responsibility Committee

Dr Bernard Bulkin (C)*
Sir John Egan*
Gordon Fryett*
Tony Wray
Kerry Porritt (S)

Remuneration Committee

Richard Davey (C)*
Dr Bernard Bulkin*
Sir John Egan*
Fiona Smith (S)

Nominations Committee

Sir John Egan (C)*
Dr Bernard Bulkin*
Richard Davey*
Gordon Fryett*
Martin Lamb*
Baroness Noakes*
Tony Wray
Fiona Smith (S)

Management committee

Executive Committee

Tony Wray (C)
Tony Ballance
Nick Burraston
Peter Gavan
Len Graziano
Myron Hrycyk
Martin Kane

Senior independent non-executive director

Richard Davey*

Alec Luhaste
Richard Martin
Michael McKeon
Alec Richmond
Andy Smith
Fiona Smith
Kerry Porritt (S)

General Counsel and Company Secretary

Fiona Smith

(C) – Chairman (S) – Secretary * Non-executive director



Sir John Egan*

MSc (Econ) BSc (69)

(C) (N) (R)

Sir John joined the board on 1 October 2004 and became Chairman on 1 January 2005. He is a director of Warwick Castle Park Trust Limited and Borwick Group Limited and a non-executive director of Governance for Owners Group LLP. He was previously Chairman of Inchcape plc and Harrison Lovegrove & Co Limited. Sir John worked in the motor industry until 1990 at General Motors, Massey Ferguson and British Leyland, rising to become Chairman and Chief Executive of Jaguar plc. He was Chief Executive of BAA plc from 1990 to 1999 and Chairman of MEPC from 1998 to 2000. He was also President of the Confederation of British Industry from 2002 to 2004. Sir John was knighted in the Queen's Birthday Honours List in 1986. He is a deputy lieutenant of the County of Warwickshire and since September 2007, Chancellor of Coventry University.



Gordon Fryett*

(55)

(C) (N)

Gordon has been appointed to the board with effect from 1 July 2009. Gordon has been Property Director at Tesco since March 2006. He has spent most of his career in Retail Operations as well as in a range of corporate functions. Prior to his appointment as Property Director, he was CEO of Tesco Ireland from 2001 to 2006 and before that he was Director of International Support from 1997 to 2001 where he co-ordinated the development of Tesco businesses in Central Europe and Asia. He is an Alumnus of INSEAD.



Martin Kane

BSc CEng CEnv MICE
MIWEM FIWO (56)

(E)

Martin joined the board on 2 October 2007. He has been Director of Customer Relations, Severn Trent Water since May 2006. He joined Severn Trent Water in 1975, holding various posts including Head of Networks, Director of Engineering and roles in the design, construction and operation of water and waste water treatment plants, water distribution networks and sewerage systems. He is also a board member of UK Water Industry Research Limited and Utilities and Service Industries Training Limited.



Andy Smith

BTech (Hons) (48)

(E)

Andy joined the board on 2 October 2007. He joined Severn Trent in January 2005 and was appointed Director of Water Services in February 2007. Prior to that he was a board member and Group HR Director with Boots. He has previously held senior management roles in engineering, HR and production with Pepsi-Cola International, Mars and BP.



Tony Wray

BSc (Hons) (47)

(C) (E) (N)

Tony joined the board on 7 March 2005. He was appointed Chief Executive on 2 October 2007. Prior to that, he was Director of Networks at Eircom, the Republic of Ireland's telephone operator. He joined British Gas in 1983 and held various managerial positions. With the establishment of the gas transportation business, Transco, he became Director of Asset Management, then as National Operations Director, before being appointed to implement the merger integration of Lattice (Transco) and National Grid Group into National Grid Transco.

The directors present their report, together with the audited financial statements of the group for the year ended 31 March 2009.

Principal activity

The principal activity of the group is the supply of water and the treatment and disposal of sewage.

Details of the principal joint venture, associated and subsidiary undertakings of the group at 31 March 2009 appear in notes 20, 21 and 41 to the financial statements on pages 77 and 103.

Business review

The Chairman's statement, the Chief Executive's review, the report and performance reviews for the group's main businesses and the financial review on pages 4 to 23 provide detailed information relating to the group and its strategy, the operation of its businesses and the results and financial position for the year ended 31 March 2009.

Details of the principal risks and uncertainties facing the group are set out in the Governance report on pages 32 and 33.

All of the above are incorporated by reference in (and shall be deemed to form part of) this report.

Research and development

Expenditure on research and development, including amounts capitalised as tangible fixed assets related to research and development, amounted to £5.7 million (2008: £4.9 million).

Treasury management

The disclosures required under the EU Fair Value Directive in relation to the use of financial instruments by the company are set out in note 22 to the accounts on pages 78 to 87.

Post balance sheet events

Details of post balance sheet events are set out in note 39 to the group financial statements on page 102.

Dividends

An interim dividend of 26.29p per ordinary share was paid on 16 January 2009. The directors recommend a final dividend of 41.05p per ordinary share to be paid on 31 July 2009 to shareholders on the register on 19 June 2009. This would bring the total dividend for 2008/09 to 67.34p per ordinary share (2008: 65.63p). The payment of the final dividend is subject to shareholder approval at the AGM.

Capital structure

Details of the authorised and issued share capital, together with details of the movements in the company's issued share capital during the year are shown in note 31 to the financial statements on page 95. The company has one class of ordinary shares which carries no right to fixed income. Each share carries the right to one vote at general meetings of the company. The issued nominal value

of the ordinary shares is 100% of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the articles of association and prevailing legislation. The directors are not aware of any agreements between holders of the company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 35 to the financial statements on page 97. For shares held by the Severn Trent Employee Share Ownership Trust, the trustee abstains from voting.

No person has any special rights of control over the company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of directors, the company is governed by its articles of association, the Combined Code, the Companies Acts and related legislation. The articles may be amended by special resolution of the shareholders. The powers of directors are described in the Board Governance document, the articles and the Governance report on page 24.

Under its articles of association, the directors have authority to issue up to 110,316,091 ordinary shares, subject to the aggregate nominal amount limit set at the 2008 AGM.

There are a number of agreements that take effect after, or terminate upon, a change of control of the company, such as commercial contracts, bank loan agreements, property lease arrangements and employee share plans. None of these are considered to be significant in terms of their likely impact on the business of the group as a whole. Furthermore, the directors are not aware of any agreements between the company and its directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Directors and their interests

Details of changes to the board during the year and of the directors offering themselves for reappointment at the AGM are set out on pages 24 and 25.

Details of directors' service agreements are set out in the Directors' remuneration report on page 48.

The interests of the directors in the shares of the company are shown on pages 51 to 53.

Biographies of the directors currently serving on the board are set out on pages 34 and 35.

Directors' indemnities

The company's articles of association provide that directors of the company shall be indemnified by the company against any costs incurred by them in carrying out their duties including defending any proceedings brought against them arising out of their positions as directors in which they are acquitted or judgment is given in their favour or relief from any liability is granted to them by the court.

Supplier payment policy

Individual operating companies within the group are responsible for establishing appropriate policies with regard to the payment of their suppliers. The companies agree terms and conditions under which business transactions with suppliers are conducted. It is group policy that provided a supplier is complying with the relevant terms and conditions, including the prompt and complete submission of all specified documentation, payment will be made in accordance with agreed terms. It is also group policy to ensure that suppliers know the terms on which payment will take place when business is agreed. Details of supplier payment policies can be obtained from the individual companies at the addresses shown in note 41 to the financial statements on page 103. Trade creditors for the group at the year end are estimated as representing 39.3 days' purchases (2008: 38.1 days' purchases).

Contributions for political and charitable purposes

Donations to charitable organisations during the year amounted to £352,201 (2008: £412,471). Donations are given to charities whose projects align closely with our aim to promote the responsible use of water resources and waste water services which provide the opportunity for longer term partnerships. In addition we provide donations to employee nominated charities through a matched funding scheme and health and safety reward schemes. We are also committed to supporting WaterAid, the UK's only major charity dedicated to providing safe domestic water and sanitation to the world's poorest people.

In response to the floods of July 2007 Severn Trent Water established a £3.5 million recovery fund for Gloucestershire. During the 2007/08 financial year £1.6 million was paid to the fund. During the year under review a further £1.9 million was paid to the Flood Relief Fund. Of the £1.9 million paid during the financial year, approximately £40,000 (2008: £1.1 million) was paid directly to charitable organisations in the Gloucestershire area. The remainder of the donation to the Flood Relief Fund was paid through Gloucestershire local authorities and Gloucestershire First (a partnership between public sector bodies and local businesses) to support other recovery projects.

During the year a provision of £5 million has been made for additional contributions to the Severn Trent Charitable Trust as agreed with Ofwat.

Severn Trent's policy is not to make any donations for political purposes in the UK, or to donate to EU political parties or incur EU Political Expenditure. Accordingly neither Severn Trent Plc nor its subsidiaries made any political donations or incurred political expenditure in the financial year under review.

Under the provisions of the Political Parties Elections and Referendums Act 2000 (the relevant provisions of which are now contained in Part 14 of the Companies Act 2006), shareholder authority is required for political donations to be made or political expenditure to be incurred by the company or any of its subsidiaries in the EU and disclose any such payments in the annual report. The legislation gives a wide definition of what constitutes political donations and political expenditure including sponsorship,

subscriptions, payment of expenses, paid leave for employees fulfilling public duties and support for bodies representing the business community in policy review or reform. The company has therefore obtained limited authority from shareholders as a precautionary measure to allow the company to continue supporting the community and such organisations without inadvertently breaching the legislation.

At the 2006 AGM, shareholders gave the company authorities to make political donations or to incur political expenditure in the EU (which would not ordinarily be regarded as political donations) up to an aggregate annual limit of £50,000 each for the company and its subsidiary Severn Trent Water Limited. Pursuant to those authorities, during the year ended 31 March 2009 the group incurred costs of nil (2008: nil). Those authorities will expire at the 2009 AGM and accordingly the board has decided to put forward a resolution to this year's AGM to renew the authorities to make donations to political organisations and to incur political expenditure up to a maximum of £50,000 per annum. As permitted under the Companies Act 2006, this resolution also covers any political donations made, or political expenditure incurred, by any subsidiaries of the company.

Substantial shareholdings

As at 26 May 2009 the company had been notified in accordance with chapter 5 of the Disclosure and Transparency Rules of the following major shareholdings:

Name of holder	Percentage of voting rights and issued share capital	No. of ordinary shares of 97 ¹⁷ /10p each	Nature of holding
Pictet Asset Management SA	7.601%	17,718,717	Indirect
Legal & General Group Plc	5.991%	14,162,139	Direct
Invesco Limited	5.078%	11,980,630	Indirect
Newton Investment Management Limited	5.049%	11,934,674	Indirect
Barclays Plc	3.608%	8,412,304	Indirect

Authority to purchase shares

The company was given authority at its AGM in 2008 to make market purchases of ordinary shares up to a maximum number of 23,548,575 shares. Similar authority will again be sought from shareholders at this year's AGM. No market purchases were made by the company during the year ended 31 March 2009.

Employees

The average number of employees within the group is shown in note 9 to the financial statements on page 69.

Severn Trent believes that a diverse and inclusive culture is a key factor in being a successful business. Apart from ensuring an individual has the ability to do the job we do not discriminate in any way and make every effort to ensure that those with disabilities are able to be employed by us. We ensure that training, career

development and promotion opportunities are available for all our employees irrespective of their gender, race, age or disability.

The group actively encourages employee involvement and consultation and places emphasis on keeping its employees informed of its activity and financial performance by way of briefings and publication to staff of all relevant information and corporate announcements. To help develop employees' interest in the company's performance, Severn Trent offers two employee share plans. The Severn Trent Sharesave Scheme, an HM Revenue and Customs approved SAYE plan, is offered to UK employees on an annual basis. The Severn Trent Share Incentive Plan, approved by HM Revenue and Customs, makes an annual award of shares to Severn Trent Plc and Severn Trent Water Limited employees, based on performance against the KPIs.

Further details of arrangements relating to employee involvement are provided on our website www.severntrent.com

Auditors

In the case of each of the persons who are directors of the company at the date when this report was approved:

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditors are unaware; and
- each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Relevant audit information means information needed by the company's auditors in connection with preparing their report.

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

Deloitte LLP has indicated its willingness to continue as auditors. A resolution to reappoint them will be proposed at this year's AGM.

The reappointment of Deloitte LLP has been approved by the Audit Committee, which will also be responsible for determining its audit fee on behalf of the directors.

Accounts of Severn Trent Water Limited

Regulatory accounts for Severn Trent Water Limited are prepared and sent to the Water Services Regulatory Authority. A copy of these accounts will be available from the website of Severn Trent Water Limited (www.stwater.co.uk) or on written request to the Company Secretary (at the address given on the back cover). There is no charge for this publication.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's review on page 5 and the business reviews of Severn Trent Water and Severn Trent Services on pages 7 to 16 and 17 to 19. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the

Financial Review on pages 20 to 23. The group's objectives, policies and processes for managing its capital and its financial risk management objectives are described in the Financial Review and in the Governance report on pages 24 to 33. Details of the group's financial instruments, hedging activities and exposure to credit risk and liquidity risk are described in note 22 to the group financial statements.

The group's principal operating subsidiary, Severn Trent Water, is a regulated long term business characterised by multi year investment programmes. The group's strategic funding objectives reflect this. The group therefore seeks to attain a balance of long term funding or commitment of funds across a range of funding at the best possible economic cost. Average debt maturity is 19 years and the effective average interest cost during the year was 5.6%. The group is in a strong liquidity position with £648 million in cash and liquid reserves and £500 million of undrawn committed bank facilities, which are expected to be sufficient to fund its investment and cash flow needs at least until March 2010 in the normal course of business. During the year the group raised £400 million via a sterling bond issue.

Severn Trent Water operates in an industry that is currently subject to economic regulation rather than market competition. Ofwat, the economic regulator, has a statutory obligation to set price limits that it believes will enable the water companies to finance their activities. As a consequence the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Annual General Meeting

The AGM of the company will be held at the International Convention Centre, Broad Street, Birmingham B1 2EA at 2pm on Tuesday 21 July 2009. The notice convening the meeting, together with details of the business to be considered and explanatory notes for each resolution, is distributed separately to shareholders. It is also available on the company's website: www.severntrent.com

By order of the board

Fiona Smith

General Counsel and Company Secretary
28 May 2009

Directors' responsibility statement

The directors are responsible for preparing the Annual Report, Directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the IAS Regulation to prepare the group financial statements under IFRSs as adopted by the European Union. The group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the company. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the parent company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the business review, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Sir John Egan
Chairman

Michael McKeon
Finance Director