

FULL YEAR 2015/16 RESULTS

24 May 2016

Lake Vyrnwy, Wales

SEVERN
TRENT

LIV GARFIELD

Chief Executive



OUR WINNING FORMULA


Our vision

By 2020 to be the most trusted water company

Delivering an outstanding customer experience, the best-value service and environmental leadership

- Customers at the heart of our business
- Operational excellence
- Winners in a world of incentivisation
- At the frontier of sector efficiency
- Standard setters in renewable energy
- Successful in competitive markets





JAMES BOWLING

Chief Financial Officer

FY2015/16 HIGHLIGHTS

Group turnover

£1,787m

-0.8%

Underlying PBIT⁽¹⁾

£523m

-3.2%

Effective finance cost

4.5%

down from 5.4%

ODI reward⁽²⁾

£23m

Underlying basic EPS⁽³⁾

108.7 pence

+1.4%

Full-year dividend

80.7 pence

-5%

FY2015/16 RoRE⁽⁴⁾: 8.4%

1. Before exceptional items

2. Outcome delivery incentives. Overall pre-tax reward at 2012/13 prices. Post-tax reward of £19m using the 2017/18 tax rate of 19%. Company assessment of performance, subject to Ofwat review process in Autumn 2016

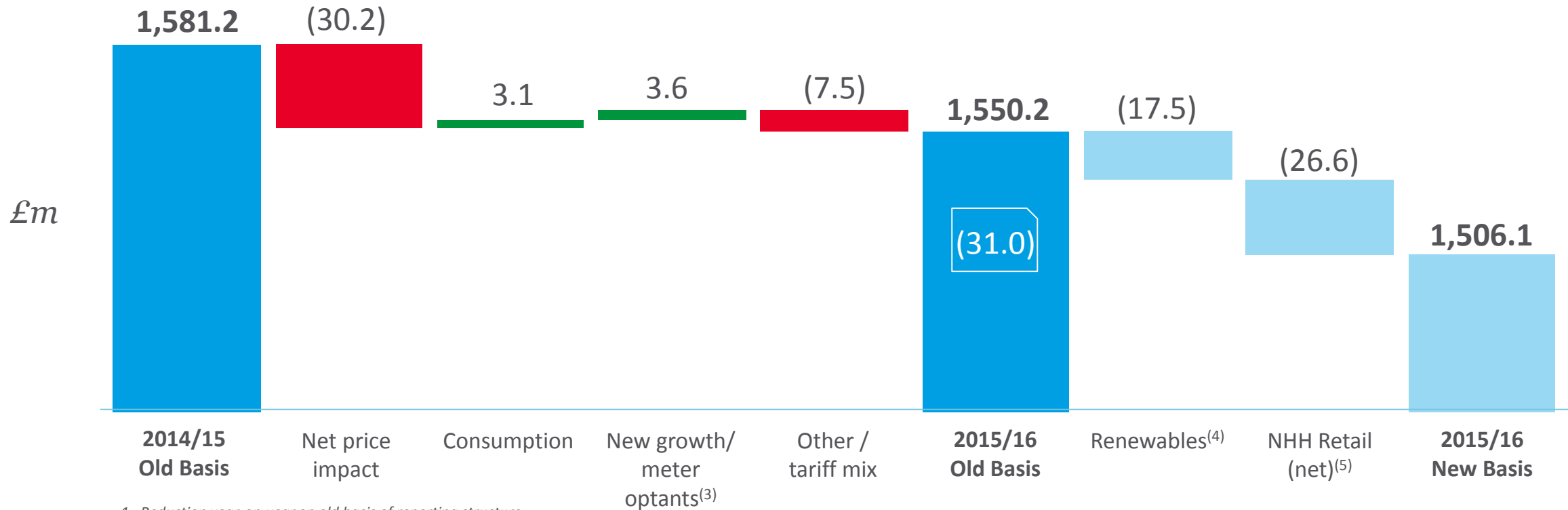
3. Before exceptional items, net losses/gains on financial instruments, current tax on exceptional items and on financial instruments and deferred tax

4. RoRE = Return on Regulatory Equity quoted at 2012/13 prices

REGULATED WATER & WASTE WATER

TURNOVER
£1.51bn

- Turnover 2% lower⁽¹⁾ due primarily to £30.2m agreed lower prices for customers under AMP6
- Partially offset by consumption & new growth⁽²⁾



1. Reduction year-on-year on old basis of reporting structure

2. Includes £11.5m of over-billing, which will be returned to customers in 2017/18

3. Customers switching from unmeasured to measured supply

4. Excludes electricity and gas generation income, of £8.0m accounted for as a credit to operating costs on old basis

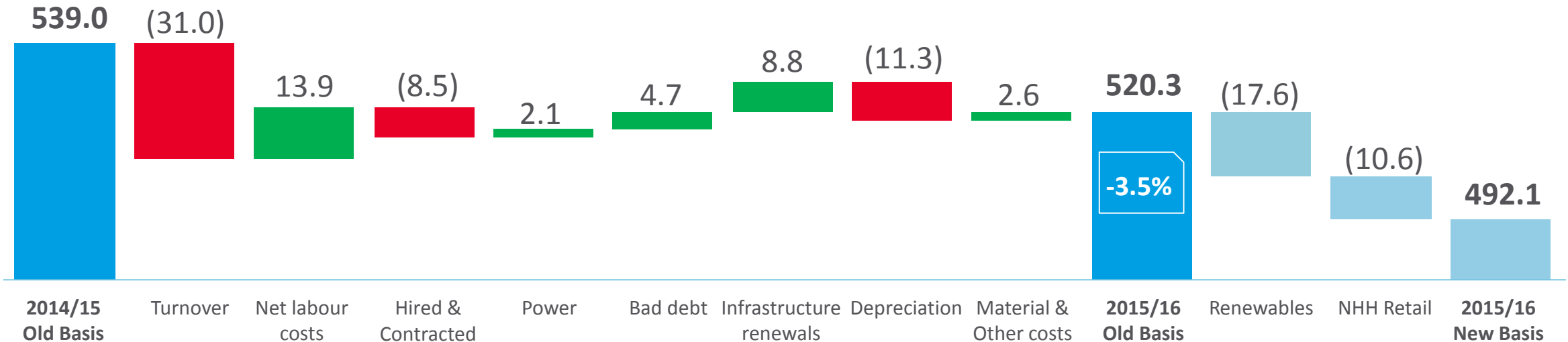
5. Gross NHH Retail turnover £391.3m, offset by inter-segment charge of £364.7m from Regulated Water & Waste Water to Business Services for wholesale services

REGULATED WATER & WASTE WATER

PBIT
£492m

- Turnover down £31m driven by price reduction
- Partially offset by lower net labour costs driven by the restructuring

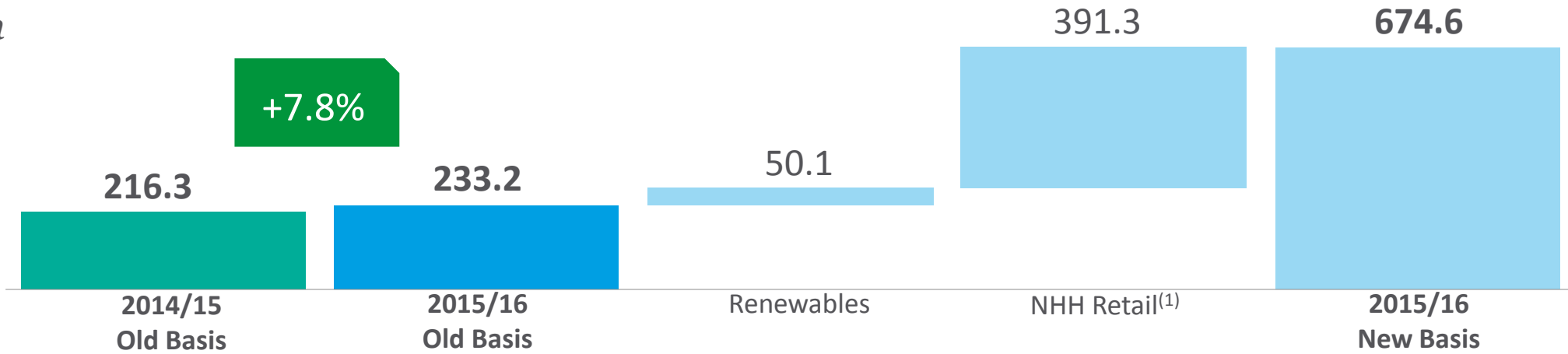
£m



BUSINESS SERVICES

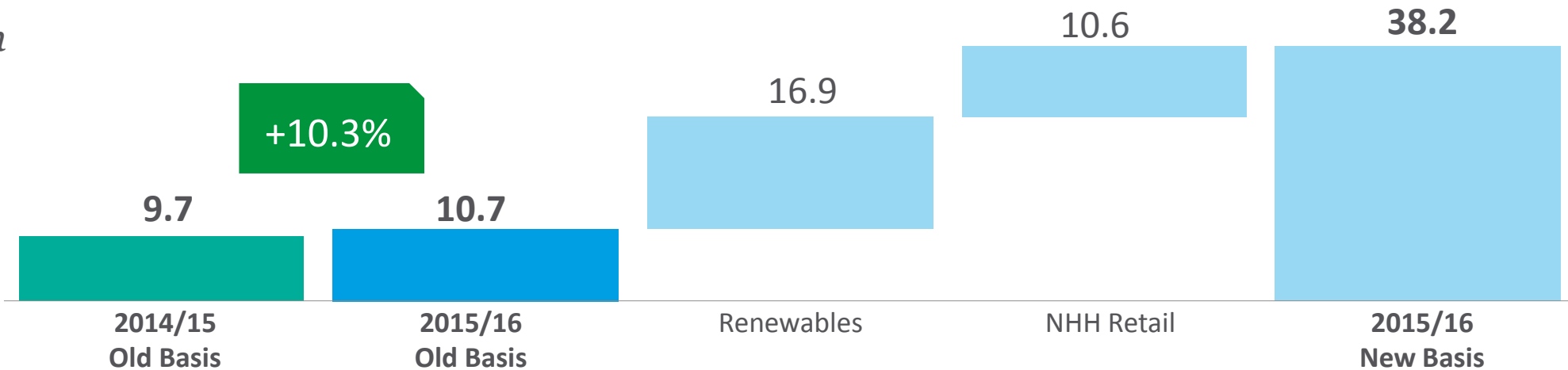
Turnover

£m



PBIT

£m

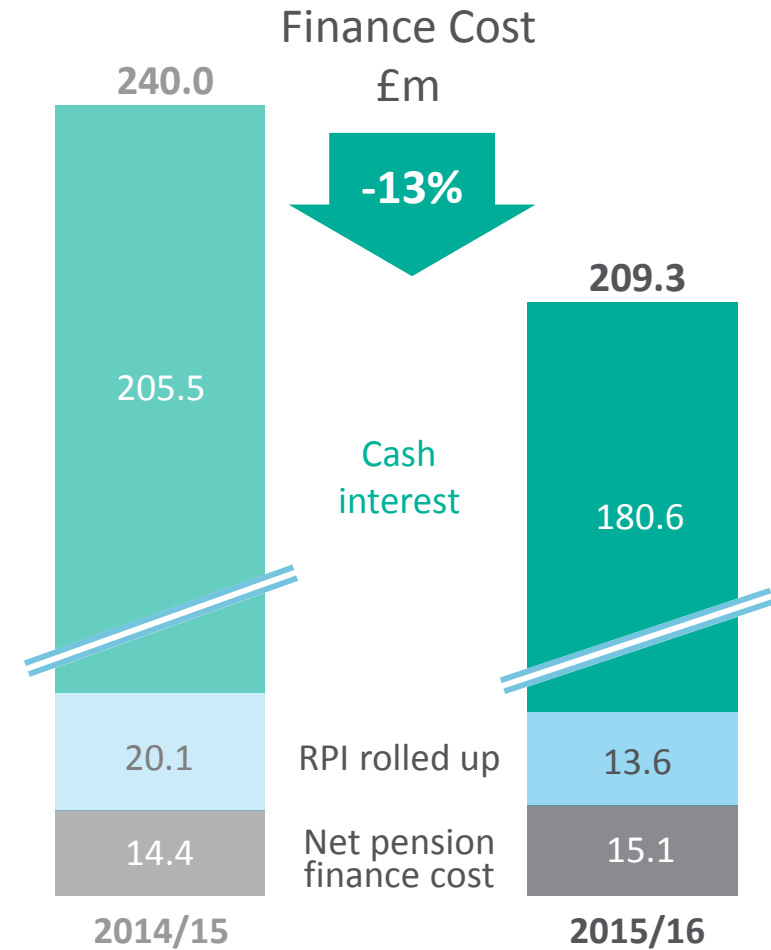


1. NHH Retail turnover comprises gross retail sales to customers. Regulated Water & Waste Water charge Business Services £364.7m for wholesale services

DELIVERING FINANCING OUTPERFORMANCE

Delivered in FY2015/16

- Active treasury management initiatives to rebalance the debt portfolio and low index-linked debt costs have led to:
 - Effective interest cost: 4.5%
 - down 90bps from 5.4%⁽¹⁾ in FY2014/15
 - Effective cash⁽²⁾ interest cost: 4.2%
 - down 70bps from 4.9%⁽¹⁾ in FY2014/15



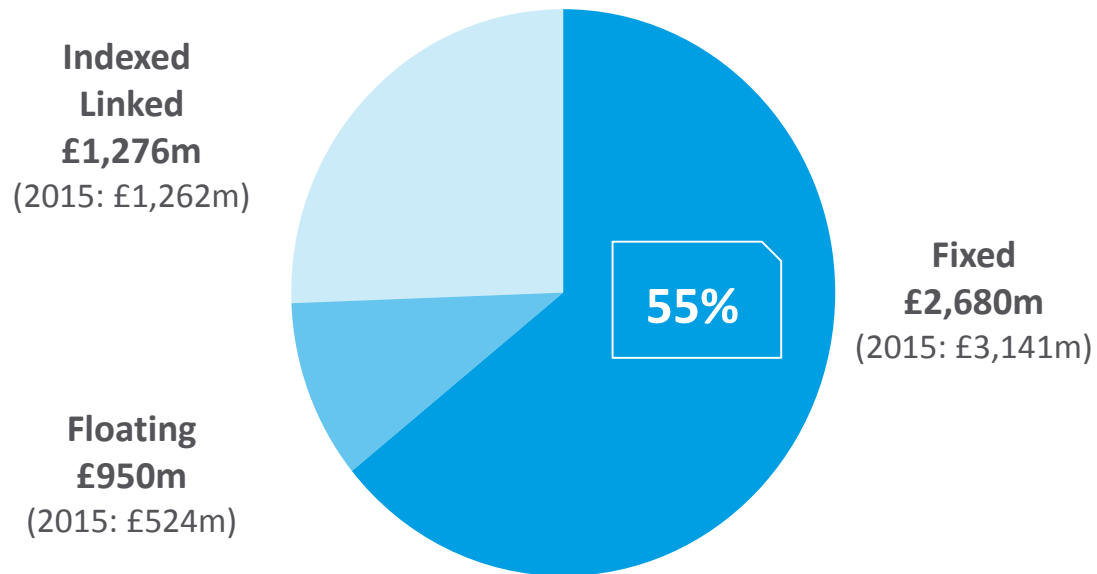
1. Before Eurobond buyback costs

2. Before net pension finance costs and RPI rolled up

DEBT: REBALANCING STRATEGY ON TRACK AND FURTHER OPPORTUNITIES

Gross Debt Profile at 31 March 2016

Total: £4.9bn



Net Debt^(1,2) £4,823m (2014/15: £4,753m)

1. Includes cross currency swaps

2. Regulated net debt £4,813m (31 Mar 2015: £4,701m)

Net debt/RCV⁽³⁾ at 61.6%

Our debt plans – 2016/17 and beyond:

£1.5bn to raise by 2020

Seeking opportunities to diversify funding sources

Early planning to manage upcoming maturities

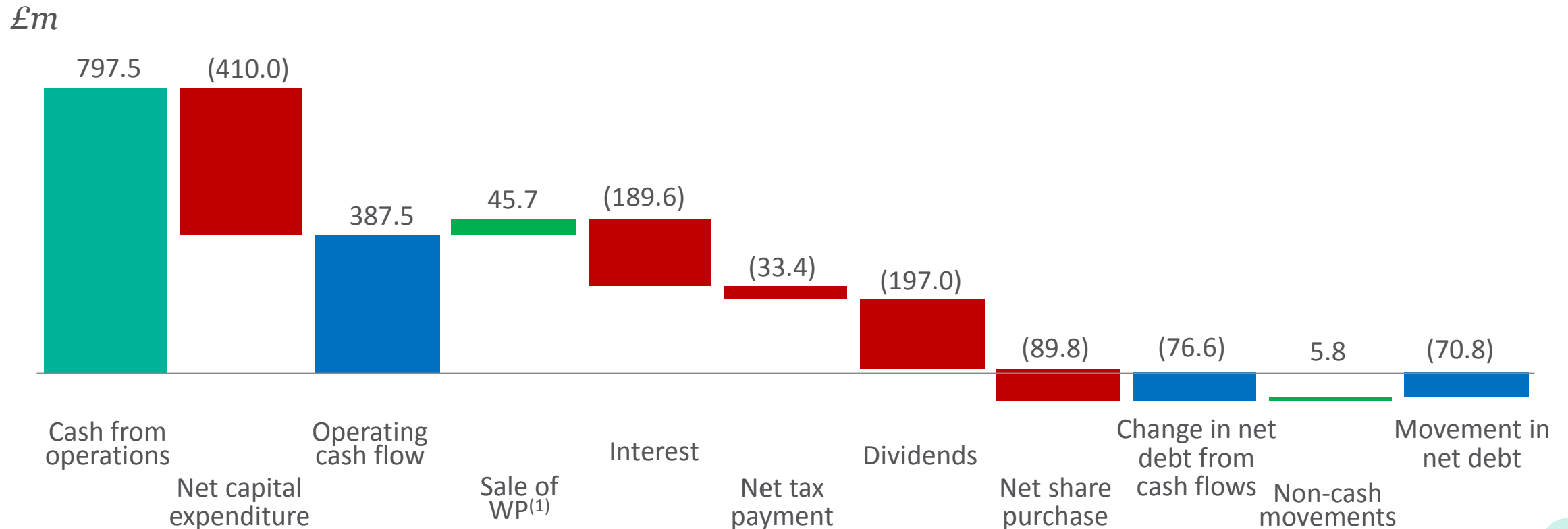
Continued focus on low cost floating rate debt

3. RCV at 31 March 2016

GROUP CASH FLOW

MOVEMENT IN NET DEBT (£70.8m)

- Strong cash from operations: up £37m (4.9%) y-on-y
- Share buyback completed: £93m in 2015/16
- Closing net debt £4,823m

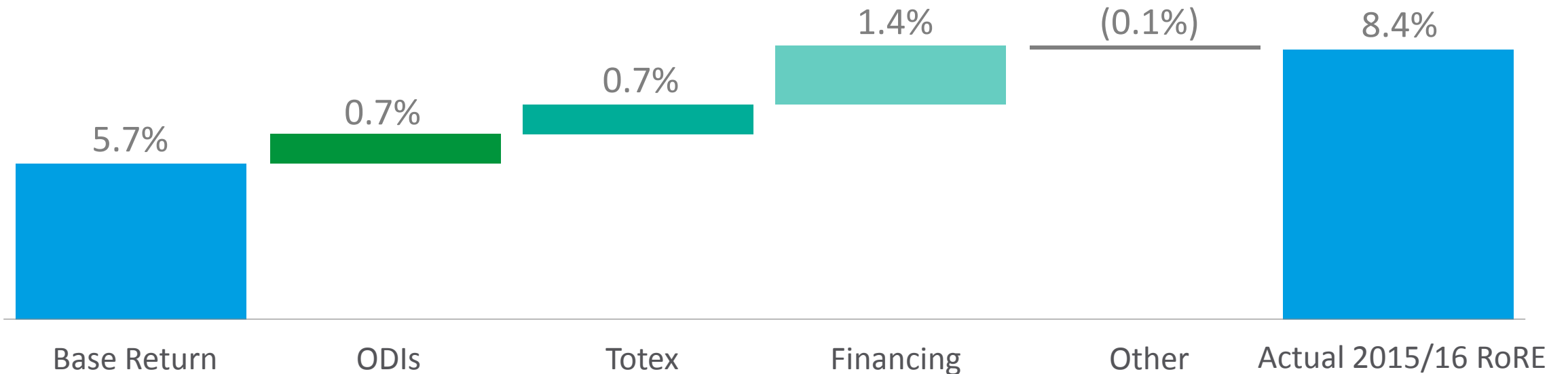


1. Sale of Water Purification business to Industrie De Nora, completed in July 2015

RETURN ON REGULATORY EQUITY

8.4%

Delivered a 2015/16 RoRE⁽¹⁾ at the upper end of the FD⁽²⁾ expected range



ODIs

- Good first-year performance
- Driven by significant efforts of our people and partners

TOTEX

- Benefits realised from contract renegotiations
- Good control of opex

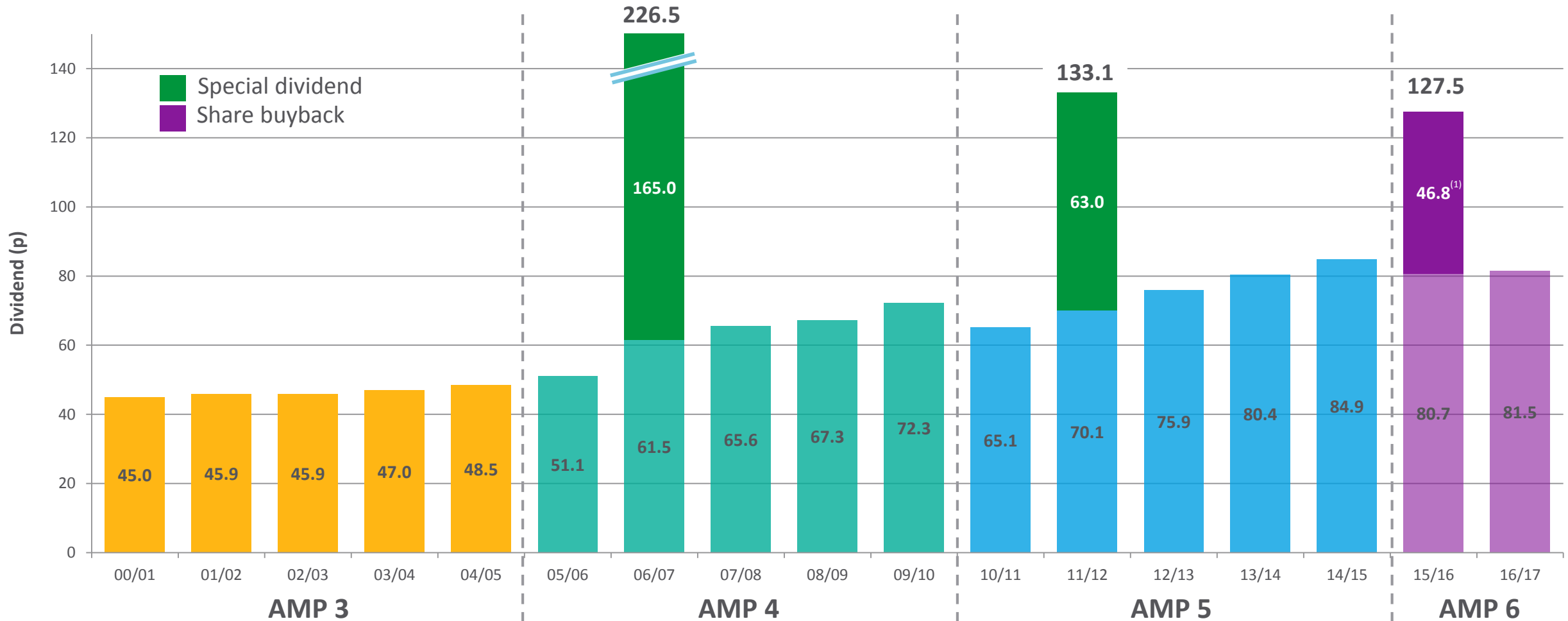
FINANCING

- Benefit of debt management actions in 2014/15 & 2015/16
- Lower cost of index-linked debt
- Favourable impact of lower RPI

1. RoRE = Return on Regulatory Equity (at 2012/13 prices). Calculated based on actual totex from 2015/16 and adjusted for (i) transition expenditure from 2014/15; and (ii) third party costs from 2015/16
 2. FD = Final Determination

TRACK RECORD OF DELIVERING RETURNS FOR SHAREHOLDERS

2000/01 – 2016/17



Ordinary dividend CAGR of 4.3%

1. Based on £111m share buyback divided by 237m shares (average number over buyback period)

FY2016/17 TECHNICAL GUIDANCE

FY2016/17 numbers and FY2015/16 comparatives will be reported on the new segmental basis⁽¹⁾:

Regulated Water & Waste Water

Includes regulated wholesale and the household retail business

Business Services

Includes the old “Severn Trent Services” segment, non-household retail, and all of our renewable energy businesses

Regulated Water and Waste Water		FY2015/16	Y-on-Y
Turnover	£1.50 billion to £1.54 billion (new reporting basis)	£1.51bn	↔
Opex (IFRS)	Lower opex: y-o-y benefits of efficiencies	£581m	▼
IRE	£130 million to £155 million	£126m	▲
ODIs ⁽²⁾	£15 million reward	£23m	▼
Wholesale totex ⁽³⁾	£1.11 billion to £1.13 billion (42.1% of 16/17 wholesale totex will be added to RCV)	£1.02bn	▲
Business Services ⁽⁴⁾			
Turnover		£277m ⁽⁴⁾	▲
PBIT	Further growth in both turnover and PBIT	£28m ⁽⁴⁾	▲
Group			
Interest charge	Flat y-o-y; lower costs on new floating rate debt, offset by higher overall debt and higher RPI	£209m	↔
Tax rate	Effective tax rate between 17% and 19%	18.5%	↔
Capex (IFRS, net cash)	£450 million to £490 million	£410m	▲
Dividend	Set at 81.5p for 2016/17. Annual dividend growth thereafter of at least RPI until March 2020	80.66p	▲

1. Further detail on the revised segmental split is provided in the appendix

2. Overall pre-tax reward at 2012/13 prices. Company assessment of performance, subject to Ofwat review process in Autumn 2016

3. A reconciliation of wholesale totex is provided in the appendix

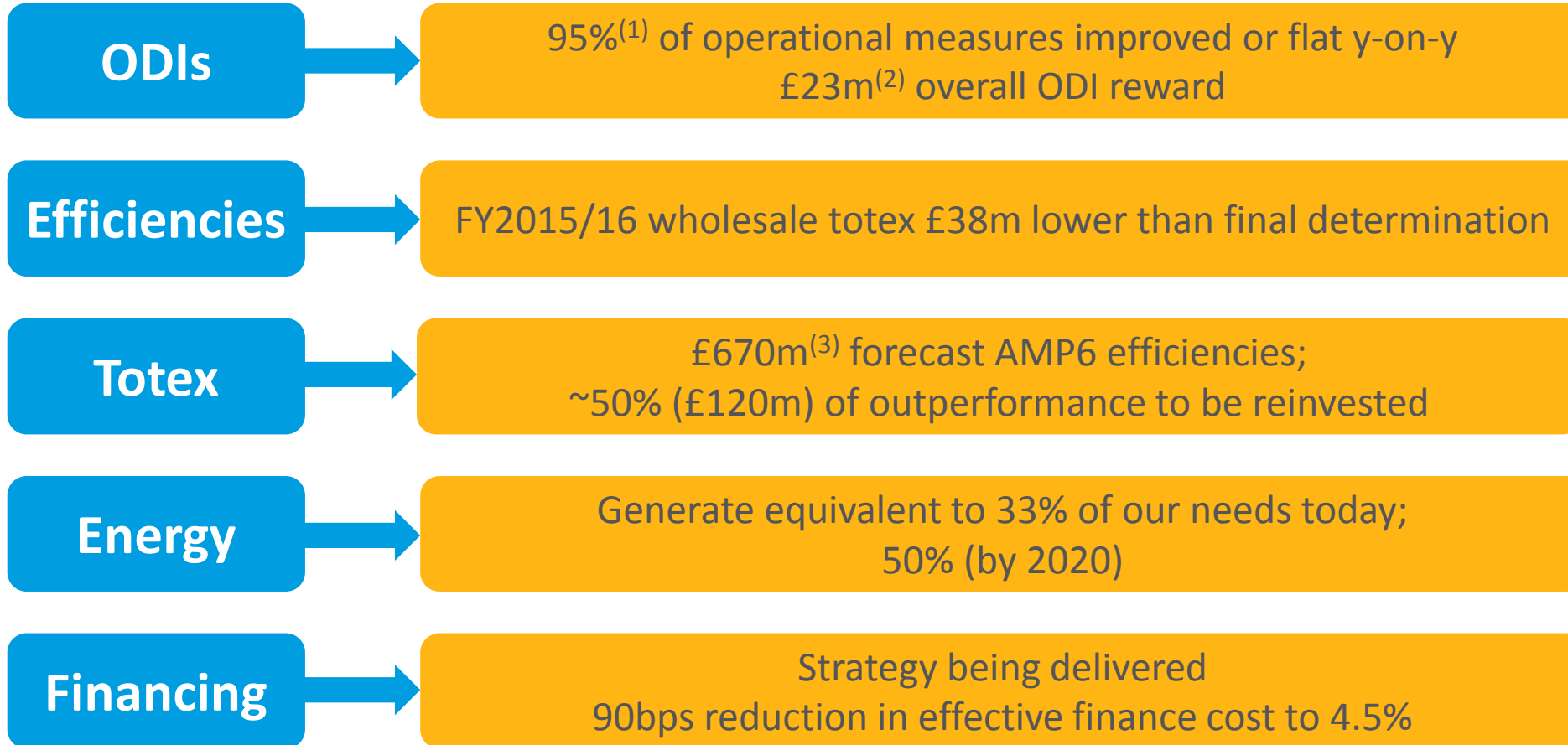
4. Proforma restated numbers treating NHH results as discontinued, following Water Plus announcement, as detailed in the appendix

LIV GARFIELD

A technical drawing of a steam engine cylinder head, showing various components and dimensions. The drawing includes a circular cross-section with a central piston rod and a surrounding cylinder. The text '19 BOLTS' is visible at the top right, 'EXHAUST T.' is in the center, 'STEAM INLET ON FRDNT COVER.' is at the bottom, and 'STUD DIA.' is at the bottom right. There are also some numerical values like '13 3/4' and 'A'.

Chief Executive

LEVERS OF OUTPERFORMANCE



**8.4%
RoRE⁽⁴⁾**

1. Based on analysis of all wholesale performance commitments which are measured annually and where prior year data is available

2. Overall ODIs quoted pre-tax at 2012/13 prices. Post-tax of £19m (using 2017/18 19% tax rate). Company assessment of performance, subject to Ofwat review process in Autumn 2016

3. Efficiencies and totex costs quoted at actual and forecast nominal prices

4. RoRE = Return on Regulatory Equity quoted at 2012/13 prices

BUSINESS TRANSFORMATION FY2015/16 PROGRESS

“Waterpedia” Quality Management System

Drives consistent operational performance

- Collaborative “Communities of Practice” networks
- Helps our people do a great job for customers
- Accessible standards in one place
- End-user driven design

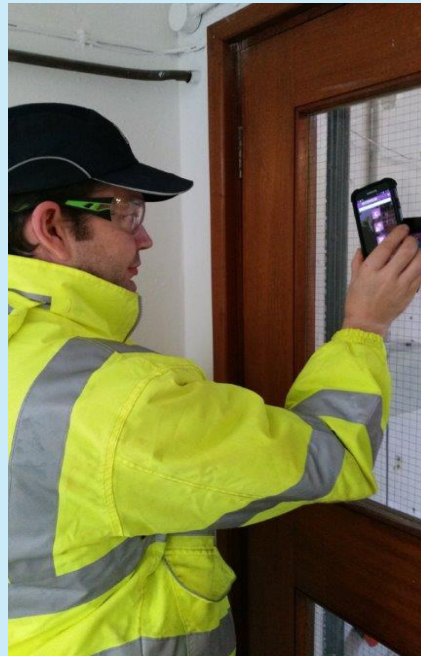
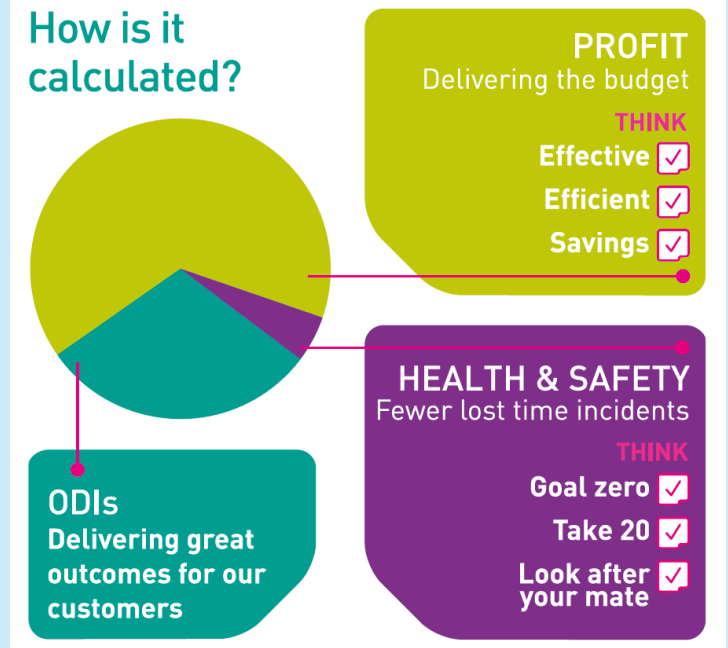


Image: An operator using the ‘Waterpedia’ app and Near Field Communication (NFC) tags to locate the procedure needed for his task

New Staff Incentive Scheme

One set of targets for the whole business

- Strengthens the performance culture
- Drives operational performance to meet customer expectations
- Encourages careful cost management



FY2015/16 £23M⁽¹⁾ NET REWARD FROM IN-AMP ODIs

Good progress on in-AMP measures:

Category 3 pollutions



Water quality complaints



Internal sewer flooding



Supply interruptions



Leakage



External sewer flooding



On track for end of AMP measures to be green:

Coliform detections



SIM²



Catchment management ODI & Water framework directive ODI

- Reward / penalty assessed at end of AMP
- On track to be in reward territory

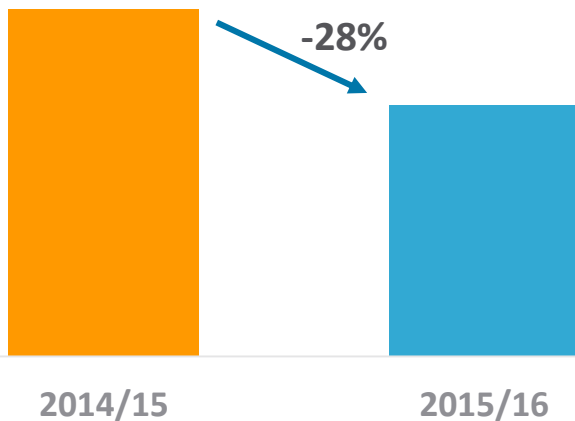
1. Quoted pre-tax at 2012/13 prices. Post-tax of £19m (using 2017/18 19% tax rate). Company assessment of performance, subject to Ofwat review process in Autumn 2016
 2. This forecast ODI is measured annually but the reward/penalty is an end of AMP adjustment

ODI SPOTLIGHT

EXTERNAL SEWER FLOODINGS

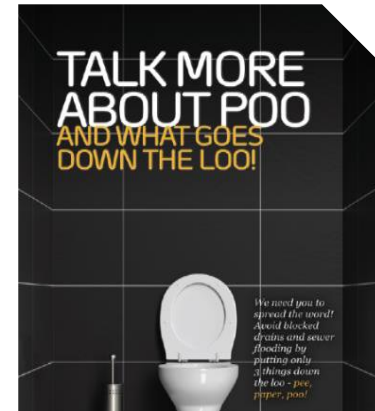


Performance



Highlights

- Utilising data to target investments
- Tipping the balance from reactive to proactive
- 13 key improvement activities
- Promoting 'healthy sewers', including hot spots such as universities and fast food chains
- Right first time: one sole supplier focused on fixing issues



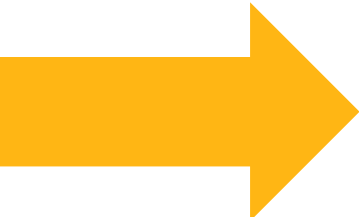
How we're achieving outperformance

- Cross-functional engagement
- Increased investment
- Customer education
- Focus on a first-time fix

COMMITTED TO IMPROVING CUSTOMER SERVICE

FY2015/16 achievements

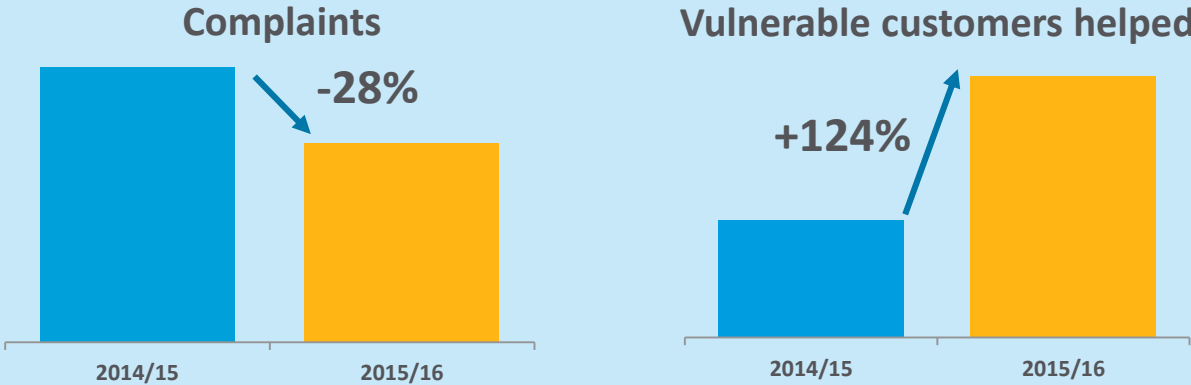
- Improved customer experience
- Extended use of digital
- Affordability scheme launched



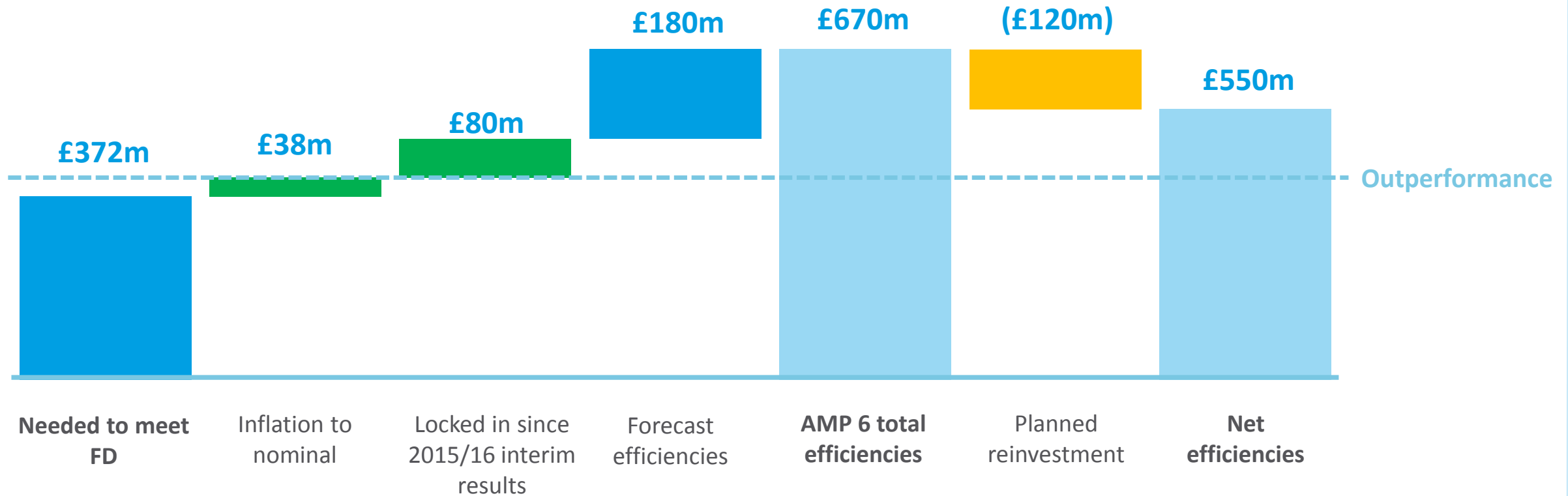
FY2016/17 focus

- Contact centre effectiveness
- Payment initiatives
- Expanded vulnerable offering

Success stories
this year:



£670M OF AMP6 EFFICIENCIES



Reinvesting £120m
for the benefit of our customers

- Water quality
- Enhancing security
- Vulnerable customers

ACHIEVING £670M OF EFFICIENCIES

TRANSFORMATION PROGRAMMES

- Driving operational excellence
e.g. Operational Effectiveness Programme

SUPPLIER CONTRACT EFFICIENCIES

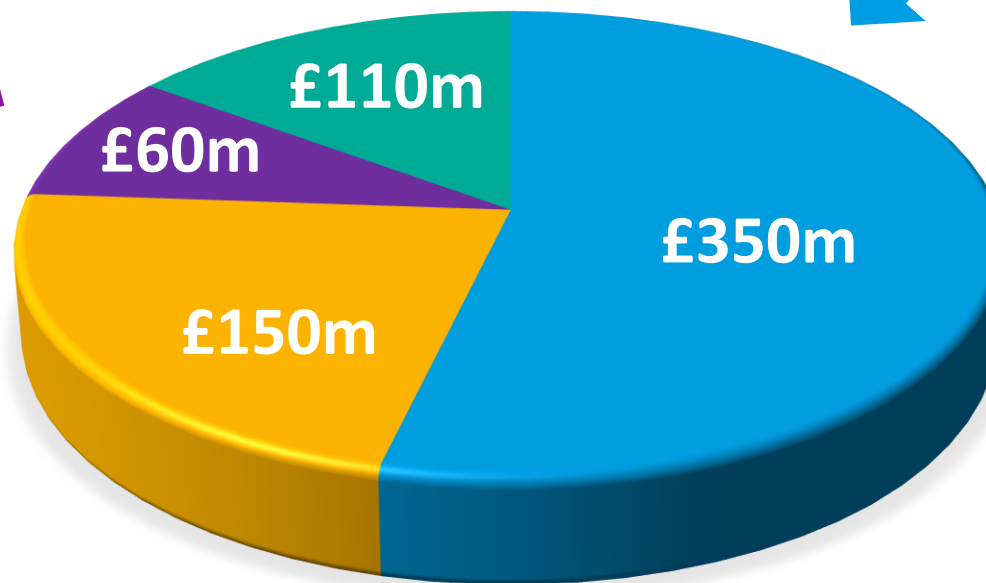
- Improving contractual arrangements with supply chain
e.g. metering installation contract

RESTRUCTURING

- Delaying the organisation and reducing the cost base

CAPITAL PROGRAMME EFFICIENCIES

- Working with supply chain partners to deliver efficiencies
e.g. Upgrading our rapid gravity filters



All numbers shown at nominal prices

CONTINUED PROGRESS ON ENERGY

**+44 GWh⁽¹⁾ delivered
in FY2015/16**

↑ +33 GWh

- Coleshill food waste
- Minworth 'biogas to grid'

↑ +11 GWh

- Process efficiency gains

Financial Benefits

£1.2m

Savings delivered in our regulated business from renewables programme in FY2015/16

All new investments delivering
double-digit post-tax returns

Self Generation

Self-generate equivalent to
33%
of our energy needs

Up to £190m
AMP6 capital investment forecast
~£110m in regulated
~£80m in non-regulated

On track with our ambition

ENGAGING WITH OUR REGULATORS



Water-quality focus

- Continuing to build track record of delivery against our water-quality commitments
- One year in to a three year journey



Water 2020

- Potential to deliver significant benefits to customers
- Supportive of majority of reforms



Environment
Agency

4* Performance

- Industry leader in environmental performance
- Trusted partner exploring innovative approaches to catchment management

WATER PLUS SET FOR SUCCESS IN COMPETITIVE MARKETS

SEVERN

TRENT

Water Plus

Joint venture with United Utilities, combining our non-household retail businesses



Strategically positions us in advance of market opening in April 2017

Scale and customer efficiency key to success

Together we will have c.400,000 customers with sales of £940m⁽¹⁾ and PBT of £9.7m⁽¹⁾

JV will draw on the complementary strengths of both businesses

CMA approval for the merger now received

1. Based on 2014/15 accounts. Please refer to our RNS announcement from 1 March 2016 for full details

PROGRESS AND MOMENTUM

A promising start to the AMP...



...but much more to do



Liv Garfield
Chief Executive



Sarah Bentley
Chief Customer Officer



Martin Kane
Chief Engineer



Evelyn Dickey
Director of Human Resources



Helen Miles
Group Commercial Director



James Bowling
Chief Financial Officer



Emma FitzGerald
*Managing Director,
Wholesale Operations*



Andy Smith
*Managing Director,
Business Services*



Bronagh Kennedy
*Group General Counsel
and Company Secretary*



Tony Ballance
*Director, Strategy &
Regulation*

Cautionary statement regarding forward-looking statements

This document contains statements that are, or may be deemed to be, 'forward-looking statements' with respect to Severn Trent's financial condition, results of operations and business and certain of Severn Trent's plans and objectives with respect to these items.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'would', 'should', 'expects', 'believes', 'intends', 'plans', 'projects', 'potential', 'reasonably possible', 'targets', 'goal', 'estimates' or words with a similar meaning, and, in each case, their negative or other variations or comparable terminology. Any forward-looking statements in this document are based on Severn Trent's current expectations and, by their very nature, forward-looking statements are inherently unpredictable, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future.

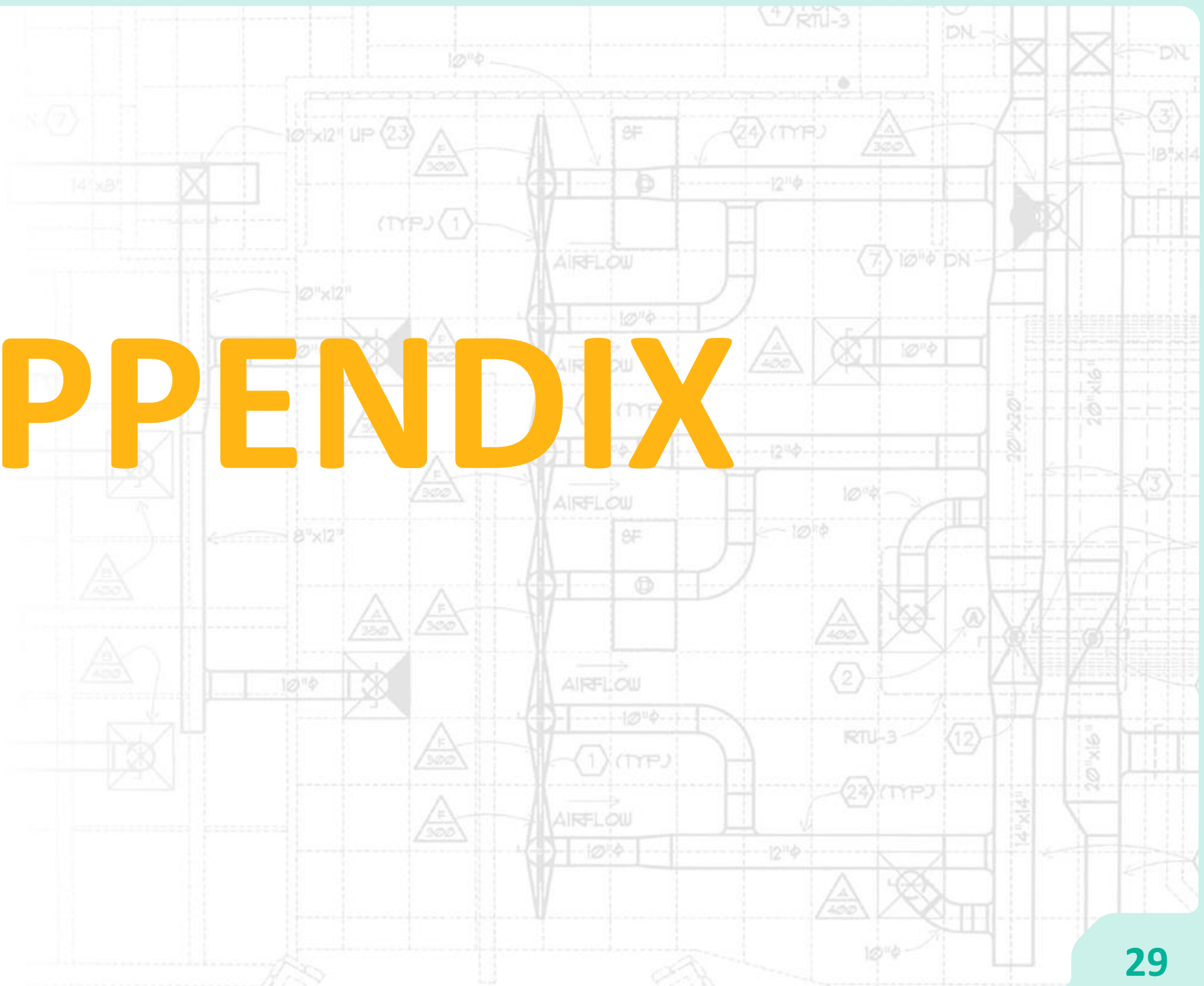
Forward-looking statements are not guarantees of future performance and no assurances can be given that the forward-looking statements in this document will be realised. There are a number of factors, many of which are beyond Severn Trent's control, that could cause actual results, performance and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to: the Principal Risks disclosed in our latest (which have not been updated since the date of its publication); changes in the economies and markets in which the group operates; changes in the regulatory and competition frameworks in which the group operates; the impact of legal or other proceedings against or which affect the group; and changes in interest and exchange rates.

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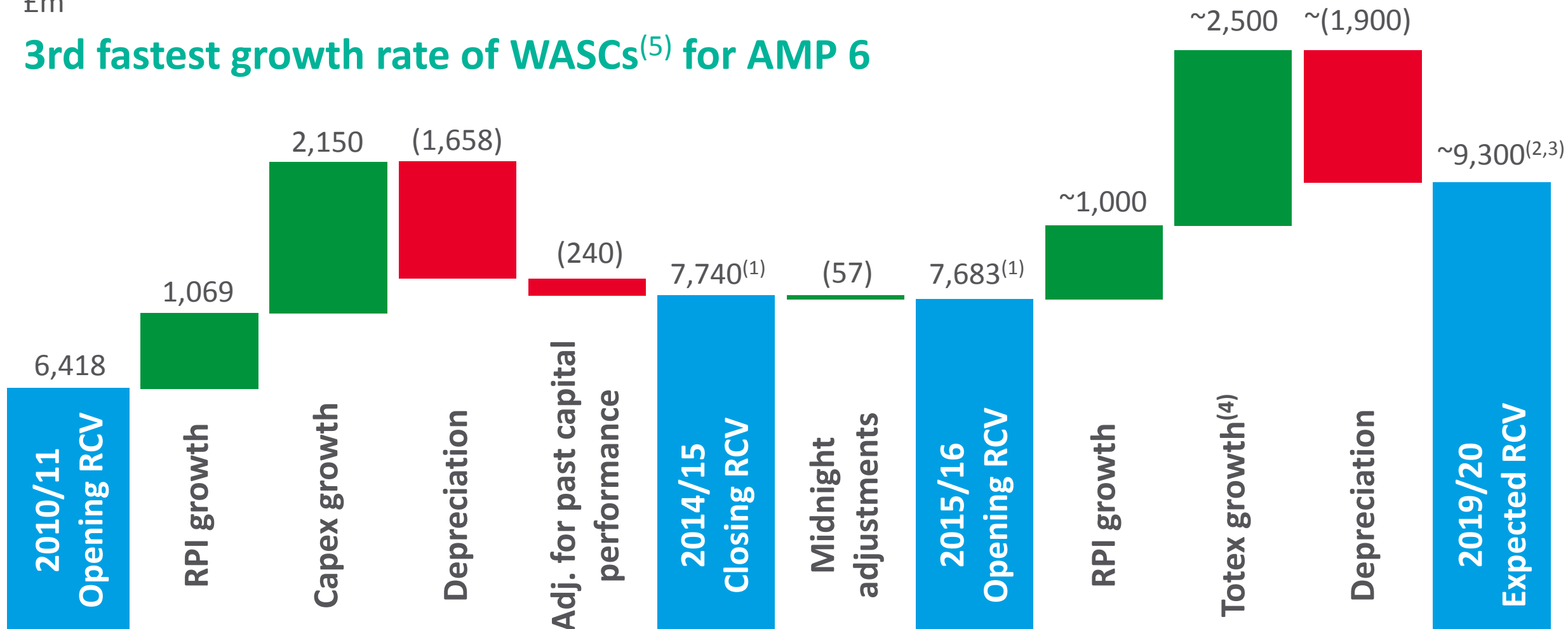
APPENDIX



REGULATORY CAPITAL VALUE

Nominal prices
£m

3rd fastest growth rate of WASCs⁽⁵⁾ for AMP 6



1. Based on year-end RPI 0.9% for 2014/15

2. Assumes average of 2.5% year end RPI for 2016-2020, based on Office of Budget Responsibility forecasts

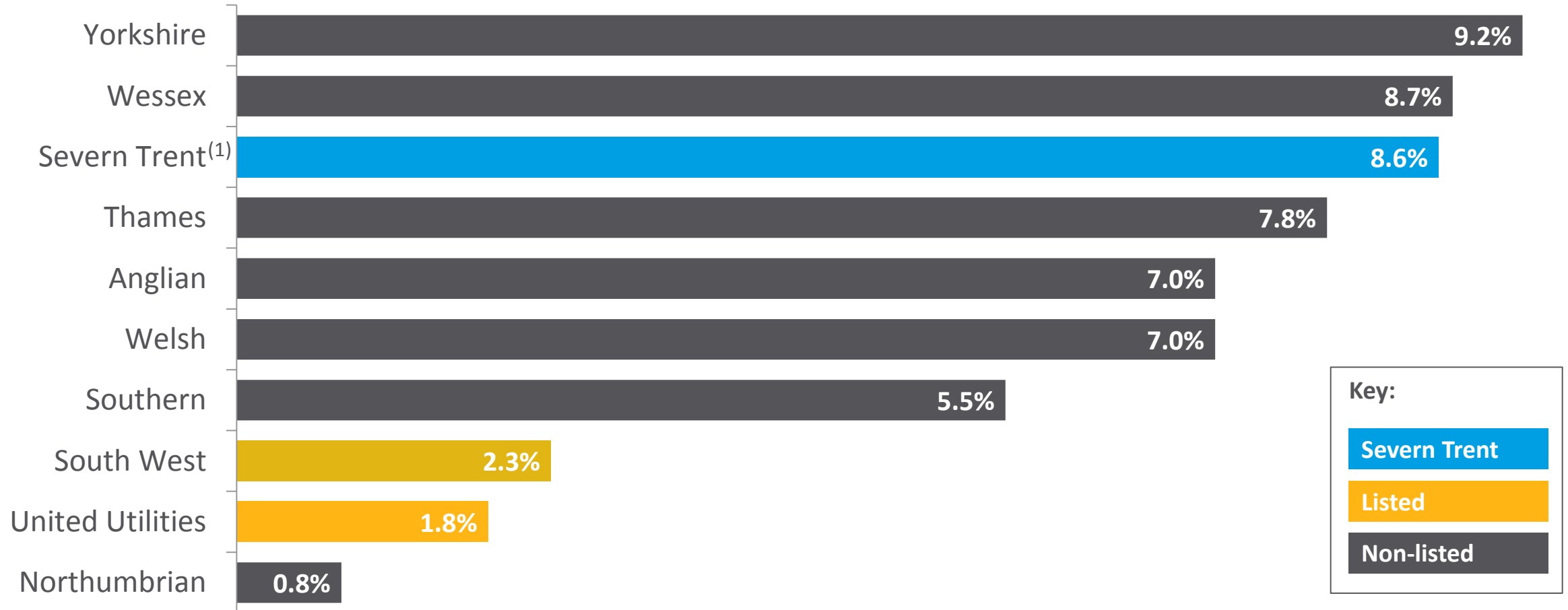
3. Excludes the potential adjustment for the CIS indexation error and the capex true up for 2014/15, as these are yet to be finalised

4. Includes the impact of £260m of forecast totex outperformance and £120m of reinvestment

5. WASC = Water And Sewerage Companies

AMP6 RCV GROWTH

In real terms, per final determinations



RCV growing around 3x times faster than other listed WASCs⁽²⁾

1. To enable direct comparability with other WASCs, this excludes the impact of the forecast £260m outperformance on totex,

2. WASC = Water And Sewerage Companies

CHANGES TO SEGMENTAL REPORTING

		New segmental basis				FY15/16 Turnover	FY15/16 PBIT ⁽¹⁾
		Regulated Water and Waste Water	Business Services	Corporate	Consolidation adjustments		
Old segmental basis	Severn Trent Water	Wholesale	Non-household Retail			1,550.2m	£520.3m
		Household Retail	Regulated Energy				
	G&S costs ⁽¹⁾						
	Severn Trent Services		Operating Services			£233.2m	£10.7m
	Corporate and Other		Non-regulated Energy	PLC Property Co. Insurance Co.		£11.7m	(£8.6m)
Consolidation adjustments					(£8.2m)	£0.4m	
FY15/16 Turnover		£1,506.1m	£674.6m	£3.2m	(£397.0m)	£1,786.9m	
FY15/16 PBIT ⁽¹⁾		£492.1m	£38.2m	(£7.9m)	£0.4m		£522.8m

1. General & Support Costs – Business Services includes an appropriate allocation of G&S costs relating to centralised activities that cover both Regulated Water and Waste Water and Business Services

IMPACT OF WATER PLUS JV

Business Services FY2015/16 £m

	As reported	Non-household Retail ⁽¹⁾	Pro forma
Turnover	675	(398)	277
PBIT	38	(10)	28

1. Including out of area retail business

RETURN ON REGULATORY EQUITY

5.7%

Base allowed return

ODIs
0.7%

- Overall pre-tax reward of £23.2m, using the relevant tax rate for FY2017/18 of 19%
- Post-tax reward of £18.8m
- Reward or deadband territory for all in-year ODIs apart from: water quality complaints, speed of response, carbon footprint (Water)

TOTEX
0.7%

- Actual FY2015/16 wholesale totex (12/13 prices) of £965m vs. FD allowance of £983m = £17m⁽¹⁾ of outperformance, £8m after customer sharing and tax
- Actual retail⁽²⁾ costs of £98m vs. £112m of FD allowed expenditure = £14m outperformance. Post-tax outperformance = £11m

FINANCING
1.4%

- Actual financing costs of £193m⁽³⁾ (12/13 prices) vs. FD allowance of £243m = £50m of financing outperformance
- Post-tax outperformance of £40m
- Outperformance is a combination of treasury management actions and the impact of low RPI, both on the non-cash element of our index-linked debt and on nominal interest rates

(0.1%)

- Other adjustments including non-household revenue, land sales and disposals, other income and WRFIM

8.4%

FY2015/16 RoRE⁽⁴⁾

1. Includes company share of interest on over/underspent totex

2. Includes both household and non-household cost allowances

3. Net interest cost excluding pension income and capitalised interest

4. Based on actual gearing of 61.6%, using Ofwat Final Determination average RCV for 2015/16 of £7,324m

GROUP EARNINGS

YEAR ENDED 31 MARCH 2016

2015 £m		2016 £m	Variance £m	Variance %
119.1	Profit for the period attributable to owners of the company	330.0	210.9	177.1%
(4.7)	Adjusted for discontinued operations	0.7	5.4	114.9%
114.4	Profit for the period from continuing operations attributable to owners of the company	330.7	216.3	189.1%
Pence		Pence	Variance Pence	Variance %
	Basic EPS from continuing operations			
107.2	Underlying basic EPS (before exceptional items, net gain/loss on financial instruments and deferred tax)	108.7	1.5	1.4%
48.3	Basic EPS	140.0	91.7	189.9%
	Diluted EPS from continuing operations			
106.7	Underlying diluted EPS (before exceptional items, net gain/loss on financial instruments and deferred tax)	108.2	1.5	1.4%
48.1	Diluted EPS	139.4	91.3	189.8%

GROUP BALANCE SHEET

AT 31 MARCH 2016

2015 (Restated) £m		2016 £m	Movement £m
7,615.3	Property, plant and equipment and intangible fixed assets	7,805.6	190.3
4.7	Joint ventures, associates and other investments	5.2	0.5
20.7	Working capital	91.0	70.3
(829.0)	Deferred income	(878.3)	(49.3)
(468.9)	Retirement benefit obligations	(309.5)	159.4
(34.4)	Provisions	(30.0)	4.4
72.6	Net assets held for sale	-	(72.6)
(13.4)	Non-controlling interests	(1.1)	12.3
6,367.6	Capital employed	6,682.9	315.3
755.6	Equity	1,017.4	261.8
4,752.6	Net debt	4,823.4	70.8
177.7	Other derivative financial instruments	166.3	(11.4)
(9.3)	Current tax	11.1	20.4
691.0	Deferred tax	664.7	(26.3)
6,367.6		6,682.9	315.3

MOVEMENT ON SHAREHOLDERS' EQUITY

PERIOD ENDED 31 MARCH 2016

	£m
At 1 April 2015 (Restated)	769.0
Total comprehensive income for the period	461.6
Dividends paid to shareholders of Severn Trent Plc	(197.0)
Share based payments charge (after tax)	1.3
Shares issued	7.3
Share buy back	(10.0)
Disposal of Minority Interest	(13.7)
At 31 March 2016	1,018.5

GEARING

AT 31 MARCH 2016

2015	Net debt/RCV	2016
61%	Severn Trent Group	62%
61%	Severn Trent Water	62%

1. March 2016 RCV is at year end actual prices

PBITD⁽¹⁾ ANALYSIS

YEAR ENDED 31 MARCH 2016

	2016 £m
Regulated Water and Waste	799.2
Business Services	48.9
Corporate and other	(9.7)
Group	838.4

1. Profit from continuing operations before interest, tax, depreciation (see depreciation slide) and exceptional items

DEPRECIATION⁽¹⁾ ANALYSIS

YEAR ENDED 31 MARCH 2016

	2016 £m
Regulated Water and Waste	307.1
Business Services	10.7
Corporate and Other	(2.2)
Group	315.6

1. Including amortisation of intangibles

CAPITAL EXPENDITURE (NET CASH)⁽¹⁾

YEAR ENDED 31 MARCH 2016

	2016 £m
Regulated Water and Waste	385.8
Business Services	21.7
Corporate and Other	2.5
Group	410.0

1. Including purchases of property, plant and equipment, intangible assets, proceeds on disposal of property, plant and equipment and contributions and grants received

WHOLESALE TOTEX RECONCILIATION

YEAR ENDED 31 MARCH 2016

	Opex	Capex	Totex
	£m	£m	£m
STW Opex per income statement	593.7	-	593.7
STW Capex per cash flow statement	-	385.8	385.8
Infrastructure maintenance expenditure	-	126.0	126.0
ROC income reclass from Revenue	(8.3)	-	(8.3)
Profit / proceeds on sale of fixed assets	2.9	12.6	15.7
Change in capital creditors	-	6.8	6.7
Amortisation of grants and contributions	10.5	-	10.5
Retail Opex / Capex	(100.3)	(8.4)	(108.7)
Non-appointed Opex	(9.2)	-	(9.2)
Other income	3.2	-	3.2
Exceptionals	(1.0)	-	(1.0)
Developer Services and 3 rd party recharges to Revenue	2.1	-	2.0
Management Recharge	1.4	-	1.4
Wholesale Totex	495.0	522.8	1,017.8

SEVERN TRENT SERVICES PERFORMANCE

YEAR ENDED 31 MARCH 2016

Turnover				Underlying PBIT ⁽¹⁾		
2015 £m	2016 £m	Change %		2015 £m	2016 £m	Change %
216.3	233.2	7.8	As reported	9.7	10.7	10.3
8.3	-		Exchange rate impacts	(0.1)	-	
224.6	233.2	3.8	Like for like ⁽²⁾	9.6	10.7	11.5

1. Before exceptional items

2. On constant currency excluding acquisitions and disposals

NET FINANCE COSTS

YEAR ENDED 31 MARCH 2016

	Income statement charge 2016 £m	Capitalised interest 2016 £m	Gross interest incurred 2016 £m
“Cash” interest (including accruals)	180.6	15.3	195.9
Net pension finance cost	15.1	-	15.1
RPI interest	13.6	1.2	14.8
	209.3	16.5	225.8

NET DEBT

AT 31 MARCH 2016

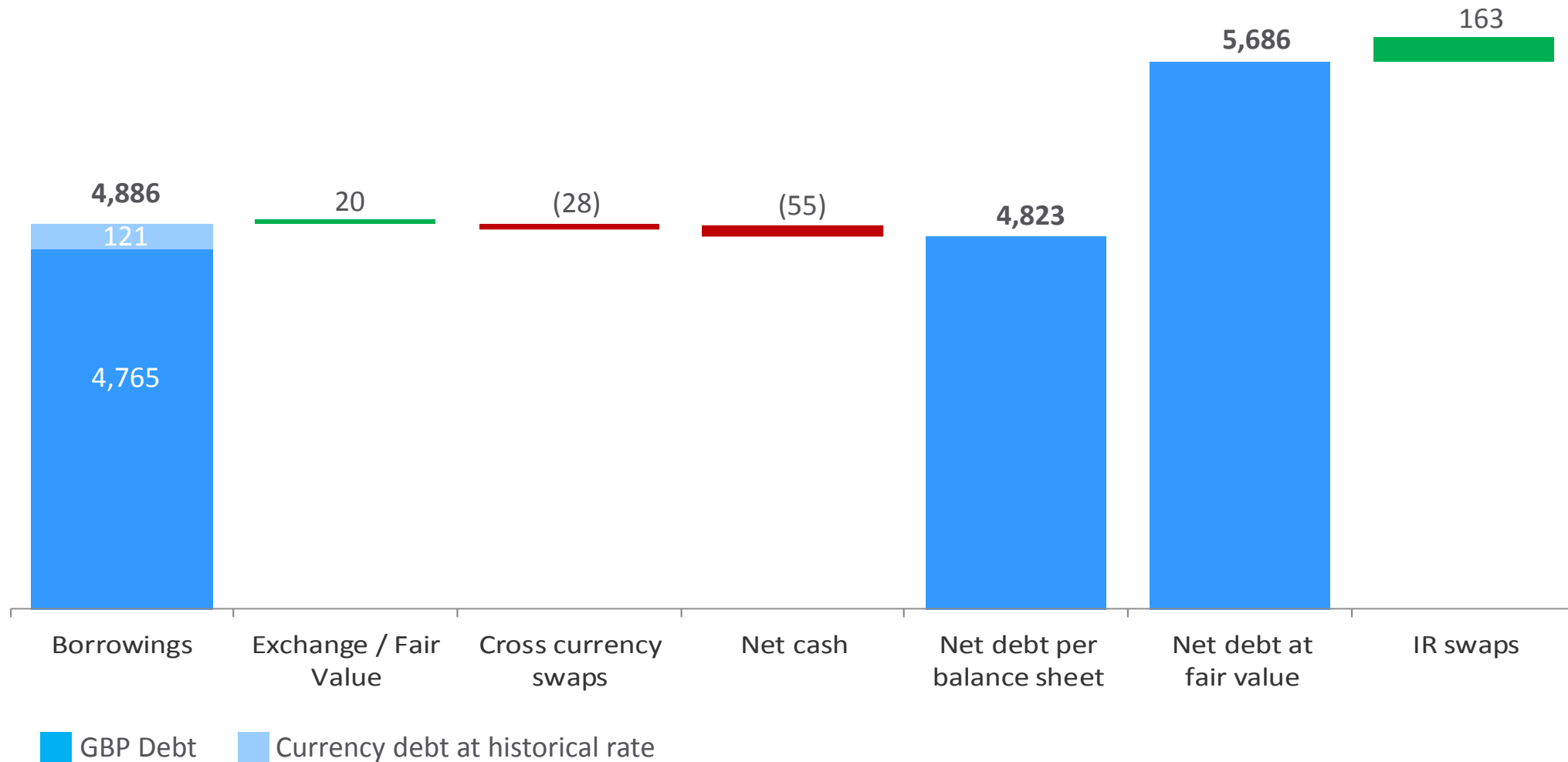
	2015 £m	2016 £m	Movement in the year £m
Cash and cash equivalents	(176.7)	(55.2)	121.5
Bank loans	1,279.2	1,249.8	(29.4)
Other loans	3,467.5	3,539.7	72.2
Finance leases	180.0	117.2	(62.8)
Cross currency swaps	2.6	(28.1)	(30.7)
Net debt	4,752.6	4,823.4	70.8

FAIR VALUE OF NET DEBT

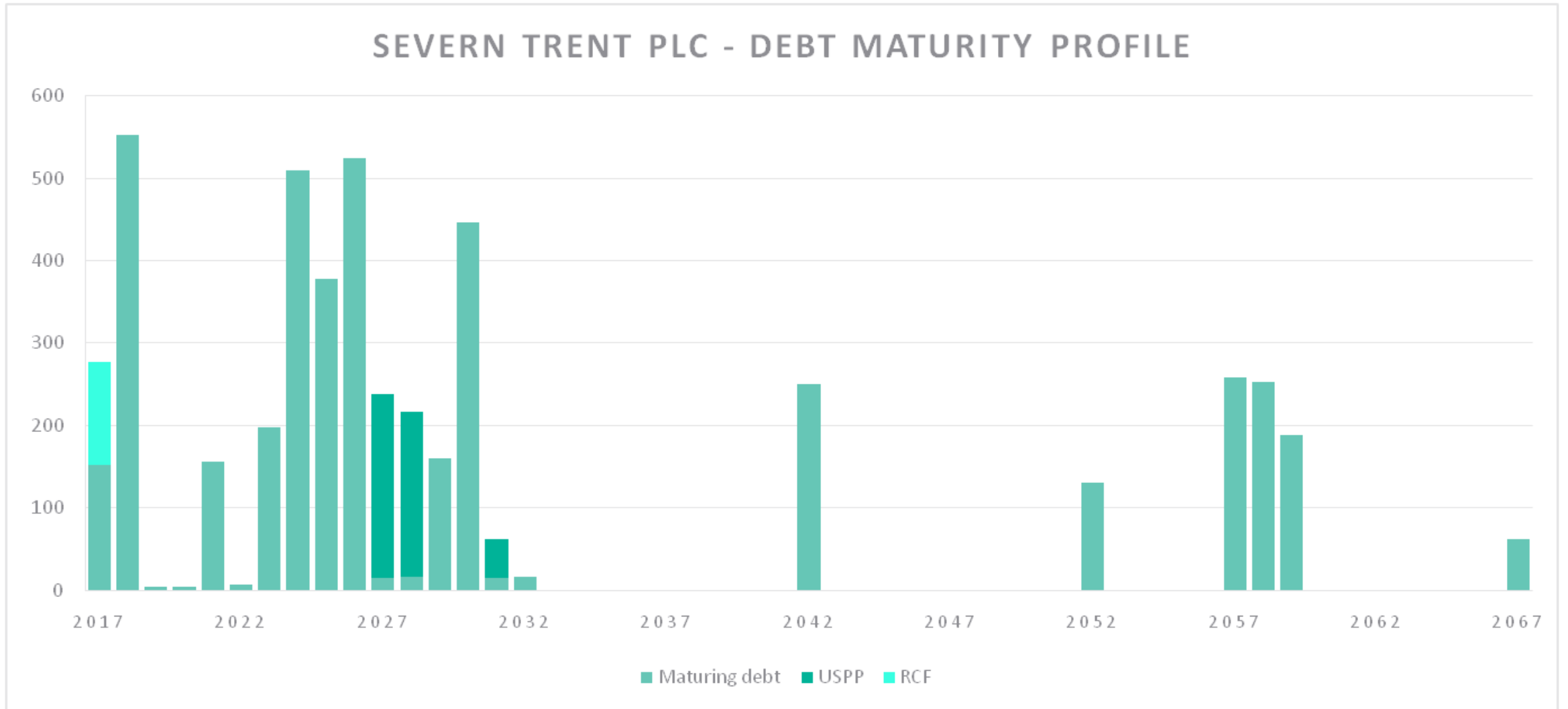
AT 31 MARCH 2016

	2015 £m	2016 £m	Movement in the year £m
Bank loans	1,297.7	1,257.2	(40.5)
Other loans	4,331.1	4,387.1	56.0
Finance leases	190.7	125.4	(65.3)
	5,819.5	5,769.7	(49.8)
Net cash and cash equivalents	(176.7)	(55.2)	121.5
Cross currency swaps	2.6	(28.1)	(30.7)
Fair value of net debt	5,645.4	5,686.4	41.0
Net debt (previous slide)	4,752.6	4,823.4	70.8
Difference	892.8	863.0	(29.8)

ANALYSIS OF BORROWINGS, NET DEBT AND SWAPS AT 31 MARCH 2016



IMPROVING DEBT MATURITY PROFILE



CREDIT RATINGS

Severn Trent Water

Severn Trent Plc

Moody's

A3

Baa1

Standard & Poor's

BBB+

BBB-

- Moody's – outlook is negative
- Standard & Poor's – outlook is stable

FULL YEAR 2015/16 RESULTS

24 May 2016

Lake Vyrnwy, Wales

SEVERN
TRENT