



# Half Year 2020/21 results

26 November 2020



# DISCLAIMERS

## 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.

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# LIV GARFIELD

Chief Executive





# 2020/21 HIGHLIGHTS

## Strong operational performance

- **Delivering at least £25m ODI reward** this year and exceeding AMP6 year one performance
- **Balanced performance** across Water, Waste & Environment with c. 80% of measures in positive territory
- **Industry-leading environmental performance** confirmed with 4\* EPA status

## Investment momentum

- Accelerating to over **£500m capital investment** in year one; including brought forward renewables investment
- Insourced design function delivering **innovation, cost efficiency** and **carbon reduction**
- Confident of delivering UQ operational performance within overall totex allowance

## Support where it's needed

- Over **100,000** households helped with **£13m** of financial support
- Over **£3m awarded** to local community schemes and charities so far this year
- Supporting **500 16-24 year olds** with paid work experience through Kickstart Scheme

# JAMES BOWLING

Chief Financial Officer



# H1 2020/21 FINANCIAL HIGHLIGHTS

H1 results in line with expectations, on track for a successful AMP

Fast start to AMP7  
investment

**£284m**  
cash capex in H1

Underlying PBIT<sup>1</sup>

**£226m**  
-21%

Effective interest cost<sup>2</sup>

**3.3%**  
down 40 bps in H1

Positive customer ODIs

**£25m+**  
expected for the full year

Underlying basic EPS<sup>3</sup>

**51p**  
-25%

Strong liquidity

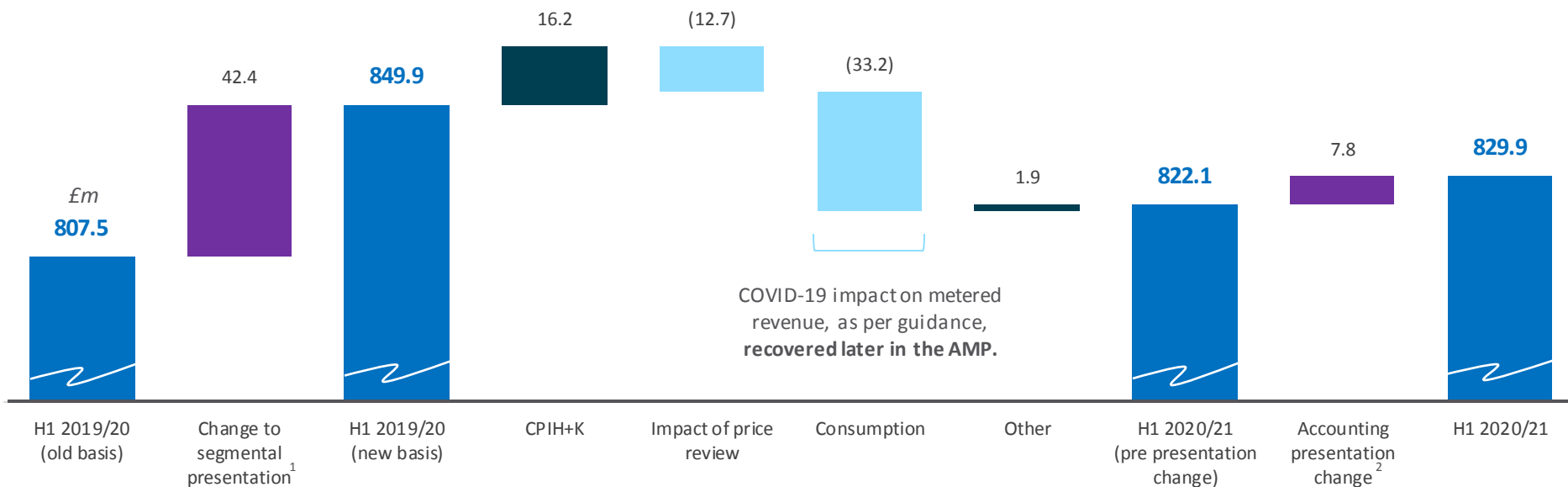
**£890m**  
available facilities at 30 Sept

**Interim dividend of 40.63p confirmed**

1. Underlying profit before interest and tax (PBIT) excludes amortisation of acquired intangible assets. Reported PBIT of £224.6m (2019/20: £285.3m) includes amortisation of acquired intangible assets of £1.0m (2019/20: £1.0m).
2. Before net pension finance costs but including capitalised interest.
3. Underlying earnings per share (EPS) before amortisation of acquired intangible assets, net losses on financial instruments, current tax on net losses on financial instruments and deferred tax. Reported basic EPS of 42.7p (2019/20: 61.7p).

# REGULATED WATER AND WASTE WATER

Turnover down 2.4% reflecting impact of COVID-19 on NHH volumes

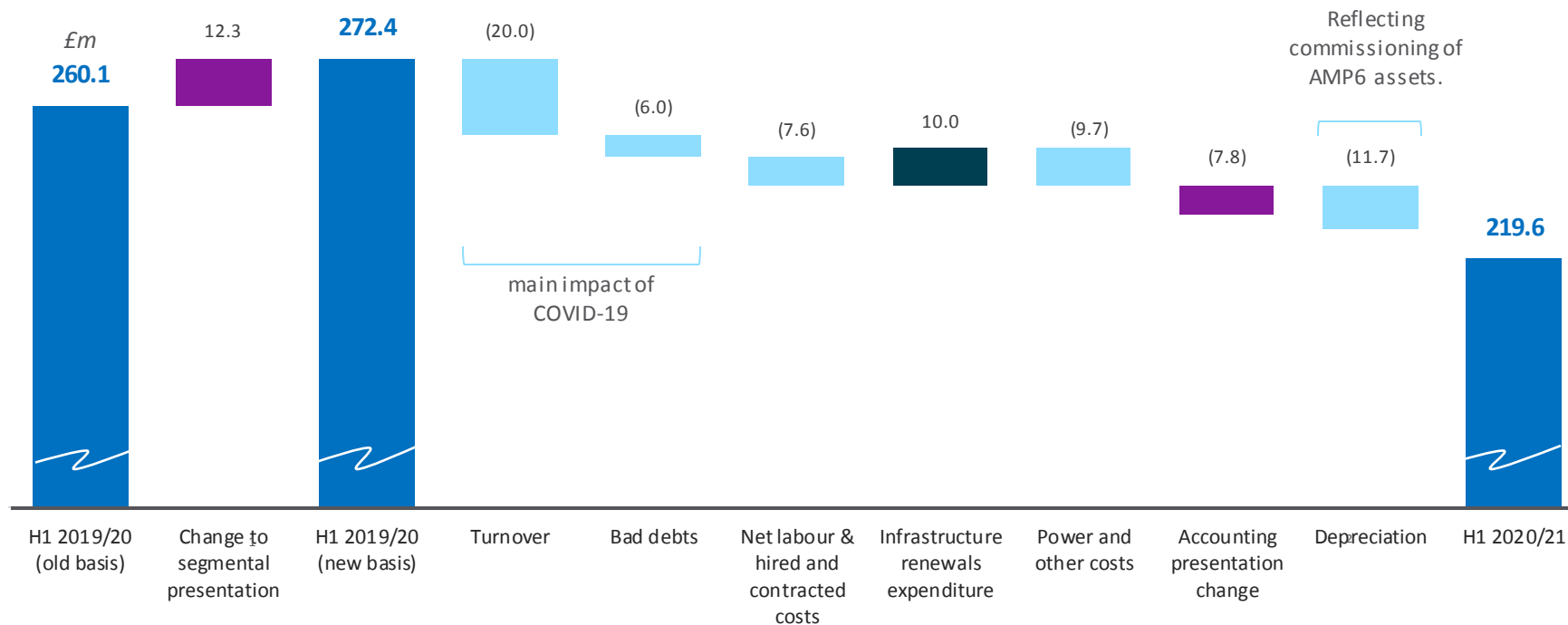


1. In the prior year the Bioresources and Developer Services businesses were managed by, and included in, Business Services. Both of these businesses form part of the appointed businesses of Severn Trent Water and Hafren Dyfrdwy, are included in the regulatory settlement determined by Ofwat and are now managed by Regulated Water and Waste Water. We have therefore amended our segmental presentation to include Bioresources and Developer Services as part of our Regulated Water and Waste Water business. We have restated the prior year segmental analysis to present both years on a consistent basis.

2. Following a change in presentation, which has resulted in a reclassification of deferred income released to the income statement, previously credited to operating costs.

# REGULATED WATER AND WASTE WATER

**PBIT down 19% after COVID-19 impact on revenue & bad debt and increased investment**



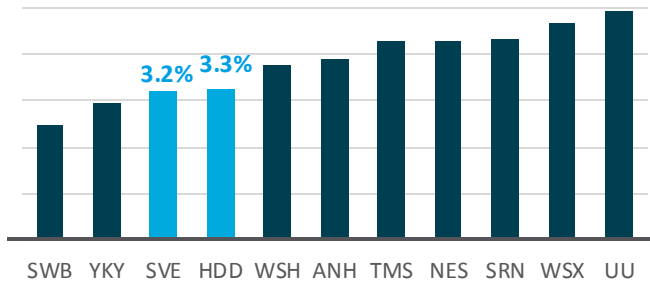
- In the prior year the Bioresources and Developer Services businesses were managed by, and included in, Business Services. Both of these businesses form part of the appointed businesses of Severn Trent Water and Hafren Dyfrdwy, are included in the regulatory settlement determined by Ofwat and are now managed by Regulated Water and Waste Water. We have therefore amended our segmental presentation to include Bioresources and Developer Services as part of our Regulated Water and Waste Water business. We have restated the prior year segmental analysis to present both years on a consistent basis.
- Includes £7.8 million revenue previously credited against operating costs. The impact on PBIT of this presentational change is nil.



# CUSTOMER COLLECTIONS

Cash collections robust, prudent provision made for anticipated COVID-19 impact

## Strong base position on credit management



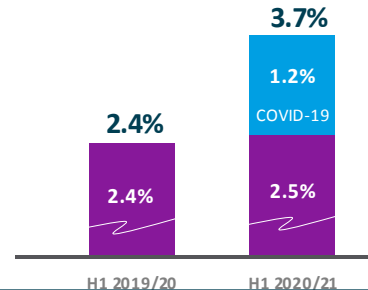
Source: Annual Performance Reports 19/20

## Strengthening our approach with new initiatives

- **Back on Track scheme** launched to **support customers impacted by COVID-19** with bill discounts of up to 50%
- Direct debit payments drive – **up to over 64%** penetration
- Using **data analytics** to enhance our understanding of customer behaviours and payment trends

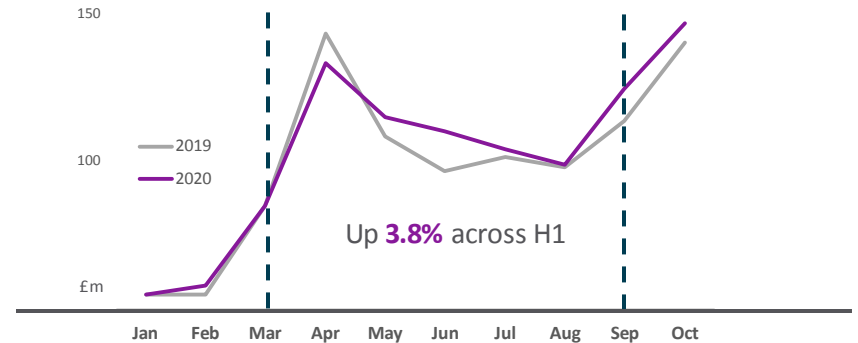
## Prudent approach to provisioning

Underlying bad debt charge **broadly flat**. 1.2% (£8.2 million) COVID-19 H1 top-up for expected impact of future unemployment.



Bad debt presented as % of household revenue

## Household cash collections remain strong, up 3.8%



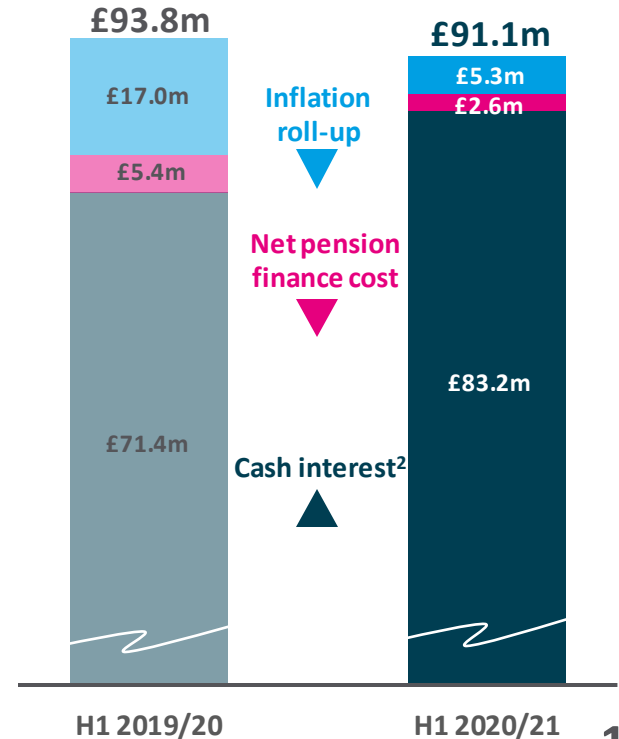
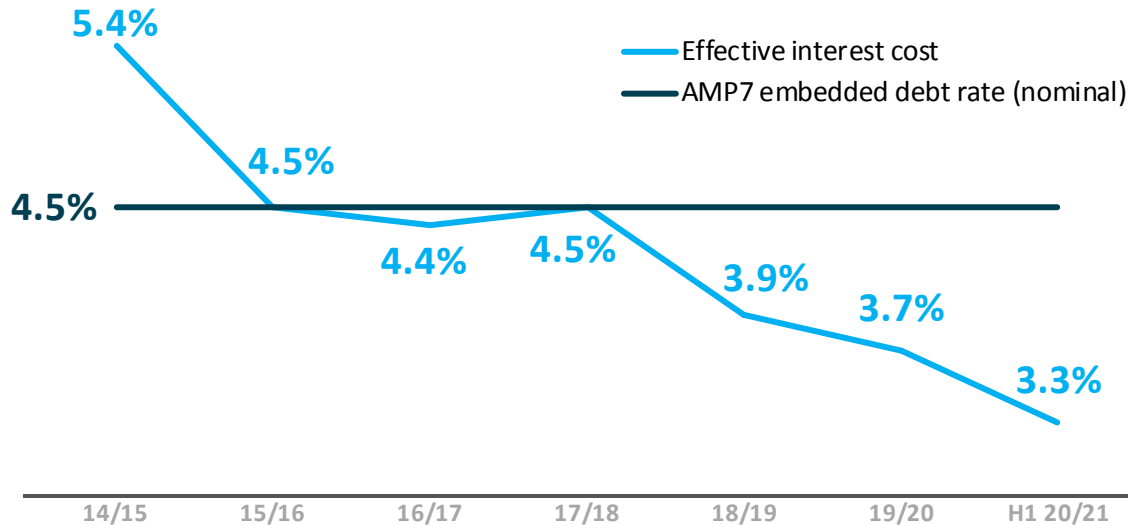
2020/21 receipts **consistently higher** than 2019/20 since May

# FINANCING PERFORMANCE

Strong performance continues into the new AMP

Effective interest cost<sup>1</sup>  
3.3%, down 40 bps

Effective cash cost of interest<sup>2</sup>  
3.1%, flat

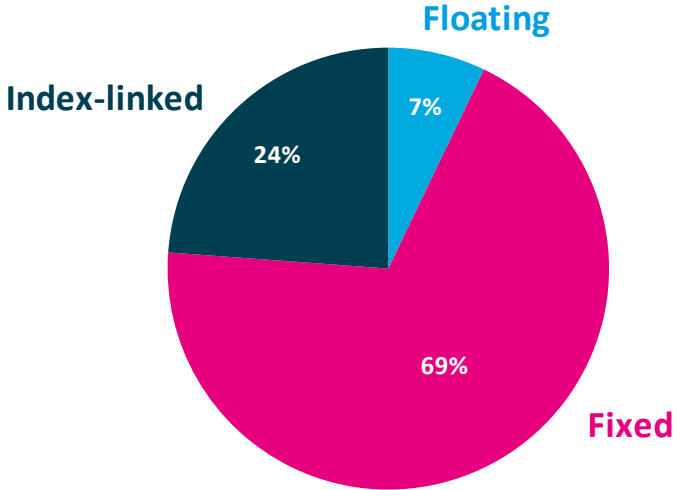


1. Before net pension finance costs but including capitalised interest.

2. Net of capitalised interest of £14.9 million (2019/20: £21.1 million). Gross cash cost of interest was £98.1 million (2019/20: £92.5 million).

# FINANCING STRATEGY

Strong liquidity and financing flexibility to support our long-term strategy



- **£300m sterling bond** issued in June under our Sustainable Finance Framework
- **Extension of RCF facilities** through to March 2023
- Further **plans to increase CPI share** of index-linked debt (now 31%)

Net debt of  
**£6,243m<sup>1</sup>**

Gearing<sup>2</sup> of  
**63.9%**

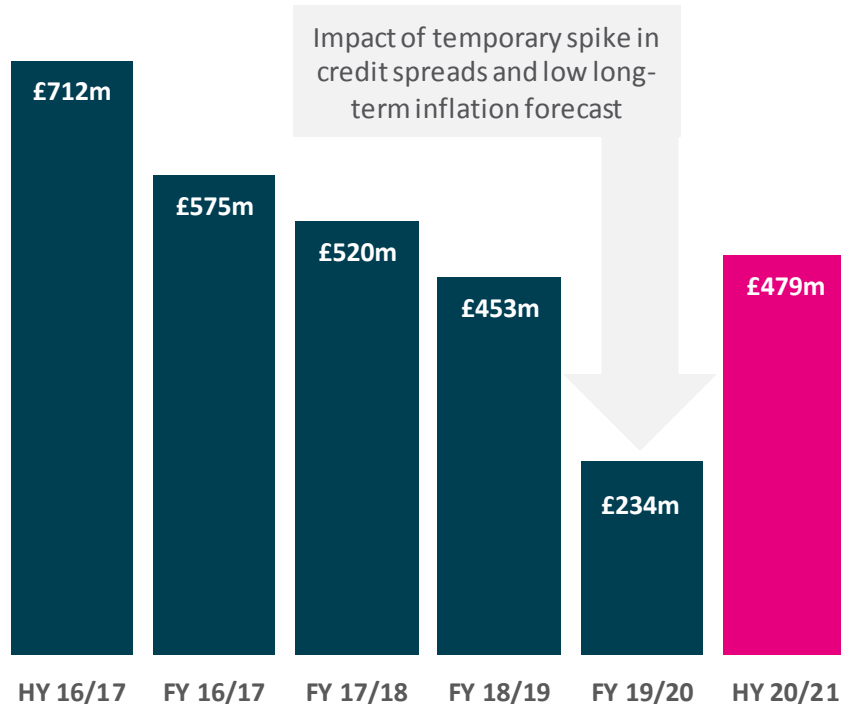
Available  
facilities of  
**£890m**

Significant refinancing opportunities  
across AMP7 at attractive rates

1. Includes cross currency swaps.  
2. Severn Trent Water Group (Severn Trent Water and Hafren Dyfrdwy combined) Net debt/Regulatory Capital Value.

# PENSIONS STRATEGY

## Effective asset allocation mitigating impact of COVID-19 equity shocks & historically low discount rates



- As anticipated, **corporate bond spreads narrowed** from March spike, combined with **historically low gilt yields** to increase accounting liability
- Significantly offset by **hedging asset performance** and **equities collar**
- Actuarial valuation much less volatile, planned affordable average annual AMP7 **contributions of £60m** to continue



# BUSINESS SERVICES

## H1 impacted by COVID-19; well-positioned for long-term growth

		Turnover	EBITDA
<b>Operating Services &amp; Other</b>	<ul style="list-style-type: none"> <li>▪ <b>Solid performance</b> from stable, long-term contracts</li> <li>▪ H1 impact of COVID-19 <b>expected to recover over full year</b></li> </ul>	£34.6m	£7.8m
<b>Green Power</b>	<ul style="list-style-type: none"> <li>▪ COVID-19 impact - lower energy prices &amp; less commercial food waste</li> <li>▪ Agrivert acquisition <b>performing strongly</b>, supported by high-quality long-term domestic local authority contracts</li> <li>▪ <b>Well placed for expected growth</b> in kerbside collections</li> </ul>	£24.5m	£5.9m
<b>Property Development</b>	<ul style="list-style-type: none"> <li>▪ <b>H1 in line with guidance</b></li> <li>▪ FY 2020 and 2027 £100m programme <b>on track</b></li> </ul>	n/a	£1.4m
		<b>£59.1m</b> -4%	<b>£15.1m</b> -36%

# 2020/21 TECHNICAL GUIDANCE

Guidance in bold italics has been revised since the last trading update. Please note that all technical guidance is presented in the new segmental basis for comparative purposes.

Regulated Water and Waste Water		FY20 (restated) <sup>1</sup>	Year-on- Year
Turnover <sup>1,2</sup>	£1.63 billion to £1.67 billion. Lower year-on-year by £50 million to £85 million from the expected impact of COVID-19 (non-household consumption down, partly offset by increased household usage).  Assumes latest national lockdown is in place from 5 November to 2 December. We will provide an update on expected outturn at our quarterly trading update in February. The Ofwat regulatory model allows us to recover this revenue in two years.	£1.71bn	▼
Operating costs (incl. IRE) <sup>1</sup>	Higher year-on-year due to increasing chemical usage to meet tighter effluent consents and expected COVID-19 related increases in household bad debt, partially offset by our insourcing strategy and a reduction in our IRE programme following completion of AMP6 programmes.	£815m	▲
Customer ODis <sup>3</sup>	<b><i>At least £25 million net reward across Water, Waste and Environmental measures.</i></b>	£36m	▼
Business Services			
Underlying PBIT (excl. Property) <sup>1</sup>	Lower year-on-year driven by the impact of lower energy prices on renewable energy revenue and COVID-19.	£28m	▼
Underlying Property PBIT	Between <b><i>£2 million</i></b> and £5 million. We remain on track with commitment to deliver £100 million PBIT over ten years to 2027.	£8m	▼
Group			
Interest charge	<b><i>Broadly in line with prior year as increased total debt and lower capitalised borrowing costs are offset by the impact of lower inflation on index-linked debt.</i></b>	£188m	↔
Tax rate	Total tax rate of c.19% and underlying effective current tax rate between 9% and 11%.	10.4%	↔
Group capex	<b><i>£500 million to £580 million. Accelerated activity on AMP7 capital schemes, but lower expenditure year-on-year following completion of significant AMP6 programmes.</i></b>	£800m	▼
Dividend <sup>4</sup>	Annual dividend growth of CPIH. 2020/21 dividend 101.58p.	100.08p	▲

1. Guidance restated to reflect segmental changes.

2. Includes new presentation of deferred income released to turnover in the income statement.

3. Customer Outcome Delivery Incentives for FY21 are quoted pre-tax in 2017/18 prices (FY20 quoted pre-tax in 2012/13 prices).

4. 2020/21 dividend growth is based on November 2019 CPIH of 1.50%.

# FINANCIAL SUMMARY

## On track for a successful AMP



**Underlying PBIT<sup>1</sup>**  
**£226m**

Impact of COVID-19 related decrease in consumption recovered later in AMP7

**Customer ODIs at least**  
**£25m**

Improvements across a wide range of price controls

**Effective interest cost<sup>2</sup>**  
**3.3%**

40 bps reduction this half year, strong liquidity, further opportunities to outperform

**Cash capex**  
**£284m**

Fast start to AMP7 – £80m of capital investment accelerated

1. Underlying profit before interest and tax (PBIT) excludes amortisation of acquired intangible assets. Reported PBIT of £224.6m (2019/20: £285.3m) includes amortisation of acquired intangible assets of £1.0m (2019/20: £1.0m).  
2. Before net pension finance costs but including capitalised interest.

# LIV GARFIELD

Chief Executive





# SEVERN TRENT CULTURE

## Providing the platform to be our best...

Aligned purpose driving increased engagement score – Top 5% of Global Utilities

Looking after the physical, mental and financial health of our people

Supporting over 700 SME suppliers with accelerated payments



Top 500 leaders collaborate and plan for the future

CEO sustainability roadshows engaging all teams

Continuing to evolve supply chain partnerships fit for the future

## ...and maintaining focus on long-term success

# MOMENTUM IN WATER

Emerging strength benefiting from investment

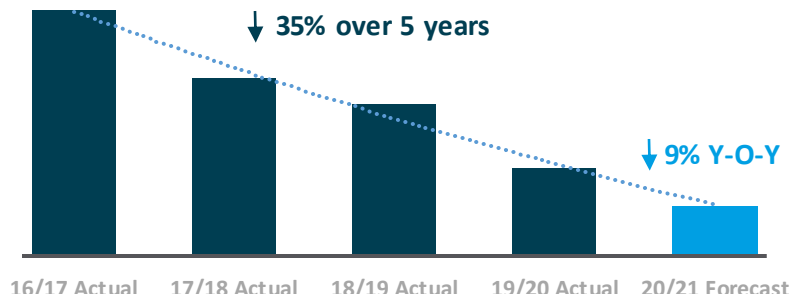
75%  
Positive  
territory

## Strong start on industry-wide measures

### Leakage & speed of response

- 35,000 leakage loggers helping to keep **on track with 15% leakage reduction** in AMP7
- 9% improvement** in speed of response on track for reward after 5 years of penalty

### Water quality complaints – 1<sup>st</sup> year of reward



## Success on bespoke customer measures

### Customer metering

- On track to deliver almost double the year one target
- Supporting ambition to reduce water consumption



### Persistent low pressure

- New bespoke ODI based on direct customer feedback
- Focusing on individual houses and the worst affected customers as a priority
- Utilising targeted innovation for specific issues ensuring a 'right first-time' approach

# STRONG START FOR WASTE

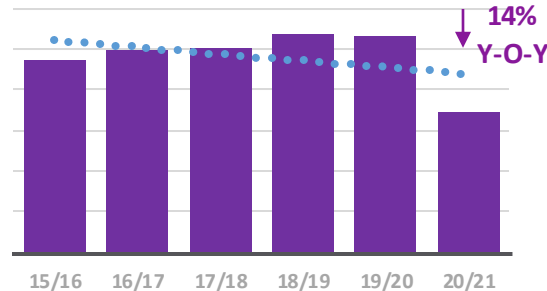
75%  
Positive  
territory

Embedding operational excellence across a broad set of measures



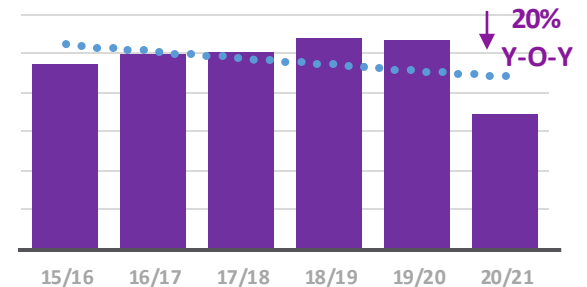
- Industry-leading environmental performance confirmed with 4\* EPA status
- Ambitious waste network investment plans including 40,000 loggers across region by 2025
- On track with 50% reduction on pollutions by 2025, protecting our rivers

Pollution incidents (Cat 1 - 3)



On track to reduce pollutions by 14%

Blockages



Tackling the root cause of failure **19**



# ENHANCING OUR ENVIRONMENT

89%  
Positive  
territory

## Utilising the power of nature as a long-term sustainable solution

### Leading ambition on biodiversity

- On track to deliver **60% of 2027** ambition and 1.5 times our five-year ODI target this year
- Engaging communities with **Great Big Nature Boost** campaign to inspire climate action
- Significant contributor to our **2030 net zero roadmap**

### Embracing nature as a solution

- **Green Communities ODI** encourages use of nature when designing the way we run our business
- Working with supply chain so they enhance nature as they build with a **Biodiversity Net Gain** commitment
- Continuing to work in partnership with farmers to change behaviours through **catchment management**

5,000 ha  
by 2027



*“for a water company, the environment is our supply chain”*

### Long-term investment driver

- **Climate change and resilience** key facets of future investment need
- SVT **Green Recovery** proposals support additional enhancements in AMP7

# INVESTING FOR OUR FUTURE

## Utilising the benefits of fast-track status



**Investment ahead of plan** maintaining momentum from AMP6 in AMP7

**£80m accelerated** to deliver key projects earlier - supporting operational outperformance

Brought forward **renewable energy investment** to increase efficiency of process

Insourced Capital Design function playing role in cost efficiency and **drive to net zero carbon**

# INVESTING IN PEOPLE

Securing the best skills and brightest talent to push Severn Trent further



## Academy launch

Academy to open late 2020 to enhance skills of our people and our communities



## Welcoming new talent

- Largest ever intake into **New Talent** schemes in Autumn 2020
- Supporting Government **Kickstart Scheme** welcoming **500** new colleagues for paid work experience

**KICKSTART**  
**SCHEME**

## Diversity & inclusion

- **1<sup>st</sup>** on EY's Female FTSE report
- **Top 3** in the Tortoise index
- **Top 10** in the Social Mobility Index
- Signatories of **Race at Work Charter**



# SUMMARY

## Delivering outperformance and investing for the future

### Operationally strong

- ODIs an embedded strength for the long-term
- Adapted to pandemic while maintaining focus on being a business fit for the future
- Industry-leading environmental performance with **4\* EPA accreditation**

### Investing with impact

- **£500m+ capital investment** in year one with £80m accelerated on key projects
- Capital delivery model delivering benefits to performance
- Continuing to invest in people and skills with the **Academy** and **Kickstart Scheme**

### Living our purpose

- Supporting all our stakeholders through recent difficult times
- Showing great progress on our ambitious sustainability commitments
- Delivering consistent, attractive returns

# APPENDIX



# UNDERLYING EBITDA<sup>1</sup>

## SIX MONTHS ENDED 30 SEPTEMBER 2020

2019 (restated) <sup>2</sup> £m		2020 £m	Variance £m	Variance %
449.3	Regulated Water and Waste Water	<b>408.2</b>	(41.1)	(9.1)
23.5	Business Services	<b>15.1</b>	(8.4)	(35.7)
(3.6)	Corporate and other	<b>(2.1)</b>	1.5	41.7
(0.1)	Eliminations	<b>–</b>	0.1	100.0
469.1	Severn Trent Group	<b>421.2</b>	(47.9)	(10.2)

1. Earnings before interest, tax, depreciation, amortisation and amortisation of acquired intangible assets.

2. Restated in line with the change in the basis of segmentation, with Bioresources and Developer Services now included within Regulated Water and Waste Water rather than in Business Services.

# SEGMENTAL UNDERLYING PBIT<sup>1</sup> SIX MONTHS ENDED 30 SEPTEMBER 2020

2019 (restated) <sup>2</sup> £m		2020 £m	Variance £m	Variance %
272.4	Regulated Water and Waste Water	<b>219.6</b>	(52.8)	(19.4)
17.6	Business Services	<b>8.2</b>	(9.4)	(53.4)
(3.7)	Corporate and other	<b>(2.2)</b>	1.5	40.5
286.3	Severn Trent Group	<b>225.6</b>	(60.7)	(21.2)

1. Profit before interest, tax and amortisation of acquired intangible assets.

2. Restated in line with the change in the basis of segmentation, with Bioresources and Developer Services now included within Regulated Water and Waste Water rather than in Business Services.

# DEPRECIATION<sup>1</sup>

## SIX MONTHS ENDED 30 SEPTEMBER 2020

2019 (restated) <sup>2</sup> £m		2020 £m	Variance £m	Variance %
176.9	Regulated Water and Waste Water	<b>188.6</b>	11.7	6.6
5.9	Business Services	<b>6.9</b>	1.0	16.9
–	Corporate and other	<b>0.1</b>	0.1	100.0
182.8	Severn Trent Group	<b>195.6</b>	12.8	7.0

1. Including amortisation of intangible assets and depreciation of right-of-use assets, before amortisation of acquired intangible assets.

2. Restated in line with the change in the basis of segmentation, with Bioresources and Developer Services now included within Regulated Water and Waste Water rather than in Business Services.

# NET FINANCE COSTS

## SIX MONTHS ENDED 30 SEPTEMBER 2020

Income statement charge £m	Capitalised interest £m	2019		Income statement charge £m	Capitalised interest £m	2020
		Gross interest incurred £m				Gross interest incurred £m
71.4	21.1	92.5	Cash interest (including accruals)	83.2	14.9	98.1
5.4	–	5.4	Net pension finance cost	2.6	–	2.6
17.0	–	17.0	Inflation uplift on index-linked debt	5.3	–	5.3
93.8	21.1	114.9		91.1	14.9	106.0

# UNDERLYING EARNINGS PER SHARE SIX MONTHS ENDED 30 SEPTEMBER 2020

2019 £m		2020 £m	Variance £m	Variance %
286.3	Underlying profit before interest and tax	<b>225.6</b>	(60.7)	(21.2)
(93.8)	Net finance costs	<b>(91.1)</b>	2.7	2.9
192.5	Underlying profit before tax	<b>134.5</b>	(58.0)	(30.1)
(19.9)	Tax at the underlying effective rate of 9.1% (2019: 10.3%)	<b>(12.3)</b>	7.6	38.2
0.4	Current tax in respect of prior years	–	(0.4)	(100.0)
(9.3)	Share of net loss of joint ventures	–	9.3	100.0
163.7	Earnings for the purpose of underlying basic and diluted earnings per share	<b>122.2</b>	(41.5)	(25.4)
237.8	Weighted average number of ordinary shares for basic earnings per share	<b>238.1</b>	0.3	0.1
68.8	Underlying basic EPS	<b>51.3</b>	(17.5)	(25.4)

# GROUP BALANCE SHEET AT 30 SEPTEMBER 2020

31 March 2020 £m		30 September 2020 £m	Variance £m	Variance %
9,954.8	Property, plant and equipment, right-of-use assets, intangible assets and goodwill	<b>10,049.3</b>	94.5	0.9
43.2	Working capital	<b>(32.0)</b>	(75.2)	(174.1)
(1,188.3)	Deferred income	<b>(1,206.6)</b>	(18.3)	(1.5)
(234.0)	Net retirement benefit obligations	<b>(478.7)</b>	(244.7)	(104.6)
(44.0)	Provisions	<b>(41.6)</b>	2.4	5.5
3.1	Current tax	<b>(2.6)</b>	(5.7)	(183.9)
(901.1)	Deferred tax	<b>(867.3)</b>	33.8	3.8
(158.5)	Other derivative financial instruments	<b>(159.0)</b>	(0.5)	(0.3)
7,475.2	Capital employed	<b>7,261.5</b>	(213.7)	(2.9)
1,243.7	Equity	<b>1,018.3</b>	(225.4)	(18.1)
6,231.5	Net debt	<b>6,243.2</b>	11.7	0.2
7,475.2		<b>7,261.5</b>	(213.7)	(2.9)

# CASH CAPEX<sup>1</sup>

## SIX MONTHS ENDED 30 SEPTEMBER 2020

2019 £m		2020 £m	Variance £m	Variance %
369.2	Regulated Water and Waste Water	<b>279.6</b>	(89.6)	(24.3)
4.7	Business Services	<b>3.9</b>	(0.8)	(17.0)
0.2	Corporate and other	–	(0.2)	(100.0)
374.1	Severn Trent Group	<b>283.5</b>	(90.6)	(24.2)

# NET DEBT AT 30 SEPTEMBER 2020

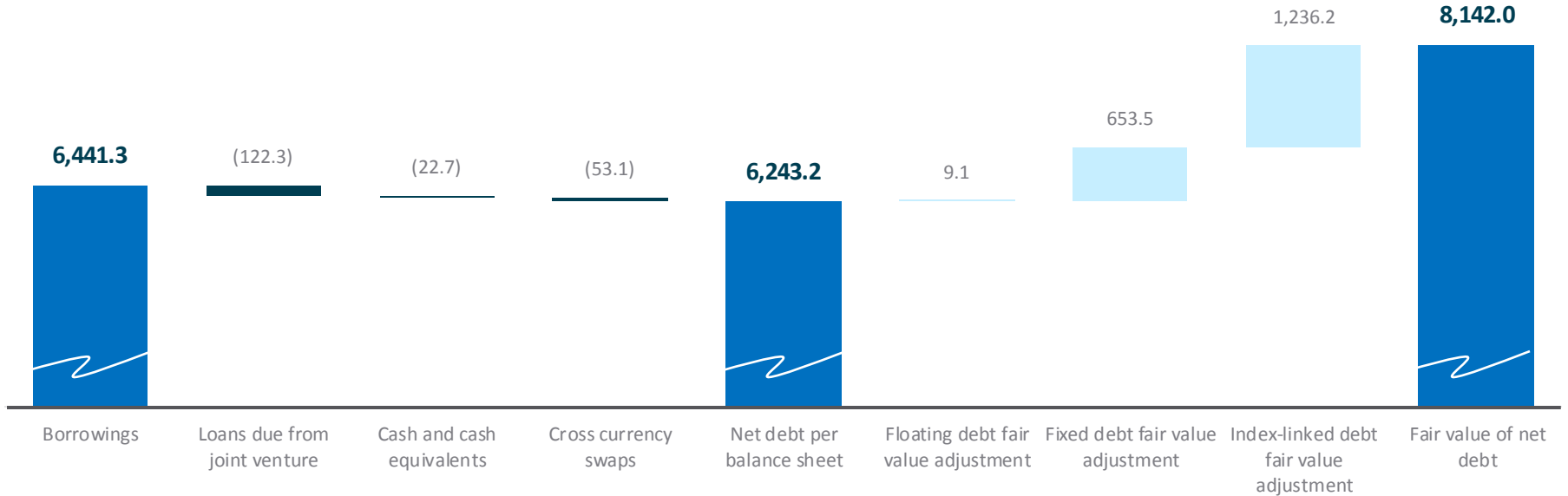
31 March 2020 £m		30 September 2020 £m	Variance £m	Variance %
(1,251.9)	Bank loans	<b>(966.3)</b>	285.6	22.8
(5,058.5)	Other loans	<b>(5,351.4)</b>	(292.9)	(5.8)
(122.7)	Lease liabilities	<b>(123.6)</b>	(0.9)	(0.7)
48.6	Net cash and cash equivalents	<b>22.7</b>	(25.9)	(53.3)
60.4	Cross currency swaps	<b>53.1</b>	(7.3)	(12.1)
92.6	Loans due from joint venture	<b>122.3</b>	29.7	32.1
(6,231.5)	Net debt	<b>(6,243.2)</b>	(11.7)	(0.2)



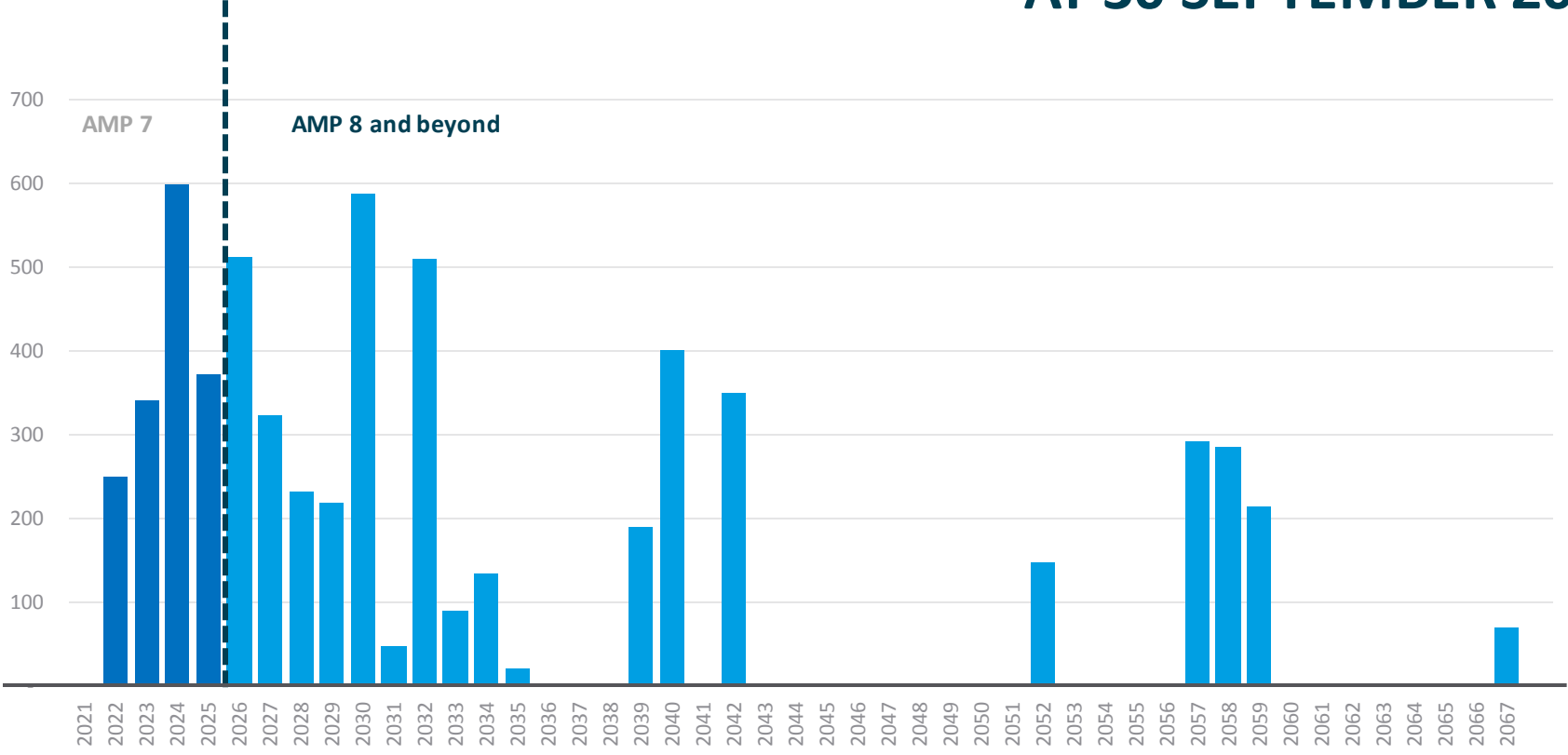
# FAIR VALUE OF DEBT AT 30 SEPTEMBER 2020

31 March 2020 £m		30 September 2020 £m	Variance £m	Variance %
(1,128.0)	Floating rate debt	<b>(989.8)</b>	138.2	12.3
(4,214.7)	Fixed rate debt	<b>(4,589.8)</b>	(375.1)	(8.9)
(2,042.2)	Index-linked debt	<b>(2,760.5)</b>	(718.3)	(35.2)
<b>(7,384.9)</b>		<b>(8,340.1)</b>	(955.2)	(12.9)
48.6	Net cash and cash equivalents	<b>22.7</b>	(25.9)	(53.3)
92.6	Loans due from joint venture	<b>122.3</b>	29.7	32.1
60.4	Cross currency swaps	<b>53.1</b>	(7.3)	(12.1)
<b>(7,183.3)</b>	Fair value of net debt	<b>(8,142.0)</b>	(958.7)	(13.3)
<b>(6,231.5)</b>	Net debt (previous slide)	<b>(6,243.2)</b>	(11.7)	(0.2)
<b>(951.8)</b>	Difference	<b>(1,898.8)</b>	(947.0)	(99.5)

# ANALYSIS OF BORROWINGS & NET DEBT AT 30 SEPTEMBER 2020



# DEBT MATURITY AT 30 SEPTEMBER 2020



# GEARING AND CREDIT RATINGS AT 30 SEPTEMBER 2020

## Gearing – Net debt/RCV<sup>1</sup>

30 September 2019	31 March 2020		30 September 2020
63.1%	64.9%	Severn Trent Group <sup>2</sup>	66.1%
61.1%	64.4%	Severn Trent Water Group <sup>3</sup>	63.9%

## Credit ratings

31 March 2020			30 September 2020		
Severn Trent Water	Severn Trent Plc		Severn Trent Water	Severn Trent Plc	Outlook
Baa1	Baa2	Moody's	Baa1	Baa2	Stable
BBB+	BBB	Standard and Poor's	BBB+	BBB	Stable

1. Estimated Regulatory Capital Value at 30 September 2020.

2. Based on statutory net debt of £6,243m (31 March 2020: £6,232m).

3. Based on Severn Trent Water Group regulated net debt of £6,034m (31 March 2020: £6,187m).