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Attendance List:	Liv Garfield James Bowling Shane Anderson Andy Smith James Jesic
Title of Meeting:	Severn Trent Full Year Results FY 20
Hosted By:	Liv Garfield

Coordinator: Good day, everyone, and welcome to the Severn Trent Full Year Results FY 20, hosted by Liv Garfield. My name is Peter, and I'm your event manager today. During the presentation, your lines will remain on listen-only. [Operator instructions]. I would like to advise all parties this conference is being recorded.

Now, I'd like to hand over to Liv.

Liv: Thanks, Peter, and good morning to everyone. We're going to go straight to questions. So to let you know who we have on the call today, we have myself, we obviously have James and about five of the senior team as well, so you won't just have to listen to James and I when we get to the Q&A part.

With that, we'll open straight up to yourselves. Who's going to start us off with questions? I'll have to do a song or a dance if you're not careful.

Coordinator: There is only one question on the line, which comes from Fraser McLaren from Bank of America.

Fraser: Good morning; hope you're all well. Thank you for the Q&A. Just a couple of questions, if I may, please, just to clarify a couple of things that you mentioned on this morning's presentation.

First of all, the revenue impact from lower non-household volumes, can you confirm, please, that that will flow straight through to EPS this year, rather than being adjusted in some way, given that it's recoverable? Secondly, you mentioned that you would update us with the latest COVID impacts at the next trading statement. Just to clarify, does that simply relate to the financial performance guidance, or is there likely to be any reconsideration of the actual dividend?

Liv

Very good. I'll take the second question. Then, I'll hand the one to James that sounds more complicated than the first.

Yes. You're absolutely right. The only guidance we're looking to give at the next trading statement in July is purely around what we've seen on the revenues in particular. We've said that we're confident that on overall operational performance, we'll manage it in the round across the ODIs [ph].

We've said that cost-wise, we're going to be able to manage that within our totex, if it costs slightly more, we'll make some savings elsewhere. We're not going to reconsider the dividend policy. We've made that announcement today. It's purely around the revenue impacts for the year.

With that, I'll hand to James.

James B.

Yes, you're right. The revenue impact will, unfortunately, go straight down into EPS. We won't be exceptionalising it because, as we've said very clearly, you have this regulatory mechanism that will correct it in two years' time. You should be accounting for that in your numbers.

None of us can predict how the part out of lockdown is going to happen. What we've done is we've looked at the government's advice, we've followed the latest on that and that's what has given us that range. Of course, we'll be able to give you more information in July and November as we can see how that's impacting.

Fraser

Can I just ask a quick follow up, please, on that point? I appreciate that the regulatory mechanism provides for recovery after two years. Is there any risk, do you think, that the regulator will seek to ask the industry to take that recovery over a longer period of time, given its unusual magnitude?

Liv

I think the way we think about this is we're quite used to managing that complicated revenue situation based on ODI. If you think about it, we've made £78 million worth of ODIs in some years and managed that flow, so we're quite adept at managing it. We actually have a number of things that can help the bill go up and down in a year.

I'll pass to James just to chuck a couple more thoughts in, but I think we feel comfortable that we'll be able to manage this in an efficient manner over the course of this AMP.

James B. Yes, so Fraser, in any given year, you have an element of risk that you have to manage. You also have inflation and the K factor that you have to manage. Then, of course, we, perhaps more than others, have had ODI rewards that have sought to manage that.

You have to look at all of those components based on the impact on the original plan. You have to think very carefully about the impact on customers and making sure that their bills are smooth, and that's what our customers have told us they'd like to see. Then, of course, if you do defer revenue, you do get the inflation benefit and the cost of capital benefit of deferring it. So there are all of those things that we take into account when we think about how we take that revenue in the future.

Liv Is there another question, Peter, on the phone?

Coordinator The next question comes from the line of Lakis from Agency Partners

Lakis Hi, guys. Yes, good results, showing good management, etc., pats on heads.

My questions, firstly the interest guidance. Yes, okay, I get it's going up as capitalised interest goes down, but your true underline, I would have thought, would be dropping a bit just because inflation is going to be coming off.

My second question is payment deferrals, both household and transmitted through billing arrangements in Water Plus among households. Can you say anything about that at this stage? Do you expect it to last the fully year or is it just one of those unquantifiable things?

Thirdly, is it all possible to quantify where you think household bad debt could eventually end up? Do you think the rate will increase more when you put in for the year-end, or again, one of those things you don't know?

Liv I'll let James answer one and three. On number two, I think we've given you, I think, really good guidance this year from where we are now. I don't think we can get into any more detail. We just have to let the next period of time play out. The good thing is we'll talk to you again in July, and again, I guess, in the half-year, and again, I guess for the Q3 trading statement. We'll keep close to sharing what's happening, but I don't think we have any more detail on question two.

In terms of interest guidance, I'll get James to answer that. Then, yes, we can give you some thoughts around how we think about bad debt, which might help with our process. Again, James will pick that up.

James B. Yes. On the interest yields, yes, I've guided you to an increase in the interest charge. That's mainly just the fundamentals are there's going to be slightly less capitalised interest this year around just because it's a much smaller capital expenditure. To put it in perspective, it's almost half the amount of capex activity this year versus last year, so that is going to have an impact on that. Then, of course, there is the increase in interest based on the fundamentals that we have a larger level of debt because of the capex that, particularly in the final year of AMP6

In terms of the underlying rate, I'm not going to guide you in terms of the underlying rates. They have come down, that's sure; that's true. The big wildcard is inflation. There are as many forecasts of higher inflation as there are lower inflation over the short- to medium-term, so I can't tell you what that's going to be. We have about 25% of our debt that's index-linked, and the remainder is predominantly now fixed because, as you know, I've been de-risking that position based on getting to the right start point for AMP7. Inflation won't have a massive impact on the go-forward rate of interest.

Liv Bad debt, do you want to say anything about that

James B. Yes, so on bad debt, this, again, is going to be tricky for anyone to forecast just because bad debt— our bad debt number across the whole sector is, to a certain extent, driven by the level of unemployment. We just don't know what the recession is going to look and feel like, and what that shape is going to be. In terms of the underlying level of bad debt that we see, it's not the level that you saw this year. You can see that we made some adjustments to our provision, which I've explained in the RNS that's probably made this year higher than the underlying run rate.

I know lots of you have looked at modelling what an impact could be. It will depend on what that recession looks like, but the last time we looked at— we had a recession, there was around a 90 basis point to 100 basis point increase in bad debts for a short period of time, a few years that was based on the underlying level. That's what a lot of people have been modelling.

Coordinator Next question comes from the line of Deepa

Deepa Good morning. I had actually just one follow-up question on bad debts. I think when you were talking about the 100 bps or so if we take that, we are talking about maybe £10 million, £15 million impact. If this were to become unusual for so from £12 million, £15 million to £50 million or £60 million, would there be any mechanism under the openers or anything with Ofwat that will help you claw this back in two years' time or five years' time, or is this basically something that shareholders have to absorb?

Liv	Depa, the way we view price controls and working with Ofwat is you take a package over five years. Effectively, you sign off that package and you'll have some good thing in the package and might have some less-good things that arrive in the package, but broadly, we take a view that in the round these things tend to wash out a little bit. Of course, they then play into the next price review and the conversations there. Shane, as you are new Head of Strat and Reg, do you want to make a couple of comments on this?
Shane	Yes, no problem. Just for the retail bad debt, there is no mechanism for that to be shared like the revenues. However, it does feed into the process of PR24, so the way Ofwat sets the retail cost allowance and then look at the historic costs. If we're seeing higher retail and historic costs, well, then that will flow into the allowance for PR24 and beyond, so there is an indirect benefit there.
Liv	I think what we'll guide you to, Deepa, today is that we've had a good look at the negative things over the next period of time. We've also had some positive things. We've been preparing for quite a while. Remember, we've been fast-tracked for a while; we've been preparing for a while. We deliberately invested heavily in this last year of AMP6 to get ourselves in good shape on the totex cost base and on the ODIs. Whilst we're bound to talk about some of the things that are coming out of COVID like bad debt, and like some of those things, actually, we probably have a good chunk of things that are positive that allow us some offset.
James B.	The other thing I would say is over the last decade, since the last recession, we've made a huge amount of changes to our credit collection journeys, which I think will make us a lot more resilient to this kind of an issue. If you think about the— for example, we have much more help in place. We're already helping 70,000 of our customers with their bills, so we have many more schemes that we can deploy to help people who struggle with their bills in the short-term and the long-term. Secondly, our direct debit penetration is up in the mid-60%, which is much more helpful in terms of maintaining the underlying level of cash flows. Thirdly, I think we have just gotten much better at providing easy ways for people to pay. There are many more channels that people can pay, and we can adjust the plans if needed to make sure that they can keep on top of their bills. I think there are lots of things that mean that we're well-placed to manage this going forwards.
Deepa	May I ask a follow-up, if that's okay?
Liv	Of course, you can. Yes, go for it.

Deepa	Yes, so just on the dividend, where you've confirmed this year's dividend and the broad dividend policy, I was just wondering whether there were any discussions with any particular group of stakeholders that may have led you to consider that you should pause the dividends? Was there any such pressure that you came across? I would be just interested in hearing your views on the overall decision as well.
Liv	I think, as you know, dividends are a board decision. It's always something that's discussed in detail every year. This year, I think we really gave it proper consideration. What we concluded is that we're not taking government support. We're not furloughing teams—anybody at all in the business. We think we can be a responsible employer. We've contributed millions of pounds to charity. We have 1% of our profits, remember, to charities in our area, so we think we can help communities actively. We've been able to put more money to help customers. We've deployed cash to help customers, whether it's vulnerable customers or whether it's the Severn Trent trust fund. Then the clincher became that actually, there are literally tens to hundreds of thousands of small retail customers that actually rely on our dividend policy for part of their ongoing ability to make their way through the next couple of years as well. Whether you have the retired policemen, retired care workers, and retired Severn Trent engineers, it felt like this was the right answer. We did have active discussion, but the clincher in the end was the strong retail base that does rely on our dividend policy to actually manage their lifestyle over the next couple of years, and it is going to be tricky for everyone in the UK.
Coordinator	Thank you. The next question comes from the line of Rob Pulleyn
Rob	Yes, so may I ask a high-level question, and forgive the lens? Severn Trent really finds itself at the centre of social discussion, particularly given the last question and given the current COVID circumstances. You have to balance supply continuity versus bad debt considerations. There are the longer-term sustainability issues in water, and your dividend, as you rightly pointed out, ultimately goes to many of the more vulnerable people in this current crisis. How does management chart a course through this situation, and in your opinion, how should this be reflected in ESG considerations?
Liv	The way that we think we'll be judged, I guess, is first of all, that sense of this theme of customers, colleagues and communities. The way that we are choosing to chart the course is to look through the lens and say right now today, are we providing support and help for each of those

three types we'd expect? Then, almost if you were to roll forward time and reflect 18 months, 5 years from now, would we look back and say actually, that makes us a leader in how we treated those three groups or not. That's how we're looking at it. It's always like the decisions of today, but then, that if you had hindsight in 2020.

What I think about this S of ESG, and I think the environmental part's very clear. I think the G part is explicitly clear. Especially in our sector, that's been made very clear. Then, I think actually, it's the S, as you say, that's most interesting. We've been mulling for a good period of time how do you have an index of measures that feel that you can judge whether a company treats its people, its customers and communities fairly?

We've been mulling over is it engagement; is it inclusion; is it fairness; is it well-being; is it investment in schools? Then, also, is it affordable service and positive difference to the community? In the end, we've judged it's a combination of probably 10 to 12 different measures that feel like they work across many companies— so they do work across sectors— but it comes down to ethos, doesn't it, and whether you are using the right guiding principles for people because you can have a policy or a rulebook, but to some extent, we all gather at the very last moment before we do anything to consider are they doing the right thing? That's what we're trying to do ourselves during the course of this particular pandemic, is question on every judgement point. Does that feel right, in balance, that we're doing the right thing for the long-term success of Severn Trent, but also the short-term financial health and well-being, mental health as much as physical health of all of our colleagues and customers?

I think it's a navigation. I think it probably has a slightly circuitous path sometimes. It doesn't feel like a direct path; you have to reconsider and think, and that's how we're thinking about it.

I suspect it will be one of the things where we will get judged. I'm sure in 18 months' time, and 5 years' time, we'll definitely get re-judged and reconsidered as to whether we plotted that path correctly. It's a really great question to bring up because it's probably worth spending a good chunk of time mulling over as a management team, is that path.

Rob	No, that's super interesting. Thank you very much. I think as far as we look ahead, I'm sure you'll make out okay on that, but best wishes.

Liv	Thank you very much. Great, Peter?

Coordinator	Thank you. Yes, Liv, the next question comes from the line of Dominic Nash, Barclays

Dominic — I have a couple of questions, please. Firstly, can I just go onto the JVs, the impairment. What impact on underlying profit do you think that impairment will have both on this year's and also next year's numbers as well? Secondly, on ODIs, you said that there are going to be a couple of ODIs that will be materially more difficult to meet in a COVID-19 world. Is there a chance that the representation to Ofwat from the water industry to have a couple of these ODIs maybe suspended in light of given impossible tasks or any license at all, please?

Liv — Let take the ODIs one. As you know, that's my mastermind topic. I'd probably choose to do that if we ever had to do a mastermind topic.

The way that— and you're right. There are definitely three or four that are going to be hard. For example, it is very tricky to educate as many schoolchildren when you don't have schools that are open, so that's tricky. Note that we're trying to do quite a lot of online availability, but it's not the same as having booked-in sessions to primary schools. To be fair, I don't know about you, Dominic, but my children used to wash their hands with a flick of a hand somewhere near a tap. Now, they give a good 20-second Happy Birthday song. We can see that that's definitely using more water, so PCC (per capita consumption) is definitely not going to be hit this year right, that's just fact. You can call that now, based on the first few weeks of water usage, so there are things like that.

The way we view it, though, is we took a five-year settlement, and this is only one year for five years (let's hope) and actually, in the same way, as you might lose on those, we do have some great other opportunities for other measures. We are, for example, finding customers are really reading things that we're sending out. We're getting amazing readership of the messages that I sent to customers. Seventy percent of customers are opening and clicking on the email and reading it. We've never had that before, so our ability to influence behaviour on other activities is maybe better than ever before in our lives. We view it as it's our job across the round of the basket of measures to find upsides to alleviate the bad sides.

I think overall, Ofwat said what it would do is at the end of the first year of the AMP, they will look at it. If they think that companies were penalised unfairly, and the targets were clearly unreasonable in a different world they'll take them on judgment. We're not going to make any representations. We think Ofwat has been a balanced, fair, tough, but fair regulator in our experience over the last six years. We'll leave them to make an industry view at the right point in time, but from our perspective, we're guiding that we'll be positive in year one of the AMP on ODIs regardless of those impacts. We're not relying on any change for our guidance.

On the JV, I'm going to hand to James.

James B.	Yes. On the presentation, I tried to lay out very clearly what the losses were of the JV that we've recorded because the accounting for them is a little bit esoteric. The one thing I did want to highlight was that there was an underlying trading loss, but the accounting rules didn't allow us to leave those in the underlying results, so they were exceptionalised as well. There's about six pence on the EPS that some of you probably would have expected to see as a reduction in EPS in the underlying to reflect the trading losses of Water Plus that all got exceptionalised. That six pence is a thing to bear in mind. Then, you can see on the reported EPS what the overall impact was of the write-downs as well. The total amount I think that impacted the reported EPS was about 22p

Now, of course, those are book losses, they're not cash losses. Going forward, it's a little bit harder to forecast what the Water Plus numbers will be. Again, it'll depend very much on the pathway out of lockdown. There is no investment value on the balance sheet for Water Plus because we've taken those prudent write-downs, and so that will impact the future EPS related to the JV.

Dominic	If I could just follow-up on that. If Water Plus doesn't pay you your cash, and I think it's what, 60% that is allowed to pay you, but you, obviously, accrue a WACC on that or WACC plus 1%, I think it is, on that. Will you be accounting for that as a financial asset, and offsetting in net debt, or will that be sort of counted as working capital?

James B.	What a good question. I think I'll have to go and have a think about that. I think you're right. We will be charging them interest because I think that is what is going to be happening across the sector, not least because it's going to encourage Water Plus to manage their affairs appropriately. Yes, it will be a financial asset, and it'll be subject to the normal accounting for financial assets. I haven't looked at that too closely ahead of that, but it's a good question.

Coordinator	The next one comes from the line of Mark Freshney

Mark	Yes, I have two questions. Firstly, coming to Water Plus, my understanding is that you're still effectively carrying a lot of the value through, I think, £140 million or £135 million of shareholder loans, which is effectively your remaining equity in the business. I was just looking to confirm that.

Then, somewhere I read, I think, that there was a £30 million bad debt charge or additional bad debt charge within Water Plus. You've spoken about accounting from your viewpoint, but what is the total bad debts, including the exceptional bad debts within Water Plus?

Then, my third question was more on the household bad debts, if you like. There was only a £2 million increase, which relates to the legacy debt. It seems to me that the bad debt cycle had actually started about a year ago rather than now, and that's something that we're hearing from other companies as well. What is the underlying bad debt allowance within the price control?

Liv — Okay, three good, complicated questions there. Let's start off— first of all, James, do you want to talk about the remaining equity in terms of the loan from Water Plus first?

James B. — Yes. There's no remaining equity, as you can see on the balance sheet. We have made some loans, both us and UU. The good news is, they've actually paid down those loans in the year. Even though they've had— it's been a tricky year as I explained, but we have seen some significant improvement, particularly in the second half in terms of cash collections, which did enable them to write down those loans. The loans that are on the balance sheet are on a commercial arm's length basis. They're effectively revolving credit facilities, and they pay those down as they get their money in. That's what's left in terms of the loans to Water Plus.

In terms of the bad debt, yes, they wrote down on an exceptional basis, they wrote down a £30 million as an additional bad debt provision. Keep in mind a couple of things. First of all, they have to anticipate their view of their customers and how they're going to fare coming out of lockdown in terms of their ability to pay. I think they've been quite prudent to look at the impact, particularly on their small- and medium-sized businesses, who are going to struggle coming out of this.

Remember, they also have a significant portfolio of customers that include some really strong retailers, for example, some public sector businesses as well that won't be impacted, so they've taken that into account as well. I think the overall provision they've taken is prudent, and of course, we reflect a half share of that in our numbers. Then, they had to make those decisions on the provision at the end of the year, and they couldn't really take into account the changes that Ofwat indicated after the year-end because it just isn't clear yet how those regulatory changes are going to manifest themselves, so you can't actually take account of them in the year-end. We see all of the intervention that Ofwat have been considering for the market to be positive for both us, as a wholesaler and Water Plus as a retailer.

Liv — Then, just on the last point, then. I think it's fair, Mark, your highlighting about household bad debt as to when did the term in that change, and there are a couple of points there. There is COVID impact and what we've done around that, and then there is our own performance, and how we were looking to improve that.

James B. Yes, I think that it's a fair question. I have been flagging, I think, for the last 18 months that we have a slug of debt that's at the beginning of AMP and Pre-AMP6 [ph] that we are recognising that we just find it a little bit harder to collect. I think at the half-year, I talked about the fact that we were mobilising a really good debt recovery plan that involves new ways of effectively interacting with those customers. We have seen a really significant improvement on that intervention.

I think I'm being realistic that some of the most successful interventions that we've made on that early debt are going to be impacted by things like social distancing. For example, the field visits that were doing really well on will not be quite as effective in the future. We do have to recognise that it is going to be tough for some of our customers. That's why we have some of the comprehensive plans for helping our customers, such as the Big Difference scheme that I think will be really effective.

Liv I think we see in that number, Mark, as James was saying, he was seeing an opportunity for us to still improve a bit further, I think, on the long-term debt over the medium-term ourselves, with new schemes and new plans. Definitely, some knowledge that longer-term debt will be harder to collect in a COVID world, and then also some immediate hits from COVID in those last few weeks. That's why you've seen the number move to that five this year. We'll manage that carefully over the next period of time.

Mark Just to be clear about one of the numbers, it was within Water Plus, it was 30 million Sterling exceptional bad debt charge, but there will be another underlying bad debt charge as well. What was that, so we can take the two together?

James B. The underlying bad debt charge will be included in the underlying trading loss. I don't have those numbers to hand, Mark.

Liv Can you follow up in the afterwards just to help out?

James B. Yes, will send something to you

Coordinator The next line comes from a person who either hasn't recorded their name or was on mute. If you pressed star-one, make sure your line is unmuted.

Liv Okay, mystery caller, press star-one, and see what happens. We're waiting to hear some dulcet tones.

James Brand Its James Brand, Deutsche Bank. I also had three questions. The first one is just on— not to touch about Water Plus because it's not a critical part of your business, but you've given some quite detailed answers in terms of write-downs, and bad debt, and things like that.

I was actually just interested in how it was performing on a— which I guess is hard to separate out from COVID, given how significant that could be, but I was just interested in how it's performing ex-COVID because there are obviously some issues with that business going through the course of last year and some integration issues. I was wondering whether they were behind you, and ex-COVID maybe we could anticipate a better performance going forwards?

Second question is actually on pensions. You obviously highlighted quite a significant reduction in the pension deficit but also highlighted that some of that was driven by temporary factors around credit spreads. I was interested in how much of that we should perhaps think about being sustainable.

Then, also, you mentioned that some of it was driven by lower break-evens, lower RPI inflation expectations. Some of the drop-in RPI inflation expectations have been driven by this review of RPI and the idea that over at some point in the next five or ten years, we could align RPI inflation with CPIH. I was wondering whether if that actually happened, I presume that a lot of your pension liabilities are linked to RPI inflation, whether that would be potentially quite a meaningful positive for you, or whether you might have to adjust for the change somehow in how much you increase your pensions for your pension owners.

Then, thirdly, I might not get an answer to this, but worth a try; if we look at the upcoming regulatory period and we compare it to the last, do you think that it will be easier or harder to deliver financial outperformance under ODIs and totex in this period versus the last one?

Liv — Brilliant, three fab questions. I'll go to James first on pensions because he's chomping at the bit. He loves the pensions questions. Literally, James, you've made his day.

James B. — Who'd have thought pensions accounting would be so exciting? Yes, I think, James, some really good questions on this. I'll just unpack them a little bit.

The first one was that there was this big corporate bonds spread spike at the end of the year, and that has come back quite a lot over the last month, which meant you're going to see this across all reporters who report on the 31st of March that they did get an IAS19 benefit from this. I hope I've been pretty clear that you should see this as a temporary thing. I've signalled that you should continue to expect the cash repair payments that we've agreed with the trustee to continue.

You're also right to say that when you unpack it a little bit, there is that corporate bond spike, but there is also a slight shift in expectations around long-term inflation, and specifically on long-term RPI. We have seen the spread between RPI and CPI narrow, particularly as you'd expect—because that's where the consultation is focused—on the 2030-plus end of the curve, and that is really the market expecting there to be convergence. They are consulting at the moment, and in August, they are receiving all those consultations, and they are also, they have asked people to consider whether that should be pulled ahead to 2025. Now, I'm not going to comment on what the right answer is, but you're right that that is having a positive impact on our deficit. That may sustain, but the credit spreads definitely won't sustain.

I think underneath it all when you look at our overall approach, I think the hedging strategy that I put in place two or three years ago is giving us good protection. That has been incredibly important over such a volatile period. We've always had a good relationship with the trustee and effectively agreed our contributions forward that were consistent with what we had in the original plan.

Liv — I'm going to hand to Andy now. He's sat on the Water Plus board with me for the last couple of years. I'll ask Andy to share some thoughts on if not for COVID, what were some of the improvements we were seeing before the virus?

Andy — Okay, I'll do that, Liv. If I may, just on the COVID front briefly, I think we have a lot of folks on the finance and the impairment, and so on, and I do want to call out to Andy Hughes and the team there in Stoke who've done a fantastic job in responding to—as you've seen across the rest of Severn Trent—great focus on our people, customers and partners. Well done to all of them. It is difficult, the effects of the pandemic.

On to the question, we are seeing improvement. As James has said previously, we've seen an improvement H2 to H1. We're not expecting a legacy issue as in H1 to repeat. We're seeing an improvement in customer service. Abandon rates are down, complaints rates are down, and so on.

Debt management, we're seeing improvement there, particularly on our key customers, where Andy and the team have done a great job. Lots of work going on on the underlying basics, if you like, as data cleansing proving really difficult in the market to get that sorted out. As we've seen previously in energy and other markets, it's certainly proven to be the challenge we were expecting.

Big focus on the revenue assurance, core processes there, cost to serve. We've brought an external firm in to help Andy and the team to drive that through with pace. We're focused on sustainable profit add to this business. We think we can achieve that, and COVID aside, we're confident we'll be seeing that coming through this year hopefully, and if not, in future years.

Back to you, Liv.

Liv: Thank you very much. Then, on to the last of the questions from James. You recall that we don't give you guidance at the start of an AMP that says, here's what's going to happen on totex and here's what's going to happen on ODIs. We didn't start AMP6. I'm afraid to ruin your day; we're not at the start of AMP7, either.

A couple of things to contextualise. We did enter AMP6 with quite a sizeable hole between our run rate, and what we needed, what we were given as the allowance.We entered this AMP in much better shape, where we have some natural plans in place to do well in terms of in-house design work that Helen's been working on, or whether it's the fact that we've been working on overhead costs. You will have seen from our announcements and James' script earlier; we've talked about the fact we've saved 23% of head office costs over the last couple of years. We do enter in best shape, and then we can now see how we perform over the next period of time.

To whet your appetite on ODIs, the last AMP we said we thought we'd go for zero in the first year because we said to you it was zero. This year, we are saying positive. I guess, we're fully saying no more than that on the basis of we want to see how things play out over the next few months because it is certainly not normal right now. I will ask James Jesic-not Bowling-to share a couple of thoughts on a couple ODIs just to, I guess, keep us excited about some of the things that we're working on.

James?

James J.: I guess you will know from AMP6 that we have a really strong background in ODI delivery. I think Liv has shared previously, and we've all talked about the fact that it is really strong cultural focus within the organisation. We understand the linkage from ODI performance to providing the best possible service we can to customers.

What we've been doing throughout AMP6 is really understanding the linkages between the end-to-end process across our water cycle and the positivity that that can have on various ODI impacts. We continuing that work going into AMP7. For instance, if I think about a number of our waste infra measures, if we are really understanding the true root causes of what causes a blockage on our network, more often than not, a blockage can lead to a pollution, it can lead to a flooding. We're really understanding the propensity of our network—caused by a number of factors—the propensity of that network to actually have a blockage upon it.

Just in that area, for instance, we're really understanding customer behaviour, and the activities that customers undertake within their own home, whether that's the disposal of fat, oil and grease down into the drain, or whether it's the disposal of sanitary products and wipes into the toilet system. All those things are potential blockage issues. We've done a lot of work to understand the most likely demographics from where those sorts of things occur. We have an extensive education campaign already prepped and already building on the 800,000 people we've already educated this AMP to really continue driving that performance. That, in turn, will not only improve our blockage numbers, but we think that we'll benefit from a flooding and pollution perspective as well.

If we think about the broader environmental challenges that we've been facing into, our work on biodiversity, I think is really exciting for us as a business. It's something that we think not only good for the environment, but also, again, really improves our overall delivery. For example, if you think about— let's take peatland erosion; I'm sure that was the first thing on your mind this morning.

Peatland erosion can actually lead to quite a deterioration in rural water quality. It can also lead to flooding and excess water in rivers, and all that sort of thing. By really improving peatlands up in the Derbyshire Dales, for instance, we're not only going to improve water quality from the rivers that we abstract from, which means less energy-intensive and chemically-intensive treatment, but we're also going to improve the overall propensity and reduce the overall propensity of that area to flood.

Those are just some of the things that we're looking at.

Liv — There we go. No guidance, but definite enthusiasm, I think, is the summary.

Coordinator — The next question comes from the line of Martin Young.

Martin — Just two questions from me. Sorry to keep labouring the issue on bad debt, but bad debts on the household side, if I look at that charge of £43 million in FY20, of which I guess ballpark £15 million relates to the aged debt. If I strip that out and then run with this 100 bp increase in bad debt costs as a consequence of a recession, getting back to something in the low 40s seems to be what where one might land. Is that a reasonable way to be thinking of things?

Then, secondly, on ODIs and how they might potentially shift if Ofwat is minded to do so. We obviously have the CMA process ongoing with four companies. If, as part of that the CMA comes out with an opinion that Ofwat has been overly-penal on ODIs, and Ofwat is forced to make changes to the common ODIs, would those then flow through to all the actors in the water industry, whereas other parts, are they decisioned by the CMA presumably would only apply to the companies that have raised the complaint with the CMA?

Liv So very briefly on the second point the answer is no. When you sign up to a settlement, you take the whole AMP, right. You take in its entirety ODIs, totex, WACC, the works, financing, that's what you take. We think we have a good settlement on ODIs, which has minimum intervention. It is stretching, but you have to remember, these ODIs, these are the measures that customers said they really cared about most.

So, to not deliver on those targets doesn't deliver customers what they really said they wanted, and one of the biggest things in the sector is legitimacy. They are stretching. We are going to have to push ourselves to deliver these service improvements, but I think we are psychologically in on the basis that we need to keep moving forward in the sector and to increase some better service levels. We wouldn't gain, as we understand it from common ODIs moving in that.

We're committed to working hard over the next years. We won't hit green on every ODI on every year; that's just life in the world of Ops, but I think we can make considerable progress on service levels over the next five years. That's what we're asking ourselves to deliver.

I doubt James is going to give you much or more on bad debt, but I'll pass over to him in case I'm wrong here.

James B Happy to talk to you offline, Martin, but I think the building blocks I've given you in terms of what we feel our underlying rate is and the best historical evidence we have, which I've talked about. You have to also take into account the improvements that we've made over the last decade in terms of the way we're running the book. I think I've given you those building blocks. Yes, I'm not going to give you a precise number, but happy to talk you through if anything's unclear after the call.

Coordinator There are three more questions. The first one comes from a line where no name was recorded. If you pressed star-one, you're in the line. Make sure your device is unmuted, please.

Liv	Oh, we just never know who we're going to receive. Who is it? Press star-one if you've asked a question, and it might be you?
Christian	Hi, its Christian from Pimco .Sorry for not recording my name earlier. Just a couple of questions around financing plans and looking into the next year, funding standard compared to sustainable or green. Then, you've shown in the maturity profile that the RCF is at 2021 maturity. Is that drawn or undrawn?
Liv	Straight to James for those.
James B.	Sorry, I've missed the questions.
Liv	Is the RCF drawn or undrawn?
James B	We have about £1.1 billion of facilities. I think we had about £0.8 billion was undrawn. That gives you the level of— you can work out what the amount that was drawn at the year-end. Since the year-end, by the way, we've been, obviously, monitoring cash flows weekly and they remain very robust.
Liv	On sustainable financing, James, in terms of your thoughts on green and sustainable financing for the future?
James B.	Yes. We're really excited about it. I think we have a great story to tell. I was really pleased to see the interest on the US private placement that we did in March, which I think indicates there's a really strong interest in ESG investors in our story and to invest on the fixed income side. It was really nice to see that we got some new names coming in who were clearly interested in our ESG. There will be more.
Liv	Does that answer your question?
Christian	Just one follow up. If you think about the eligible pool of projects, what's the envelop you're looking at currently on your lookback period and you look forward in terms of what could we actually fund in that framework in 2021?
James B	Yes. Well, I think the really good news is that AMP7, a lot of our investment and capex is going to be very much focused around the sustainability and environmental agenda. There will be lots of projects. I think you heard some of the things that James Jesic was talking about earlier in terms of catchment management and the overall environmental improvements we can make that both help the environment, but also reduce our treatment costs are exactly the kind of thing that I envisage funding through the green sustainable bonds.

Coordinator	The next question comes from the line of Fraser McLaren.
Fraser	Sorry for coming back with just one more quick one, if I may. You highlighted earlier on that you're not taking any external help in respect of COVID. I'm interested in your view on the cap on bad debts in non-households, which is effectively a protection measure. I'm just wondering how you view that?
Liv	I think I have a different view on it to yourself Fraser. I think this is about protecting retailers, right? There is a market that's been created, and if you think about the source of the retail market, if you were Tesco or Tops Tiles, it's very tricky to manage 3,500 stores in a world when you're getting those different bills, so there was a logic to creating that retail market. Then, some of those retail players have already struggled, and the source of it, I think, is those retailers going to Ofwat saying, we have a real problem here. Then, Ofwat have looked at it and said actually, we think the market needs some help. That is an Ofwat choice to go in. Actually, what the wholesalers have done is actually provide liquidity. We've provided credit into that market and really stepped in and helped. We've been thanked formally by government for our speedy response to stepping in. We've received formal thanks from the Secretary of State for being key workers during this crisis and being such rock stars through the last few months, but also for stepping in so speedily and helping a market that could have floundered and was really struggling. I think it's seen by ourselves, by Ofwat, and by government quite differently to that interpretation.
Coordinator	There is only one question left. That was no name was recorded. Please, if you pressed star-one, you are in the line. Please make sure you are unmuted.
Verity	Hi. It's Verity from HSBC. It's a bit like those game shows.
Liv	Yes; who's behind door one? We're ready, Verity. Off you go
Verity	Yes, mine is—yes, very different questions, I'm afraid. One is looking at your costs, actually. I noticed that your labour costs have gone up twice as much as the reduction in hired and contracted. Just wonder, is that a process that's continued or do we expect to see more roll-off in hired and contracted or was that something that happened in the last AMP? Then, just finally, on I suppose FD capex phasing. Is it more or less in line but you've just moved things around in terms of the projects you're doing in this upcoming year?

Liv I think you've self-answered a little bit of your questions, actually, Verity. You're right. At the end of AMP, you do a little bit of making sure that you're in the right space for the long-term for the future, because a little bit of some of those costs, they're close-out AMP costs where we've said okay, we have the ability to invest now in the last year of the AMP to get ourselves on the right run rate for some measures.

Maybe, in some cases where have in sourced it, it cost you more the year you in-source because you have that double-hit. Where you have the higher contracted costs for the year, and you have your own people to bring up to speed, so you've seen a little bit of some of the in-source costs. They are short-term tricky, and then they get good.

James wants to jump in. He's given me the look that says he has more detail. I have to hand.

Jams B I think it's also important to remember when you're looking at the group costs overall and not just regulated water and waste water when you look at the group costs, they have gone up because we have a full year of Agrivert trading as well. Not only have we benefitted from their profit, but we also see the higher revenue and the higher costs across the cost base, too. Keep that in mind.

Liv Does that help, Verity?

Verity Yes, that makes sense. Makes sense. Thanks.

Liv On long-term basis, we are confident of good cost control. We have a good track record of cost control. When we look forward, we think that there are more opportunities for us to continue to be more productive, so we're not facing into a situation where we're worried about our cost base. We feel that we have a good setup for the future.

Verity The capex, you just mentioned that it's more or less in line with the FD, but it might be just internally for you different things being phased at different times?

Liv Yes. If you think about things we've done. We've deliberately looked at, and we've learnt a lot, haven't we, about water problems in particular. We know that, for example, main relay, critical part of your ability to do things differently. We know that if you spend more money on waste infrastructure, you can get ahead of the curve.

One of the things that we did, you'll remember at the very start of AMP6, in the first year of AMP6, we invested heavily in some of the key areas that we thought would yield ODIs in excess of the five years. The advantage this time around is we got fast-tracked. By getting fast-tracked, you get the advantage of doing the spend that you might want and think getting your network in the right shape to get your resilience of the future.

We've been able to do a bit of that actually now, to get ourselves feeling comfortable about 40 measures we've signed up to. It's been a really lovely thing. That's one of the great things about fast track, is you have quality understanding of your plan and the chance to begin to make progress and make decisions early on.

Liv

Thank you very much. Well, thank you— because I was bit worried at the start we'd have no questions. It was quite lonely just us literally sat here in Coventry. A big thank you to all of you for all the questions, and a big thank you for knowing our business so well to push us quite hard on the questions as well. That has been fantastic.

With that, I think we're going to call it a day, if everyone's okay with that. Very good. Over-and-out. Stay safe, stay alert, and we'll speak to you all soon. Cheers, now. Bye-bye.

Coordinator

Everyone, that concludes your conference call for today. You may now disconnect. Thank you for joining, and have a lovely day. Take care.

[END OF CALL]