Severn Trent PLC
Capital Markets Day
Tuesday 17th March 2015

John Crosse: Well good morning everyone, thank you very much for joining us this morning in Coventry. It is fantastic to see so many of you here, you are very welcome. For those few of you in the room that do not know me, my name is John Cross and I am head of investor relations. You have got me for just two minutes for the boring bit at the front.

The first thing to say is that there are no fire alarms scheduled, so if the alarms do go off it will be a real fire alarm, so grab a Severn Trent person and they will lead you safely out of the building. Secondly, this event is not broadcast live but we are doing filming today both in here and the demonstration areas so please be aware by being here you may be on film and we will be filming the Q&A sessions as well. So, before I hand over to Liv we will have a series of presentations, then some Q&A, and then a coffee break where there is another demonstration area just behind the meeting room so please do go and have a look at that through coffee and during lunch break.

So, without further ado I will hand over to our Chief Executive, Liv Garfield.

Liv Garfield: Brill, thank you, John and good morning to everyone. It is lovely to see the room absolutely packed and to have such fantastic chatter downstairs. So, I guess just a few thoughts in terms of aims of what I would love us to get out of this morning. So one aim is to introduce my new management team and I guess as a collective we're a brand new team formed over the last twelve months and that's one part of today. Another part is to share with you what we think the future looks like for the next few years and we're going to talk about that in different sections and try and bring it to life. Another aim is to try and share with you why we're confident that we can make this a fantastic five years for Severn Trent and we wanted to try and do that in 3D which is why we've had the experience zones downstairs and we're going to have more experience zones during the course of the next few hours together, and of course we'll really bring it to life for those of you coming on the trips this afternoon. I wanted to share with you my thoughts on Services which we'll do as well this morning; it's one of the questions lots of you have asked me over the last twelve months so I want to share some comments on that and where we see it. And generally I want you to see all the fantastic work that we've done over the last twelve months as a team to get ourselves ready for what is the 1st April. It's a date absolutely imprinted in the mind-set of every single person in Severn Trent. It's the start of the next five year regulatory period, the clock is about to begin, and it's great to get you guys here today to see all the work that we've done to make sure that we're in the best possible shape on the 1st April. So, that's me, Liv Garfield's introduction I guess is pretty much done.

To take us on then in terms of my new structure, I wanted to start by talking about the new management team and what I wanted to try and do is to bring out why it's very different, and it is different people in some senses plus some absolutely great people that were already in Severn Trent but it's actually the structure that I wanted to talk about first. So we've taken a decision to go for quite a different structure, a structure that nobody else has in the industry, and I wanted to walk through the rationale for that and why we believe that's one of the reasons that will make us a winner. We've chosen to bring together our water and our waste water business into one wholesale operations business. We've got a fantastic new leader who is going to join us on the 1st July, I can't share their name today, but we'll be able to announce it in mid April, that's the deal with the other company, but they will be with us on the 1st July which is great and I can't wait to introduce you to that person. By bringing together waste and water, that's been one of the big enablers for the head count today and means that we've made changes already during the course of this financial year to get ourself ready for the next five years.

The second structural change was to bring together our chief customer role, and that's a combination of our IS function and our desk-based call centres and also transformation. And the rationale behind that is the customers come into you regardless of channel; they don't mind which channel they come in. They expect to have the same experience, the same fantastic experience, on every single one of those channels. And when it was housed in different organisational sections, we weren't fulfilling that ambition. Bringing it all together into one place creates a new sense for our customers, a new digital ambition as well for our business and we believe that will make a big difference going forward as to how our customers perceive us and our success.

The next structural change I want to talk about is business services. So Business Services is a new look and feel sense of what was our Services business. And what we've tried to do there is to create four distinct businesses that each have a very good management team, strong performance this year and an opportunity that we're clear about what the future holds for those business units. So if you just think about one of the announcements we've made today, we've announced that we really believe in our renewables agenda. One of our four business service businesses is the renewals business which made that a stand-alone business the opportunity for us it is to invest in that going forward. We've announced £190 million this morning as you would have seen from the R&S which is our commitment to go from 28% self-generated energy today to about 50% between now and 2020. That's a fantastic opportunity for us to future hedge and to get ourselves in a great position, so 50% of our energy needs self-generated in the course of the next few years. We've also been able to look at the good crossover between the services parts of those business, so the UK services and the USA services, and the more that myself and Andy (who is the fantastic leader we've asked to look after this business) the more that we've looked at this over the last twelve months, the more correlation there is between our core regulated business and the services part of that business. Again, that gives us a really strong opportunity to use similar skills, similar know-how to be successful. Ofwat has changed the rules, you could say, in terms of that you have to be non-regulated as well as regulated going forward with the fact that they are introducing competition, and having a non-regulated division already set up and now in good shape with good management is a great opportunity for us, we believe, to make the most of what is going to be a deregulated agenda going forward in some parts of the value chain from Ofwat.

The next one I want to talk about in terms of structural change, as you can see on here, is I wanted to talk about the chief engineer role, and the chief engineer role we've got Martin who is going to talk to us in a bit. Martin has got 43 years of fantastic experience in Severn Trent. He has got the experience, the knowledge, the engineering know-how to be able to make sure that we have sat round the senior table enough of that kind of sense of assurance, what risks can we take, what's the opportunity, how do we make sure that we challenge ourselves to create the very best, particularly in a Totex world, what's the sense of how you tap into a new Totex opportunity. And that's a new role and a new remit and it brings together a variety of different things from the creative R&D function, making that larger and giving us a chance to invest, through to standards, through to capital in terms of some of the big governance projects as to how we are looking at things, as well as literally the core engineering functions that says what do we believe this could look like for the future on tricky problems.

The fifth structural change was the creation of a chief commercial officer. Helen Miles I worked with at Openreach for two and a half years, I know that her commercial acumen is second to none, and I wanted Helen to bring together procurement, supply chain plus some of our small enterprise units like fleet and really create a new commercial approach across the entire business, and that's what she has started to do. And as you will have seen today in today's R&S we've announced that we've actually locked in the second chunk I guess of our announced savings for the next five years of our lives. We had already announced that we had saved £100 million from our restructuring. We've today announced that we've locked in £100 million efficiencies from supplier contracts and that's lead out of the work that Helen's team have been doing.

As well as structural changes, we've also got a people change. So Mike has decided after nine years at the helm that he does want to leave and go and fly his plane a little bit more. I can only thank Mike for all of his help over the last twelve months. He has been an absolute superstar for me in my first twelve months in the job and I'm delighted to have James here today as well. I'm the luckiest CEO in the land at the moment; I've got two CFO's, so for the next two weeks we're going to be the most efficient organisation known to mankind. So you'll hear from Mike later as he talks about the financing plans. Clearly we've known James has been joining for yonks. James has been absolutely involved in all of those conversations and decisions to make sure that we as a little, I guess, triumvirate, are all fully aligned, but that's the last of the people changes.

Then in terms of just people on the team, who will you meet, everyone is here so you'll see Bronagh is here, you'll see Evelyn, but you won't hear from either of those. They are here and in the room and available to mingle and to chat and I have really appreciated their help over the last twelve months. And you will hear from Tony Balance who as you know is a bit of a guru in the regulatory sector in our space and has been great at getting us through and over the line, and obviously in the most important aspect which has been the price review recently.

So this is our new look team structure and you'll hear from the vast majority of the team today and it's a chance, I think, for you to see the calibre and the new sense of what it is that we believe we can deliver with this new look and feel. So I wanted to start just by introducing that before we come on to my three topics.

So my three topics then is I want to talk to you briefly about vision, briefly about culture; I said to you at the May results last year that that was the single biggest thing I thought that would be tapped into to create the opportunity for the future, and also why AMP6 is safe in our hands. Obviously you know that sense of what are they going to deliver as a team. Also our confidence levels; I want to start to talk about how it is that we are perceiving AMP6 and the opportunities that lie ahead.

So let's start with a little thought on the sector. So this is our sense just topline of what's going to happen in the sector over the next while. So there will be quite simply winners and losers, and that is because there is a new incentivisation regime, there is a new Totex opportunity, there is a new regulator in town that effectively is clear they want to have winners and losers, and effectively it is the teams that get themselves properly organised and really, really sure that they know exactly how it looks for the next five years that we believe will be the winners. And part of what we want to try and bring out today is that we've got some building blocks that we've already put into place that will help us, we believe, rise up above others in the sector to make this a very successful five years for us.

There will probably be consolidation. I can't predict for a second where it's going to come or what it's going to look like but I think we all believe that 18 companies is a large number, so at some stage consolidation is likely, it's talked about a lot and we believe the consolidation probably is likely at some stage in the future of the next 5 to 10 years. We believe actually a real interesting part is new markets opening, so I think one of the things that we'll spend an increasing amount of time on over the course of the build-up between now and PR19 is what do these new markets look like. Johnson Cox already affirmed this in his speech literally last week. He saw the opportunity being, first of all, obviously the retail non-household in terms of the billing angle and the relationship, and that goes live in two years as you know. The second area he has been talking about is sludge trading. We would love that to open up, it's an area we are very good at it so that's an opportunity for us we believe going forward. And the third area then is water resources. The opportunity to take from companies who have spare water, the opportunity to look at assets and that particular water as an asset, look at the economic value against it and be able to look to trade that. It's something Tony will touch on later in his slot and we see this as something that absolutely will arrive because the regulator is looking, we believe, to do almost gentle disaggregation of the value chain rather than total sector overhaul. We perceive that that's where they are headed with their plans for the future.

So this is our sense that it's a very exciting moment for the water sector and we couldn't be more excited about the role that we get to play during the course of the next five years. So this is our vision of where we see Severn Trent during the course of this. So it starts with operational excellence, so you earn your right, I guess, to comment and to lead and to guide the sector in any sense based on operational excellence. I'll talk a little bit later in the operational excellence sector which I'll cover. We'll talk a little bit later about where we are doing great and we're really looking forward to it and where the areas that we need to do a little bit more to maybe get ourselves a bit sharper, we'll talk about that. But operational excellence is the first thing that we are driving to deliver. We want to be the benchmark for customers. So we've said quite clearly that we believe being a customer focussed organisation is key and we want to be the benchmark for customers. We want to be right at the head of efficiency, we want to get ourselves out there now, we don't believe it's an either/or, it's operational excellence and sector efficiency, we are adamant we can do both.

We want to make sure that in a world of incentivisation that we are a winner in a world of ODI's. We want to set the standard of renewable energy. We were already way ahead of others already with our 28%; the nearest to us I think was much, much closer towards 14-17% right now. We want to now drive that further ahead towards the 50% mark. So we see this as a chance for us to truly be a successful winner and that's what we intend to do.

Now, we're in the process of educating all of our staff, all of our colleagues, on what the future looks like and I wanted just to flash this up for you to see, and it's around us creating our vision, our purpose, the thing that gets every single person in Severn Trent out of their bed on a morning kind of like desperate to get to work on the basis that they are creating this future. And we're in the process of socialising this, having worked it up with our colleagues, and part of it you can see is the how we are going to achieve the end state, but also it's the values that we're introducing across the organisation. And so I wanted to just flash this, to see it. We'll talk about it more I guess during the course of the next six to twelve months as it begins to become more live and finalised. I wanted you to just know that it's against a bigger concept and I guess a bigger kind of context that we're setting ourselves up for the next five years.

Now, if you are creating a vision like this you need to have beliefs against which you are creating your vision. And we have been thinking for a while as a team about what are our beliefs for successful organisations and for our organisation to be successful. And there's five. The first one is that we believe that innately successful organisations are customer focussed at their heart. We believe that customer focus actually creates shareholder value. It's not just good for the customers, it's good because you've got that balanced approach to all stakeholders and if you look at say, I guess, Apple and John Lewis we think they are two companies that have created that sense of customer focussed success that has led to the creation of long-term shareholder value. That's the first of the beliefs that we are embodying in the future of Severn Trent.

The second belief is that, and I guess this is the photo of Dave Brailsford, is then in terms of the team that he ran for the Olympics and I always love any of the photos of the cycling team from the Olympics because it brings back that moment of that was the best of 2012. And you'll know that his kind of concept is that future success is created by the aggregation of marginal gains. And our concept internally for us is that, yes, you can do a one off step change on something but, actually, there is always more to do; there's always more success to be had, there's always more efficiency to be found, it's the aggregation of small, marginal gains every year that you should expect from us. so although we've done a couple of sizeable things like the restructuring which has saved us £100 million over the next five years, it's an ongoing quest for us to be at the forefront of sector efficiency, not a one off moment that happens to be something specific that we talk about. This is embodied in us to improve our customer service, to improve our cost base, to improve the value that we bring to yourselves. It's the aggregation of constant marginal gains.

The third area, I think you saw a little bit of it downstairs, it is a digital revolution round here. We believe that if we're going to be really successful then companies have to embrace digital. We believe as a sector we've maybe not been as quick as we could have been, and certainly as a company we are determined to lead the way. The three images that are on here, you've got I guess a couple that you'll recognise straight away so obviously the devices you saw downstairs, Twitter is something that I guess – I'm sure Sarah is going to talk about in a second, in terms of one of the new channels for us to communicate with our customers. And the little 'p' that is here, this some of you will have seen, it's the image for pipeline, our new internal comms channel, and it's around us making sure that the only way to be a really successful business is connection. We need connection to our customers, we need connection to people that are going to buy into us such as yourselves, we need connection with our people, and pipeline is a key part of that with everyone understanding exactly what's happening, where it's going, and feeling as though they can contribute towards the future.

The fourth of beliefs is around you need to be in the right place in your sector. And the sense here is the sector is changing, absolutely it's changing, and we need to make sure that we are understanding exactly where that change is coming from, what it could mean for us and we've positioned ourselves in the right space. We believe that we have. If you look at the fundamentals right now as to how to position ourselves, you would want to be the company that has the cheapest bills. We are the company that has the cheapest bills. You would want to be the company that has understood and embraced that a big part of Defra and Ofwat's future value is around resilience. We have got the largest resilience scheme that has ever been signed off in the sector in the form of the EVA. And you absolutely want to be well placed if you are going to have competition in three parts of the value chain, you would want to feel good about those three parts of the value chain, and we feel that we are getting ourselves in a good space on retail competition, we've had a good opportunity to learn in Scotland over the course of the last while, we are excited about the opportunity for sludge trading, that's great as you know, we're landlocked so for a long period of time we didn't have the opportunity that others had to be able to use the natural outlier that was the sea, so we have always been quite good at sludge because that's been one of the things we've had to build up over a long time. This is a great opportunity for us versus others. And water resources as well. So this we see as a huge opportunity.

And you need the right team. Some of you might not recognise this image, this is the last successful team that Everton had, it's the '95 FA Cup Final and I'm a massive Evertonian. I believe that we've pulled together a very strong team, better than Howard Kendal's team, and it is about the team. It's about the entire organisation top to bottom not simply about the management team, it's all of it. And on that note I wanted to talk a little bit about culture.

So I mentioned to you a while back last May that these were the areas that I thought we'd need to really focus on to transform the culture of Severn Trent, and what I wanted to share with you briefly is what we've done about it. So these are some of the steps that we have taken straight away. There's the new organisation structure, there's the delayering of that, as you know that's how we created the sense of the £100 million savings was around delayering middle management. There has been the chance to make sure that we really focus on ODI's, get ourselves to shadow report them, to launch incentive structures around them for our staff going forward. There's the regulatory relationship; we believe constructive regulatory relationships are the right approach in any industry. And there's really working with our people to empower them. We've done a huge amount of heavy lifting culturally to get ourselves in the right shape to launch. And to try and bring that to life we had these events and they were called the 'awesome company events' and the idea isn't that – we're not an awesome company now but that's what we want to create is the most awesome company in our sector, and we took everybody offline for half a day and I personally went out and did all of these events before Christmas with the sole intent of briefing every single person that works for us around the fact that this is success in the next five years. And to try and bring it to life, I'm going to show you a quick video of what it looked like I guess if you are on an awesome company event.

(Playing video)

So that's culture, and it has been a huge journey condensed down into literally a small number of slides but we genuinely believe that culture is how we'll get the whole organisation together, amassed and ready for the big moment on the 1st April.

Last comments then is around getting ready for AMP6, so are we ready? Is it safe in our hands? And this slide tries to bring out I guess some of the key points that we've managed successfully to discuss for the final determination. Now, it was certainly the toughest final determination when I talked to others across the sector, one of the toughest that's ever been seen and certainly we've seen, I guess, the writing on the wall that it was heading to be that tough which meant that we got ourselves ready. If you look at the summary as to what it means for us, we do have some positives, right? We've got the largest investment programme that we've certainly ever had, that's an opportunity. We've got a fantastic growing RCV investment programme which again is great for us in terms of the future. In terms of our customers, bills falling, so we had the cheapest bills in the land for the last five years and again for the next five, but actually falling in real terms from £333 to £329 this year, a great message for our customers. Between the draft determination and the final, there were some key things that we needed to agree and we managed to land those. So the opportunity to use pay-as-you-go a bit more as you know was agreed between draft and final. The chance to make sure that ODI's we looked at some of the deadband areas and the chance to look at those again, much appreciated between draft and final. And the final area, as you know, was around legacy adjustments; we were able to evidence some of the points around that to be able to reduce the impact of the legacy adjustments. So it is tough, be in no doubt, but at the same time we've known that for a while it was going to be tough and we've been working on that basis for a long time to get ourselves ready that we can still nonetheless make this a very successful five years.

The first of those activities was always around making sure that we looked at the cost base of the organisation, and we locked and announced last October and then with the numbers most recently, we locked in the first £100 million of our £372 million worth of efficiencies needed through middle management reductions. That's actually completed now, the people have left the building, and they are always tricky these situations but it's the right thing for us to have a pacier business at the same time as the right thing for us cost wise to get ourselves in good shape and one of the big activities and programmes.

Helen is going to talk a little bit later about the fact that we've also announced today that we have locked in the second of those big programmes which is the first £100 million worth of supplier savings. That's now delivered and that's the second thing to talk about today.

In terms of, I guess, generically RCV growth so that's one of the big things I guess in terms of anybody looking at our sector and we just thought this was a useful indicator of how we stacked up versus other companies in our area. And it just gives a sense of the scale of the investment that we are going to be running with over the next while. We think the scale of that investment is a huge opportunity from the financing perspective, and Mike is going to talk about that later, as to why we've moved into a slightly different financing policy and what the opportunity that we think is brought from that.

And the last thing then is around the five areas. So the last thing for me to cover off is that we see really great opportunities for winners and for losers, and we believe that for us to be a winner, to outperform the AMP and that's absolutely our ambition and plan to do it, is to outperform the regulatory settlement, then these are the five areas against which we intend to bring to life today our plan and I guess we intend to try and share with you the sense of why it is that we're confident that we can do this.

Now not all of these will deliver every single year; some of them you'll see more front-end loaded, some have to build like ODI's, they take a while to build. What we wanted to do today was to give you the sense of the five areas of possible outperformance and give you the chance during a mixture of the presenters and the Q&A to bring to life the sense of what it would look like, how does it feel and how we are ready to make this a reality.

So the agenda for today is as follows: I'm going to introduce Sarah now, our Chief Customer Officer, who we managed to steal from Accenture and has previously looked after digital for Accenture and has been part of their senior management team. Sarah is going to come on stage in a second and talk you through the customer journey and our exciting digital future. I'll then pop back up to do operational excellence, and then Martin is going to join us to talk about the future from innovation and also how we develop and build the EVA scheme. Then we're going to have some Q&A for us. We'll have a break, then we're going to come back and you'll have different presenters. You'll have Helen, you'll have Tony, you'll have Andy and you'll have Mike, and then we'll wrap it up, we'll have some lunch, and during every break that you've got we're going to keep you busy and active because we've got a performance zone set up just behind here which is going to bring to life more activities and more sense of why are ready for the future. So there is literally no rest for the wicked today I'm afraid. We're going to try and bring as much of our organisation to life during the limited time that we have you here. Without further ado, I'm going to hand over to Sarah.

Sarah Bentley: Thank you, Liv. As Liv mentioned when she was explaining about our vision and our beliefs, we firmly believe that companies that put customers in their focus and put digital first will outperform. And so I wanted to spend the next 15 minutes just talking about what we are actually doing to embed customers at the heart of what we do and accelerate our digital agenda. Before I do, I just wanted to expand a little on my role as Chief Customer Officer. This role is new to Severn Trent and to the industry, and when I look across other Chief Customer Officers our remits vary quite substantially. So if I look at the things that I wake up in the morning and think about, they really form into three areas.

One, as Liv mentioned, is our customer contact operation. This is a thousand colleagues across three UK based contact centres handling all of our different forms of contact, primarily today on the telephone but also increasingly on digital channels which we'll be talking about later. They cover the range of topics for customers, everything from general enquiries, our 24/7 incident management, right the way through to our bill to collect process, so everything from generating the bill to our bad debt. At the moment, that covers our household and the SME part of our non-household, and Andy who you will be hearing from later and I are working on separating those areas, as I'm sure you can imagine. We are looking at customer experience and strategy across the group and I'm going to bring some of that to life for you in a moment.

Group technology: I've got the CIO function reporting into me. That's all of our technology. Clearly today the focus is on digital and I'm excited to show what we're doing there, but this is everything from our core systems, our telephony, SAP, billing system and so one of the things that I'm really focussed on is the reliability and security of our IT infrastructure. So we have 300 colleagues, 4 data centres and really focussed on robust scaled delivery for our technology group.

And then the third area is group transformation, so these are our end-to-end change programmes. Liv mentioned the five areas that we look to outperform, things like Totex, our ODI's and efficiency. So across our executive team we are focussed on what are the key change programmes we need to do to pull that off, and the transformation team together with our business are building up the plans that make sure that happens.

So three areas which, as I said, most of our change is based on our customers being very customer focussed and a digital acceleration which is why it makes sense for these areas to come together, and I'm delighted and excited about the opportunities ahead.

So four areas around customer and digital. Firstly, what our customers most importantly are saying about us. Secondly, looking at the channels and the mix of channels that will become material as we move through the AMP. Thirdly, insight and understanding our customers and using that insight to drive better outcomes. And then fourthly what we're doing in digital. And, again, grounding all of this with why it matters.

So, as Liv said, we have made substantial progress over the last twelve months focussing on putting customers at the heart of our business. We have had a range of different programmes looking at customer experience. Some of the things that we've been doing just to highlight for you is our real time tech surveys. So now we are bringing what our customers are saying into the heart of the business, so after every call, every field visit, we are texting our customers and asking them to rank us on a score from 1 to 5 (1 being low, 5 being high) with feedback about how we are doing. We are then taking this not just to our contact centres but to our field operation and every day our field teams are looking at how they are scoring. They get their quantitative scores so they can see how they scored out of 5 for all of their customer interactions and a little bit of healthy competition never hurts. We also give them verbatim feedback where customers have given direct quotes and are sharing these magic moments where we've delighted customers but also the tragic moments where we've let them down, and those insights to what is magic and tragic I hope you've had a chance to see downstairs, really increasing our customer focus.

But it's not just the external view, we are looking internally, from the information that is available in our systems around where we are making promises to customers and are we meeting those promises in terms of reducing our work in progress and our commitments. By looking at our systems and our processes, we have been able to double our compliance on hitting things like our 24 hour SLA, so where we promise that we'll do something for customers in 24 hours actually following through on it. And this has had a great impact in terms of reducing the number of contacts that we get from customers wanting to chase things up, the number of complaints we've got and the number of escalated complaints we've got.

Delighting our customers feels brilliant but it also pays. Clearly the volume reduction here is more efficient if we get less failure into the system. But it also pays tangibly in one of our ODI measures. So SIM is something that you'll hear a lot about, our Service Incentive Measures. It's one of Ofwat's key measures to make sure we are delivering effective customer service and is proportionally based on qualitative surveys where they go and survey our customers four times a year. And then the quantitative measures which is based on the volumes notably of calls that we get from customers and complaints we receive.

As you can see on the two charts, these are then ranked across all the water and waste companies, and as you can see during the course of AMP5 we started really languishing at the bottom in the ranking, we moved up to the middle level, and the push that we've made in the last 12 months, those types of activities that I just talked about, moved us up to 6th place overall and we are in the zone to get into upper quartile which is what we've said for AMP6. You may have heard numbers quoted about how we ended up at 4, this is for the water and waste companies, so we are ranked 4th out of all comparative water and waste companies. Again, similar trending going through. And this really tangibly pays. So the ODI incentive for this ranges with £22 million swing of hard cash on the table if we delight our customers. and I'm delighted to say that as we move into AMP6 our trajectory based on these interventions and the sustainable changes that we are making to remove causes of failure and to delight our customers have meant that gradually through the year to land at that 4th place position we've been improving quarter on quarter, and this recent quarter came out 2nd across all water and waste companies. So delighting our customers feels brilliant to our people and it also pays dividends in terms of the cash that it provides.

So the second area that I wanted to just spend a moment on is channels. Clearly giving customers choice is really important. I think putting customers first, understanding and hearing what they want comes out through all of the consultation that we've done that Tony is going to talk about, listening to our customers. And for many of our customers the telephone is still a really important channel. It's not actually when you get into the demographics of age-related as many people like to assume but when you've got a really urgent incident you want to pick up the phone, and so ensuring that we give first class service for all of our telephone contact is absolutely critical. So Liv talked about the £100 million through AMP6 that we've been able to achieve with headcount reduction but this is net of 92 additional frontline staff handling customer contact both on the telephone and other channels. And you say, "Well what does that actually mean to customers?" So if you are involved in the contact centre industry as I have been for most of my career you can see that the impact is really material and we'll start to measure ourselves just generally against the contact centre industry. But grade of service or customer service level is just a really practical measure to say are you answering 80% of your calls in 20 seconds? And I'm sure we've all had those moments just hanging on the phone wondering if anything will happen. As you can see, before we made this investment we were struggling to meet those, except for in our quiet times of the year. Since we have invested in those frontline staff, we are consistently hitting this service level and being able to be responsive to our customers. So the telephone and being number one on the telephone is really key to us and that investment in the frontline has helped us to achieve that. But customers are changing and they are demanding a broad range of channels, particularly in the digital space. Obviously if we can encourage our customers to use these self-service channels then we become also more efficient as a business. So it is about choice and we're never going to take channels away but for us it's about creating compelling, exciting, easy to use digital choices. So if you think about why Amazon is just so popular, it's just super easy. So what we've been looking at, whether it's on the bill or over half of our customers on direct debit, is how we can create really enticing simple delightful experiences in a digital channel that obviously a lower cost in terms of the service that we provide which is good for us and all of our customers, but encourages this channel shift from the telephony and high cost channels into the digital space.

One of the ways that we can start to do this, outside of enhancements that we've made in web self-service, which has increased our performance and uptake of this by 26% over the last year, is things like web chat or, as Liv mentioned earlier, Twitter. And this is where we can start to actually help and educate our customers, so we can see them loitering on the website trying to work out how to get something done. And there's just been some brilliant examples since we've launched web chat about customers coming on having been offered a chat online immediately chatting back and saying, "Oh, I've got a complicated problem. I need to move home and I need to change… It's probably easier if I call you." And within a couple of minutes and a few chats later resolving their query and then you get these brilliant Tweets where they are celebrating the journey that we've helped them through to these digital channels. So there's a broad community aspect to it about helping the digital competency of the communities and the customers but also creating that migration across the channel shift which is really exciting.

So having looked at the voice of the customer and then looking at the channel shift, the third area is around really understanding our customers. Clearly we have a universal service obligation to provide everybody wonderful, the best drinking water and to make sure that we take their sewage away, and that is a consistent universal obligation. That doesn't mean to say we need to treat people the same and as we look at trying to understand our customers more and using that insight we can already start to see how we can drive better experiences for our customers and better performance for us. One of the areas that we've been very successful in so far is around bad debt. So by implementing sophisticated debt strategies around targeted groups of customers we have one of the best bad debt percentages in the industry. We've become in recent months even more honed on it, so we've gone through the recent billing run of over 2.2 million customers. As we've batched that up we've identified those customers who are more likely to pay and invoice them earlier so we've been able to accelerate their cash flow into the business by £10 million. So looking at ways that we can understand our customers to drive our financial performance is interesting and as we look at our social tariff scheme that we are just about to launch in a couple of weeks' time, again we can further take a deep understanding of customers and move that forward. This is a scheme that we are launching in conjunction with the Citizen's Advice Bureau; it provides holistic debt counselling, I think it's a great step forward, it's arguably one of the broadest schemes in the industry given our track record in this space, and it really is beneficial to all of our customers. Over 75% of our customers say they are supportive of this scheme because it means that we are not spending energy chasing debt from people who can't pay but we can focus our attention onto the people who won't pay and supporting through this holistic debt counselling our customer's journey from struggling with debt and moving them up the band so they eventually get on to a better debt profile.

But it's not just in debt where this insight and targeted treatment of customers can happen. Increasingly we can use this segments or targeted insight around groups of customers to be proactive in what we do. So if we think about incidents that we are doing across the company, by looking at specific incidents, specific groups of customers, we can send proactive messages by text, by voicemail, by other digital channels to customers potentially affected by outages or leaks. So in one single incident where we targeted proactively a group of customers, we managed to reduce the impact from our customers by receiving 1300 less calls than we were predicting. Obviously from a customer experience perspective this is brilliant because by receiving that proactive contact they feel as if we are in control of the situation. And from our perspective reducing 1300 less calls is important because it reduces our cost and improves our SIMS score.

With the SMS text and survey we have also been doing some great stuff where any customer on these text scores when we do the surveys about every field visit and every call, any customer that scores us 1 to 3 (again 1 being low, 5 being high) we call back within 2 hours. How often have you done a survey and you've given information and it just goes into the black hole? We actually pick up the phone, we talk to our customers, we understand the source of their ongoing frustration. This allows our resolution team to resolve that customer and prevent a complaint happening or an escalated complaint happening. But it also means we can get down to the root cause of the problem and through that proactive insight create sustainable change in how we treat our customers and the performance of our business.

So moving on to the last area which is digital, and I've got three topics in digital that I just want to briefly skip over. First is our digital customers, obviously starting with customers first, the second around our digital colleagues, and the third around our digital enterprise. And I do hope you've had a chance downstairs in our experience zone to see some of the things that we are doing, and they will be available in the break.

So this is an app called 'In my street'. It has been designed from a customer's viewpoint. We all get obsessed with billing and some of our internal processes but customers said to us, "No, actually it's being able to get to work on time or drop the kids off at school and we want to know what is going on." So being able to provide them insight into what's going on, what's happening to their bin collections, how they can do the diversions and being able to see it, and a range of different applications that we've got, whether it's these ones which have said put in Roman Road and you'll be able to see the capital works that we've got in Cheltenham at the moment, right the way through to our non-household customers with our SME switching app. This app was created from concept to go live which it now is in nine weeks, so accelerating the pace of our digital is really critical.

If I move away from customers for a moment, creating an amazing colleague experience for this awesome company but also using it to drive productivity is really key. We have got 2000 smart devices that are rolling out in the next couple of months to all of our field force. We have got 9 apps live, again hopefully you saw some of them in our experience zone. And we've got a pipeline of activity to really focus on what's going to accelerate the benefits, how do we get them out into the hands and do these incremental improvements to productivity.

So two of my favourites are the sludge tankering scheduling. So up until recently we used to work with our sludge tanker field, get their schedule for the week and post it out on a Thursday so the sludge tanker drivers would have their week on paper. In a digital world, we have now got a scheduling application and a smart tablet device that's in their cab so they see in real time not just the schedule that they have got but also they are able to see critical information about the job, how you get through the gate, where you are picking up the sludge from, whether it's a private site or one of our sites. That took about three months to develop with all the scheduling software and being able to provide that out on a site. It cost about £450,000 with the end-to-end integration to make sure that it happened. Within the first three months we've saved £105,000 just in third party tankering costs for our scheduling overruns. So we're looking at ways that we can highlight and focus on productivity gains. Our new connections quote is also a fabulous application that allows our technicians to go out on site, take all the measurements, where historically they would then go back to the depot, create a quote and then either email or post it to them which would take days, sometimes weeks to complete that quote process. Through their app the can take all of the critical measurements, actually have a discussion with a developer, bring some of the charges to life like traffic management which always causes a conversation, and actually close the deal so to speak there and then through the interface that we have got. So focussing like the Sky Olympics team on areas where we can incrementally improve productivity, stand up these apps quickly and change our colleagues' experience of digital.

And then finally around our digital enterprise. People talk about smart networks, network control, but this is the area of taking all those different data points that we've got within our network of operation, being able to drive better insight, being able to reduce incidents and ultimately being able to optimise our assets through our asset strategy. We have got a clear vision and road map, we have got investments that we're going to be making through the AMP, but for us this isn't a pipe dream and the pun is utterly intended. For us, we've been building on it. We have got 1800 telemetry points already in the network. We have 2 automated water treatment sites and hopefully as you go to the performance zone in one of the breaks you can see the pilot waste treatment site. So we are looking at linking up all the different investments that we have made and are making and build on our track record so that we have a smarter more intelligent network that can really use digital to drive our performance and create the type of performance in the AMP6 plan that Liv talked about.

So customer focus and digital, we firmly believe will drive better performance. We have got some great track record already and able to demonstrate how eliminating failure, being able to provide a choice of channels but encourage compelling use of these cheaper digital channels, and using insight to drive targeted treatment to certain groups of customers is already having a benefit. We're also pushing and accelerating our digital agenda, whether that's for our customers, our colleagues, or our smarter networks. Hopefully you've got a sense of really what we're doing around our customer and our digital agenda. I am clearly very excited and delighted to be part of the team. So I'm going to hand over to Liv who is going to talk about wholesale. Thank you.

Liv Garfield: Very good. So you've got me on operational excellence and then we've got Martin, as we said, in terms of innovation and where we go next from an engineering perspective. So as we'd expect, the ambition in operations very clearly matches with the overall company ambitions so you can see that the plan is very simply right at the bottom to be proud to be the leading wholesaler in our sector. That's our ambition. And when you look at how we believe that's made up, it's made up of the fact that we need to be operationally excellent and certainly galvanise ourselves within the ODI's; it's about making sure that the customer flows and ebbs throughout our entire business linking back into the customer organisation; it's around making sure that we take on board all of the opportunities to be efficient as well as also be a leader operationally; it's around being fantastic on our capital programmes so huge amount of successes around capital investment. We've got the biggest capital investment programme we've ever had, so making sure we're absolutely awesome at that over the next five years will be a big part of our success. And it's also making sure that we really work with our regulators. We often talk about Ofwat, I think with yourselves, but actually from a wholesale operations perspective the relationship with the DWI, the Drinking Water Inspectorate, and the EA, the Environment Agency, are actually just as, if not in all honesty more critical, that's the opportunity for us to shape and to guide how they perceive our performance in the sector and we're doing well in some measures and in others there's more to be done.

So I wanted to bring to life first of all what does our asset base look like, and this visual map tries to do that. So it tries to show you just in one simple visual when we talk about 'engineering technicians' what are they actually operating on a day-to-day basis. So you're talking about broadly 3000 people looking after this variety of assets all to serve 4.3 million households across our patch in the space. And as you can see it's a mixture of pipework, it's a mixture of treatment works, it's a mixture of sources in terms of reservoirs and bore holes, and this is our daily life is to make sure that we keep this in the best possible shape and invest in it for the future to create a lasting legacy across our part of the country.

Now we are good at some things already and we're not so good at some things already. The great thing about the incentivisation regime is that previously you only ever had the opportunity to get a penalty for something you weren't good at. You never got a reward. The great thing about the new world of ODI's is you actually get the opportunity to really make rewards on the stuff that you are great it. I'm going to start being slightly harsh on ourselves and look at the stuff that we're not so great at first.

So this is where we are not happy with our performance. So water quality is not as good as we would like it to be. We have talked about that at the May results, we talked about it again in November, it's going to be a two-year journey for us to get our water quality into the performance that we would like it to be against all of the measures. They are on an improving trend, it's just that they are not where we would like them to be. And we talked most recently and announced a few weeks back that we are going to spend an extra £35 million on water quality assets. We believe that we'll have to continue to be more efficient on other parts to make sure that we can make the right investments in water quality. We are confident what we'll do in that space, we've got a very good plan and I'm going to walk you through in a second or two the plan in more detail because it is the area we've mentioned a couple of times and maybe not been as specific. So today with you all captivated in the room we are going to take the chance to do a little bit more detail on water quality.

The other area that we think we can do better in water is around 12 hour interruptions. So we are very, very good at 3 hour interruptions, maybe you could say the simpler issues in terms of interruptions to supply, but when they are more complicated often kind of like the bigger incidents we are not as sharp on our game as we could be, and we've been doing a lot of work this year to get ourselves ready for that; there's still more that we can do and you will have seen some of the new technologies that we are getting ourselves ready with to really make that a real focus. That's the second area in water that we know that we can continue to invest in.

On waste, we are good at the vast majority of measures but if there's one that we could say we could do a better job it's around blockages. So it's one area that we've said again, as you know, this time last year we talked about it, it's an area that we've set ourselves quite a high bar but it is and remains to be this year, it's been slightly off the pace again this year and where we would like it to be, so that continues to be in the waste area that's the one measure we would say that's not the one that we think is as good as it should be for ourselves and as good as we want it to be.

So this is us being honest, it says here's where we need to improve. We are very conscious of it. we've got a fantastic senior team across wholesale operations, many of which are here today acting as hosts so you can quiz them over the course of the breaks, and while we are on these areas I'll talk to you in more detail about water quality. But first of all let me just share the stuff that we are great at as well and these are the list of things that we would say straight upfront we are really great at these.

So we've been great at leakage, it's one of the highlights that we've had. We've done a much better job over the last period of time in terms of percentage improvement on leakage. We've set ourselves a further task to improve that over the next five years and we're on that and we are working hard to make sure that we make that a success for ourselves. We're also good on three hour supply, so this again is an area we've worked hard at, we've had good performance stats over the last while on it and we remain very comfortable with our performance in customers without supply for 3 hours. That is a very good measure for us and is one of the ones that will be an ODI going forward and that's a confident position. If you look at waste, as I said, we've done a very good job across a long period of time, and two things just to highlight there is I wanted to bring out we have been recognised by the EA as being the only four star rated company across the entire environment performance, last year as you know. That means that there are a number of measures underneath that to get you that four star rating. Well, we feel confident that our position is definitely upper quartile because it's right at the top of the measurement section.

We also are quite proud of our focus and our commitment in catchment management. We are one of the only companies to have really put in serious investment in the coming five year period and also linked to ODI performance on catchment management. We think that's a very big thing for PR19 and it's something that is one of the ODI's that is sizeable for us over the course of the next while and we're excited about the opportunity that that will give us.

So having discussed those I want to jump into a bit more detail into water quality and then I'm going to talk about ODI's because I know there's a few questions on those and I want to try and bring to life ODI's. So what are we going to do to make water quality a better situation? There's a seven point plan here you can say and what it will eventually lead to is it will lead to better performance in the key ODI measures that get justified against water quality. And the plan is a mixture of dedicated focus in terms of a dedicated transformation team on water quality; cultural change across our organisation so people know it's the single biggest area that we're not doing well on and, as I said, we had the events before Christmas when we really launched this to people, and one of the big areas we discussed on the day was water quality and our plans to improve. It's also knowing the situation across the piece. We've done a physical audit of all of our assets to really understand it, almost you could call it a QA role, where different people have gone to different sites and almost kind of quality assured each other's sites to get a sense of it, and I'm going to share a little bit of detail that came out of that. it's about bringing forward your asset plans and accepting that you need to spend a little bit more on it in the first couple of years in order to be able to yield the success from that in the later years. We have taken that decision, we are live with investing that money now. And it's also about making sure that you have got a second line assurance defence situation as well, so as well as frontline we need to invest, we need to create, we need to maintain. We also need to make sure that we've got chief engineers lined up there as the ongoing conscience to keep ourselves once we get ourselves into great shape that we keep ourselves in that strong position. So it is a mixture of people, process, technology and it is a big project for us across the piece, and it's one that we are totally focussed on, it's one that is right up there that says if we were talk to our people across the business they know that this is… there are a lot of measures going great, this is the one that we'll look at and say, "Ouch, not good enough." Quite simply, not good enough.

In terms of – I mentioned we just recently had an audit, this tries to bring to life the level and depth of detail that we are attacking this problem with. So what we've been doing is now that we've got ourselves new technology, obviously everyone has got their smart phones with their cameras and the ability to look at things, then trying to capture that information has been a great thing for us over the last while which is to say, okay, go and do an audit of somebody else's site. If you were to go fresh to that particular location, wander round and take in topics such as Ingress and check how you feel about any point of Ingress that could enter into the clean water to be able to look for the future to be sure that we've got the risk profile coming down. You can never end up with perfection but what you can do is constantly bring your risk profile down to end up where you are constantly investing in a sense that keeps you that you are making yourselves and your assets better the entire time. and that's what this work has been done, has been assessment of the situation, openly shared with the DWI to say, "This is what we've found, this is what we're working on, this is what we need to do next," and those conversations continue as part of that relationship with the regulator, because obviously they are saying to us, "Okay, what's your plan in this space?" And this is the solution for us is to make sure we're in that level of detail. And you can see quite openly here here's some of the things that we've found. The great thing about finding stuff is you've got the chance to fix it. The minute that you have a list of things it's possible to immediately resource it and then fix. We have made good strong progress, we have fixed 10% of everything we've found in the first weeks, we'll continue to make progress on that over the next few months and we'll keep you in the loop as to how we're doing on water quality over the course of the next while with the regular touch points.

Now, let's talk about ODI's. So what are the ODI's that I guess we end up with if we look forward? So it is one of these games, ODI's, which is an 80/20 rule, so the top 10 ODI's are the vast majority of the payments. So what I thought I would do today is literally just refer to the top 10 because the reality is these are the ones that we are likely to talk about a lot during the mid-year and the full-year results. And what I've tried to highlight is there are two of the ODI's which are end of AMP, and they are the orange ones, and that means that you can't evidence your performance until the end of the five year period and effectively they're a roll-up. And the other eight, we've chosen, and not every company has chosen to do this, but we have chosen in our company to take this as an annualised situation whereby our performance is assessed against each of the measures and we then effectively get paid with a slight lag of course because they have to be managed by Ofwat to check you've done it correctly etc. But we have chosen to take these in the period on an annualised basis adding on to the consumers' bills.

Now, ODI's have been guided by customers so the measures here completely align, so these are obviously financially important to us but they're actually very closely linked to all the messages Sarah said earlier in terms of focus areas for us as an organisation are absolutely measures the customers really care about, and the top ten areas the customers care about. Now, there is a health warning on the side. Not every ODI will be perfect every year. There are bound to be good years and bad years on different ODI's. So I know that you are desperate to find something to put in the model that says what do we think we're going to outperform on ODI's, and the reality is we're not going to be giving you that number I guess. As Sarah was saying, we will report against the bigger ones I guess each time that we see you on a twice a year basis, and then we'll also make sure that openly they all get reported on the Ofwat website as well so you've got an awful lot of opportunity available already on the website and we'll continue to keep you in the loop, but don't assume necessarily that every year every ODI is suddenly going to become a good news story. The reality is there will be drifts and moments on them. Nonetheless, we're competent that an aggregate level, across the piece, that this is a positive situation; we lobbied for incentivisation, we lobbied for there to be winners and losers in this area of operational performance, so we are confident about the aggregate but not every single performance of every single measure every single year.

Now, in terms of what we've done to get ready, we've done a huge heap of work in terms of getting people ready for these. So we've worked with our frontline teams to make sure that everyone is ready in terms of going forward. We have made sure that we've also tried to look at understanding if we're going to have a local team, what's your performance? What we've been able to give them is we've been having team meetings, get-togethers and, I guess, smaller huddles like a table huddle saying if our performance was aggregated for the whole organisation, what would this mean for Severn Trent if we were 'typical' of everyone else? To have that positive conversation as to what else could you do, how else can you outperform or how else can you recover your performance if it's holding the company back.

I also wanted to share with you a bit about the early progress report. So, as I said, already we can see early signs of positivity so the three air interruptions, already good; pollutions, already good; SIM, as Sarah said, already good. If you look the other one, coliforms we're two months into it and it's off track from where we are now, it's not as good as we would like it, it's an ongoing focus area. So, like I said, there will be a situation across the piece with some good, some not so good, and I wanted to give you some indications that just says, okay, flash report I guess, almost like back to school, what's the sense of the early performance report, it would be a mixture in that sense. Nonetheless, we remain confident that overall ODI's are absolutely the right thing over the five year aggregate, we're convinced they are the right thing and they will be a positive for us.

So last comment for me then is on efficiency and then a summary. So I genuinely believe that we can be operationally excellent and be more efficient because I think the two are intertwined. So the thing is we tried to show downstairs with the engineer of the future sector, what we tried to show with that section outside for those of you that got to go and meet the engineers is that they are normally the same, is that reduced hand-offs actually makes you better for customers, more operation efficient, but actually cheaper to run as well. So reduced handoffs is one example of that.

Another example is that at the moment we do far too much of our work as reactive so we're too split towards the 80% reactive/20% proactive. We need to find the balance closer towards a more natural split between those. It means that you are not doing it in a rush, you are not throwing every last resource on it, you are not on out-of-hours working, you are not on overtime, instead you are doing it in a more balanced, calm, more cost-effective manner but actually before the customer has even had an incident you are doing it as planned work. That's another area.

And the third area just to bring out is exactly the van you saw downstairs, the 'right first time' van, the opportunity for us to take something like blockages and go out and rather than go back and know we're going to end up revisiting and revisiting to fully fix the problem, instead take a different approach; re-kit the van, make sure that we're in a position whereby we can actually evidence to ourselves before we leave that site that we've truly fixed that problem with cameras, with activity, all uploaded, shared and saved on our servers so that we know we've got a quality job done for that customer and it's actually genuinely fixed. So all of these are examples of how we're going to get ourselves to sector efficiency. So bit by bit by bit the aggregation of marginal gains we're confident that it's both a great thing for our customers, it's a great thing for our ODI's but, actually, it's a cheaper cost base going forward as well. It's that winning combination that we believe will be achieved.

So, in summary, we've made the hard organisational changes. Of the £100 million that I've mentioned in terms of the organisational structure changes, 80% of that was delivered in the wholesale space by the merger of the two organisations and the multiple management layers that we had. That's now done, it's settled, the organisation is live and all is good. So that's the first thing is we've made a big step forward in terms of delivering some of these tricky things.

The new combined workforce will make us stronger. It will give people more opportunity to lead in their sector. It means that we've got an opportunity for simpler measures across the peace. We've done a big job in terms of educating the workforce so they understand what the future looks like, and we believe that this structure allows us more pace and allows less variation as we begin to get ourselves in a much simpler organisational structure.

We believe that we are ready to be efficient for the future. We've got our organisation educated on the challenges ahead. I hope you've seen that in terms of some of the tools and enablers that were handed to people. There's nothing worse than starting the year saying we've got to run exactly the same cheaper. That's not what we are doing. We are saying that we are going to give people enablers that allows them to be more successful, also to be happier at work by the fact they've got the devices, they've got the management layers that makes it simpler, and we've got a much clearer comms approach across the organisation.

So that's the summary of what we're going to do in the wholesale operations. What I would like to do now is to hand over to Martin to take us through some thoughts in terms of the future on innovation.

Martin Kane: Thank you, Liv. Good morning everybody. I'm Martin Kane, I'm a Chartered Engineer and I've been with the company since 1975. I was actually with the predecessor, local authority in North London before the water industry was created. I've worked in many departments over the years and I now occupy the Chief Engineer's role. It's a new role and it's designed to provide challenge and assurance and educate the business around the new world of Totex, thinking about operational risk appetite in a different way and bringing innovation to life within our business. I think my experience gives me the ideal blend of operational knowledge and engineering delivery to ensure we get best value from our AMP6 spend as we look to expand and improve our network. And for the avoidance of doubt, my role is to assure Totex delivery, the spend is managed within the wholesale ops business and the commercial contracts are managed within Helen's procurement team.

So Totex creates a new world for the industry and I believe we are well placed to deliver and succeed. In previous AMPs, the sector had a bias towards Capex and that was how the RCV grew. With the introduction of Totex, the RCV now grows as a consequence of combined Capex and Opex, so we have to start thinking about how we do things differently, and in Severn Trent we have thought about that, how to deliver efficiencies in the Totex world, and we are currently setting out our plans to the workforce through a series of roadshows which will be complete by the end of April.

Totex efficiencies are still based on an absolute focus on Capex and Opex efficiency; those two things will not go away, they will be major contributors to our delivery in the next five years, as will ODI outperformance. But Totex does require us to have a better understanding of the vast capacity and capability of our current assets and we have a replacement value of the assets about £80 billion so we've got plenty to play with. And we should only build new once the current assets have been fully utilised. And driving innovation and standards creates the potential to outperform and that's what we intend to do.

Before I get into the main part of the presentation I would just like to discuss how our asset base has grown and our projects for AMP6. The overall asset base has grown steadily in line with business plans in the last AMP and the kick up in the sewer base in AMP5 you can see on the chart was the impact of private drains and sewers becoming our responsibility half way through the AMP. Our business plan indicates we intend to get to around £10 billion by the end of the AMP with RCV growth ahead of the numbers in AMP5.

This is an AMP, however, which is characterised by having a few very large schemes and a lot more modest sized improvements to do. The two largest schemes are the frankly alternative supplies and the EVA community resilience schemes, commonly referred to now as Birmingham Resilience for the remainder of this presentation, and Helen will discuss how we maintain our efficiency drive given the profile of lots of smaller schemes to do and, in particular, how we intend to use batching and standard products to deliver efficiencies against this rather different shape of the programme.

This slide illustrates where the move to a Totex regime has changed our approach to capital investment. In a Totex world we have to find the optimal whole-life cost solutions which requires a shift in the way we think about solving today's problems and servicing future needs. The first box is challenging the need or problem statement, this is at the very beginning of the need to invest or do something different, and we are doing this to understand why our requests for a capital scheme has been raised and challenge the capacity of the existing network. Under different operating scenarios, could we cope with the growth or the need without investing any new? And we've probably been a bit conservative and risk-averse in the past, and now we have to take a more considered view on risk and manage rather than invest to eliminate it.

We're now looking at options from a Totex perspective which allows operational solutions to be considered alongside conventional Capex ones, and we will select on a whole-life cost Totex basis rather than treating Opex and Capex as separate number ambitions to aim for.

On a solution selection, we will work more closely with our supply chain partners. Work in the next AMP carries on with a lot of the supply chain partners from the previous one. They were selected because they were the right people for us to work with and we got great collaboration with some of the better universities in the UK and some other people to help us in this area. So, selecting the latest innovations, making sure that we are absolutely fresh in what we are doing, keeping our engineering standards up to speed and ensuring best practice is embedded is part of my remit across the next five years.

When we get to the design and build phase, as I've said, we've selected the contract partners that we intend to work with; they've been with us for a while and most of them will stay with us for the next period as well. And we really need our contractors to be given the space to deliver the things that are truly excellent at, to be truly imaginative in their approach to delivering capital schemes when we choose to invest in capital. And, again, Helen's presentation will cover more of the things that we intend to do to stimulate more efficiency from our supply chain.

Moving towards the end of the list now, the diligent commissioning of assets will ensure that new assets, deliverer as a minimum the outputs required of them and in a sustainable way well into the future. And finally we need to include the whole life operating and maintenance standard into our everyday operational planning to assure that the outcome delivery is secured over the whole life of the asset.

Turning now to those of you that have tracked our progress through PR14, the business planning process, will be aware that our proposals for Birmingham Resilience were a source of considerable debate with Ofwat throughout that process. Our programme for AMP6 includes major extensions to the Frankly Water Treatment Works to allow it to treat more water from the River Severn including a new river intake and a new pipeline into Frankly. Our original proposal provided a discreet new supply from the River Severn to make up the flow from the Elan Valley Aqueduct when the Elan Valley was taken out for maintenance. Whilst this was a very low risk solution, it was very expensive and it did not make use of the existing capacity elsewhere in our grid. The scheme we have agreed with Ofwat does utilise water from the grid so the new build cost is substantially reduced. When we plan for future maintenance, however, on the EVA we'll have a bit more complexity to deal with and hence risking the alternative supply arrangements as we have to bring more sources into play. Planning for this will run in parallel with the scheme delivery and the risk will be fully mitigated through rigorous attention to detail.

From an ODI perspective, this scheme is now split into six components with each component having a penalty for delaying construction and also a penalty for any shortfall against scheme output. This is significantly better position than the draft determination and I believe represents a fairer outcome for us. The AMP6 plan also includes three community risk schemes which require us to relocate sections of the EVA at locations where a failure would lead to serious community disruption. We also have a project to replace a section of the tunnel where the structural condition will suggest now is the time to intervene. Again, in the area next door we've got a mock-up of a ten foot diameter tunnel so you can get some idea of the size of the project that we're actually involved in here.

My role in the EVA is to provide assurance over the detailed plans, to deliver the various schemes and to oversee the risk management, the mitigation plans. The team have got off to a cracking start. We have a section next door where both the tunnelling team and the works team are there to talk about any issues or to take you through the details of the scheme, and they will be delighted to provide more detail to you.

A couple of examples in the more modest scale of investment. The first one is Broseley Sewage Pumping Station and this review came about following one of my very first conversations when I was back in this role in September with the team looking after this particular problem. Just during a conversation around what Totex might mean to our business in terms of challenging ourselves to be more creative in our innovation around operating solutions, they asked for this scheme to be reviewed and I didn't actually have a team in place then, so it was me and one other, and the other went to do this. And just sitting down with the engineers and the operators talking about the problem, talking about the risk to operation, they managed to come up with a completely different solution. The original one was to duplicate shafts and tunnels under the River Severn; it's near the Iron Bridge Gorge so a very sensitive area to work in. That was to allow isolation so that we could maintain the existing pipe with no risk. It provides resilience but with duplicate asset that, to be honest, would be unused for most of the time. So whilst it was a very safe, very secure option it was quite expensive and it did create an asset that perhaps we didn't need. So the revised solution with the operators challenging the need statement, really homing in on what their problems really were, and they've come up now with a new plan that allows us to do maintenance on the existing pipe. We're going to build access so that it's easier and quicker to access, less risk to access, and by accepting the risk on the work, understanding it and managing it more effectively we have saved many millions of Capex on this scheme. And, again, Richard who did the review is in the performance area and if anyone wants to talk in more detail about this he will be very happy to talk to you.

Next example is around catchment management. Liv mentioned it in her piece. Thurlston Brooks, fairly small scheme, it's a brook in Leicestershire and it's got a water body quality output for this, for AMP6. In the old world there are three works, each of them shown with a dot on the map. Each of those works would have had a prescriptive consent standard for phosphorous at the outlet and we would have invested at each scheme to achieve that prescriptive consent. And what we are doing in the new world now is we're going to over-treat at one of them to a much higher standard, not treat at all in the middle one, and then treat to the original standard in the third one. And in that way we will save Capex, we'll save Opex, we'll save carbon and we'll achieve without any compromise the same outcome objective for the scheme.

Turning briefly to R&D, in AMP5 we spent £19 million on pure R&D and we achieved some notable outcomes. One example of this is highbacks which is a package sewage treatment process that works along the activated sludge route that some of you if you go to the works this afternoon will see. We developed this with a manufacturer and in the AMP5 we did one installation that was very much a – we did some prototyping then one full scale implementation of it. That implementation saved us £490,000 a year in Totex and we'll be installing ten more units in the next AMP. So a classic example of a relatively modest R&D investment in AMP5 flowing through into serious benefit in AMP6. So we've doubled our planned investment in R&D in AMP6 to around about £40 million but we've also shifted our short term focus so that we concentrate on the things we can do to impact some of the ODI's, and there are four ODI's that we've picked as shown on the slide: Sewer flooding, SIM, interruptions and water quality, and they are the four where we think an investment in time and energy through our innovation partners will reap some benefit. And the early delivery dates for some of the schemes are on the slide as well, so we are expecting to see some good things to help provide some assurance around ODI outperformance in the early part of the AMP.

We are also doing some mid to long term R&D. We're a long term industry. Some of our assets are designed to last 50 years so it would be remiss of us just to concentrate on the short term. So the R&D team are also looking for breakthrough innovation for the future as well. Then we've got a strong in-house team and we've got a team of strong collaborative partners that we work with in this area.

So, bringing my bit to a conclusion. Totex requires us to change our way of thinking about expenditure and we have a framework now that we've developed in the last few months to allow us to do that and that's been rolled out to all of our teams as we speak. Our asset base grows by 27% over AMP6 which is an increase in the rate of growth we saw in AMP5. In terms of the Birmingham Resilience schemes, we are off to a great start. We've got a very competent team in place, some key milestones have already been delivered particularly around land purchase and route selection and we are providing a strong assurance wrapper around the whole of the delivery process.

A number of opportunities to benefit from Totex thinking have been identified already and we'll be reviewing all of the significant schemes in AMP6 to make sure that any further benefits that are available will be identified and built into the design solutions. R&D spend will double to £40 million in AMP6 with a clear focus on helping ODI outperformance and with investment returns set to grow compared with historical norms.

So just a final comment from me: I'm confident we've got the team in place and I think are well developed to be successful in AMP6. Thank you.

John Crosse: Just to let you know if you haven't already spotted, if anyone needs Wi-Fi access on your tables you've got a slip there to hook up to the Wi-Fi network called delegates and the password is on there. And also I'm sure you've seen inside your packs you also do have a couple of brochures; this small one here Inside AMP6 picks up some of the key themes that we've been talking about today, and this one talks about our AMP6 plan, our commitments and gives more detail on all of our ODI's, not just the top ten that Liv mentioned. Right, Q&A, who wants to go first?

Guy Mackenzie (Credit Suisse): Hi, just a quick question from me. Quite a bit of discussion on your investment in digital. Just wondering if you could quantify the scale of that investment over the next five years and, I guess, the returns you expect to achieve, granted I guess they'll come partly through your Totex efficiencies and also through your ODI's but if there's any kind of number you can give on that that would be helpful.

Liv Garfield: We're going to be annoying and not give a total number and the reason for that, and we knew that this would probably be the first question, is there's quite a few different areas. So there's – Sarah is happy to talk about the cost of the devices and stuff like that just to give some contextualisation of an area but if you look at it we've got telemetry, we've got network control, we've got the devices, and so across the piece what we can say to you is anything that we spend money on we'll be going through all of our rigorous sign-off processes, so we've given you examples today. So whilst we can't give you a set number that says, 'It's going to be x million pounds,' you can rest assured that before anything is spent, whether it's the apps, whether it's devices, whether it's network control, whether it's telemetry, it will go through the same rigorous approval processes for Capex spend as everything else has always gone through before, but we're not going to give you a total size number today.

Guy Mackenzie (Credit Suisse): Can I just ask a quick follow up question? You mentioned at full year and half year results you'd give an update on how you'd performed throughout the year on this top ten ODI's and obviously these are revenue adjustments for the most part that you are looking at rather than RAB adjustments. Are you able to tell us anything on how that remuneration might come through to shareholders at the end of the period, whether that might be rolled up from year to year, for example, and then some kind of a special dividend coming through, or how that mechanism might work?

Liv Garfield: So there's two questions there I think. So in terms of – we haven't quite got from Ofwat yet the rule book of reconciliation which is the detailed rules of ODI's are going to be paid out. That doesn't arrive until May. So we are awaiting that in May that says this is exactly when they are going to audit things, this is when they are going to allow it and when does it then go on to the bills. So we're still waiting for that from Ofwat, that's the first thing. In terms of your wider question, I think it's wider than just ODI's. So how will we, assuming we do outperform in the five year period, what's our plan for sharing that outperformance with shareholders I think is the wider question, not just ODI's. The intention there is, I guess, quite simply we gave one hint which says that we've gone for a dividend policy which is RPI plus at least zero, that gives you one hint. One way we could do it is we could tweak the 'at least zero' in real confidence to other numbers during the course of the period of time. We will also consider all previous things that we've looked at it; we've previously done specials, so we'll look at things like that if they are appropriate, so all areas will be considered. There's no plan yet. At the moment our focus is on performing so our focus is on absolutely underpinning everything that we need to do to deliver the FD and then the journey towards outperformance. We'll make sure that in our normal conversations with you we get feedback from you guys as we did when we were setting the dividend policy to make sure that we take your views into consideration, but there's still a while until we'll be in that position, so we've got a chance to listen to your views and also to make sure we've got all the full details from the regulator before we do it.

Deepa Venkateswaran (Bernstein): I just wanted to ask you a couple of questions on Totex. If you can just help us understand how the process is different today versus before, and how is the organisation structure different just to capture the whole Totex advantage when you are looking at Capex and Opex holistically, so maybe if you can just run through that? And would you say that there's anything changed on a day-to-day basis for your frontline staff in the way they look at repairs and maintenance, would that be different for them as well?

Liv Garfield: Tony has actually got a slide later which is going to explain the difference between what was the capital previously in the Totex world, so almost think we should save that until after Tony's slot later and if you've still got the same question then we'll pick it up in the next Q&A, but I think that will take it in the right level of detail and it's easier to do it with the slide to show. So let's do that. In terms of how we capture it, Martin, do you want to comment on the difference for how Totex is signed off?

Martin Kane: Yes, I think if you look at Totex in reality it's Capex efficiency, it's Opex efficiency, it's ODI outperformance, it's reducing the scope of capital schemes by clever thinking, and the one piece that we are still developing our thoughts on is asset class intervention when for an asset class like pumps, do we replace too many? Would a repair or refurbishment policy and strategy be a better strategy? That thinking is still to be done. But the first four strands of activity are going to deliver what we need to deliver in the first AMP, so very keen, very happy that we're underway with that. In terms of thinking, it's not really a lot. Let's just concentrate on doing the right thing in Opex and Capex efficiency, as we've always done. I think we talked about gearing the whole business up to understand ODI's and their contribution to success. And the capital one, I've explained we're underway with challenging the thinking. The great result for me is when someone phones me up and says, "I've got a scheme. Can you come and have a look at it?" I think there's an opportunity. And that's the change that will happen over the next six to nine months in our business.

Liv Garfield: So I think in answer to the frontline staff I think there is a change that if you're in a capital area you might phone up Martin and say, "Come and give me a hand to get more creative on it." That is probably a change I guess in that sense. And in terms of the very frontline if you're a technician, you would know what the ODI business impact was, so our people would be educated on the financial cost of, for example, a flooding incident, whether it's sewer flooding, they would know the impact of an ODI, whether it's coliforms, so I think they would probably look at that and know it and maybe say, "Okay, what else can we do to be even more creative?" So I think it's extra creativity and extra focus. But the core company is already very strong, so it's about building and honing rather than refreshing to a totally different area.

Dominic Nash (Macquarie): Hi there. Two questions please. Firstly on the reduction in the management numbers, speaking with other companies who have gone down this route where they have removed large numbers quite quickly it said that the morale and efficiency of the staff fell and it took a number of years to get it back. Is this something that – what is the morale like in your management structures and how long do you think we'll – when do you think we'll get back to a sort of normal morale? And, secondly, on the ODI's and all the other incentives, have you come across any examples where you've worked out that it isn't worth investing or it isn't worth doing things because the financial penalties or the rewards aren't enough to cover the investment required to do that?

Liv Garfield: Okay. So two quite different questions. So on the first one we actually chose to do our employee morale survey right in the week when people were being told about roles because that's the normal week that we run it is the third week of November, and it would have been the wrong thing to have done to delay it. So we did it in the worst possible ebb of uncertainty and people were being called into a room to be told their future, and it only dropped by 1%. So we did a huge amount of comms around it. Most people in our organisation, even if there was somebody that you knew affected, you knew we were too management heavy so it was constantly talked about, it was a discussion point, so, yes, we had quite varied results; you had some chunks of people where I guess the impact was strong for the team but you also had lots of areas going up at the same time. So I know what you are saying that other companies have seen huge 10% drops in morale during big re-orgs; we didn't, we saw a 1% drop, we looked at all the verbatims and there were some areas that said, "I didn't necessarily like it because my friend got affected but I still believe it's the right thing to do." We had Coventry Radio parked outside. They had to speak to literally hundreds of people until they found somebody that was negative about it. The first something like 130 people they spoke to said, "It's logical," which isn't good radio so they had to keep waiting; they were there for two and a half hours until they got somebody to say, "I think I'm unsettled." But literally it was a very good job well run by the senior team, so it was a big focus area for the quarter and we didn't make – there were other things we couldn't do in that quarter because we had to land that well but it was worth £100 million to us and we knew it would make us more efficient as well on an ongoing basis. So it wasn't just a cost-saving, it genuinely is the right thing for our business. So that's the first thing.

The second question was… now I was so busy focussing on the first one, remind me what the second summary was? No, you can't decide to sacrifice ODI's at this stage! So ODI's are based on what your customers are willing to pay.

Dominic Nash (Macquarie): It was also totex…

Liv Garfield: A Totex thing. On an ODI basis we are not sacrificing any of the ODI's so we are actively focussed on 29 of the ODI's as it stands today. There are some that are worth more and there is the 80/20 rule of you throw more at the top 10 than you probably should throw at the others, right? That's true.

In terms of Totex, again I don't think we've found any example where you just say we've found better ways of doing stuff, but we haven't decided just to put these things into a box that says 'we're definitely not doing those'. We want to run the most efficient business in our sector. We want to run the business that outperforms best on the AMP in our sector. We also want to run the best business in our sector and that requires us to probably care about stuff that is brilliantly placed back and stuff that's borderline; you're going to have to do a bit of both but we'll get enough outperformance from the other areas to be able to justify that investment in those areas as well.

Bobby Chada (Morgan Stanley): Thanks. So, two questions, first on your piece on digital and working more with the customer. There has been a lot of stuff written about energy and how customers just aren't really engaging. How do you think you can make water customers engage? And then the second question is on the extra investment in renewables, I think it's £190 million, can you just walk through how do you decide to make that investment? Is it a financial target? What's the benefit to the business and where will we see those benefits come through RCV or P&L?

Liv Garfield: Okay, Sarah first…

Sarah Bentley: So the engagement one is absolutely relevant. Most people don't get up in the morning and go, "Whoop de doo, I want to speak to my water company," or, indeed, energy company or in fact any infrastructure company; telcos are right up there as well. So engagement is low and, actually, to make it most cost-efficient for our customers we don't want them to want to engage a lot other than at the moments that they have to engage. I think the real opportunity comes by we've got amazing stories to tell if we want to engage on a positive side, our visitors centres, all the things we do around education, so there's a huge positive environmentally community focussed conversation that we can have that arguably the energy companies can't have, so I think our topics are richer. And the other thing is just to make it really relevant and exciting for them. As I said, I think the internal view when you say, "Oh let's create an app for our customers," is, '"Let's create a billing app." The reality is our customers generally, other than the ones that are struggling to pay, don't care about their bills. They care about the fact that we're digging up roads and that's interrupting their journey which is why 'In My Street' was so important. And I think what I've seen through the energy sector is there's just been a lack of imagination about how to bring that to life, so you think about e-billing and the version of that is I'll take a PDF of my paper bill and put it on a smartphone. For me, that's not any form of imagination or doing it. But what can you learn from it? What insight can you drive? How do you interact with the information that you are getting in terms of reducing consumption, comparing yourself with your neighbours? So I think if we can create those compelling choices around these really exciting topics we've got that are environmentally focussed, we can encourage people more to the tune that we want to so that our overall cost base is appropriate for our sector.

Liv Garfield: Very good. In terms of renewables, Andy is already feeling slightly unloved because he is the last presenter of the day and he is worried that by then every Q&A would have taken every question. So I'm going to be very brief with what I say on it. So it's £190 million investment. It's low double digit payback in terms of years. The reason for it is three reasons: So the first thing is energy pricing is volatile and will go up from where it is now. This gives us a long term hedge, that's number one. The second thing is we are very good at renewable energy, so if you look at it in this organisation we've got a good track record of being very good at investment cases and being able to make them pay back, delivering them on time to budget and being able to get good energy out of it. We believe this is a forte of ours and we want to make sure that continues. It's non-reg investment so it's non-regulatory investment just to be clear against that. It's a choice that we are making that we think will stand us in great position for the future. I won't steal any more of his thunder otherwise he might not speak to me during the coffee break.

John Crosse: Time for one more, Jamie.

Jamie Tunnicliffe (Redburn): Thanks. Just wondered, is there much to be done in terms of the understanding of the serviceability of your assets or is what you are telling us more about applying new processes to the way that you work the system best with already a good information base behind you?

Martin Kane: I think one of the things that has come through in the last six months is that in Severn Trent your career either went through engineering or your career went through operations, and there's very few of us that have had the luxury of working for any period of time in both. And when you are looking at optimising a solution, it's really good to have that blend of experience and knowledge to be able to think about different ways of approaching a problem. It will mean the risk appetite changes slightly; we have probably been too risk averse in some of our thinking in the past. This is not going to be a reckless risk assault on capital efficiency, this is about understanding precisely what the options are, understanding what risks they bring and those risks that we can tolerably mitigate to a sensible level will then create options that are the right options for us. So it's a combination of combining Opex and Capex thinking about what's do-able, what's possible, understanding completely the operational risk of delivering those alternative solutions and then choosing the best whole life cost system for us. And we'll be training a lot more people to more versatile than we have today.

Liv Garfield: Very good.

John Crosse: Great, thanks very much. There will be another opportunity for another Q&A session later but let's have a break now. Tea and coffee is round the back on the right hand side. If I can ask you to be back in 15 minutes, so that will be 11.25am please, thank you very much.

[BREAK]

John Crosse: Okay, thank you very much. Thanks – I know that was a short break but thank you for coming back on time. So the next series of presentations we've got Helen Miles talking about how we work more effectively with our supply chain. Then we've got Tony talking about how we change the market for the better and the future regulatory landscape. Andy is going to talk about growth in non-regulated markets. Mike's going to talk about financing and then we'll have a final wrap up Q&A at the end and then lunch. So I shall hand over now to Helen Miles who's our Chief Commercial Officer. Helen?

Helen Miles: Good morning. As John said, I'm Helen Miles. I've been in Severn Trent four months now and I'm loving every minute. Previously I was at – as Liv said I was CFO at Open Reach, I spent 14 years at BT in total in a variety of commercial and finance roles, all of which stand me in great stead for the role at Severn Trent. My remit is commercial responsibility across the Group, so both in the regulated and non-regulated business and today I'm going to give you some insight in to how we're going to deliver our efficiencies. But I'm going to start by giving you some context to the numbers. So as Liv said, we're going to spend about £6.2 billion over the AMP; that's a £700 million increase on the previous AMP. 62% of our total spend is with our external suppliers, which means it's absolutely critical we get our commercial arrangements and our commercial management absolutely right. We intend to deliver £287 million worth of efficiencies against that spend and I'm going to share with you how we're going to do that.

So £287 million worth of efficiencies, I'm very confident we can outperform this and there are three reasons why I'm confident. Firstly, we've identified a number of efficiency drivers and those are shown on the chart on the right. And there are four key efficiency drivers as you can see in the pie chart and I'm going to talk through those today. So we've identified efficiency drivers. Secondly, there's already a huge amount of activity that's already been undertaken, so we start the AMP in a really strong position. And thirdly, £287 million worth of efficiencies is on average about 7% across that spend. In the last four months in my time at Severn Trent, all of the activity that I've signed off with our external suppliers has been in excess of 7%. So that gives me great confidence that we can outperform our Efficiency Plan. The chart on the left gives some insight into how those efficiencies break out against the different types of spend we've got. So there's £175 million which is against our Capital Improvement Programme; this is our asset creation activity. There's £63 million which is on our Capital Maintenance Programme, so this is about maintaining our current assets. It also includes spend on IS and Property and then there's £49 million which is against our operating expenditure. So you can see from the numbers that the Capital Improvement Programme is key to delivering the overall efficiency. So I just want to spend a little bit of time talking to you a little bit more about that.

So, we have to deliver £175 million worth efficiency from our Capital Improvement Programme and this is the subject Martin touched on earlier. So we have six suppliers who help us deliver our Capital

Improvement and that model is embedded in AMP5 and in AMP6 we're evolving that model. We've set up a Joint Programme Team, we've invested in a Joint Programme Team with members from all of our key suppliers, our six suppliers, as well as people from Severn Trent and they have been working very hard on identifying how can we drive efficiency from that capital investment? And what you see here on the chart are the six key work streams within that Programme and I'll just briefly walk through them with you. So Production Controls, this is about lean construction techniques and factory thinking and in the pilots that we've run so far, we've delivered a 40% time efficiency and you may have seen examples of that in the performance area over coffee. Standard products, Martin mentioned this, this was about designing it once and building it many times, reducing investment costs and whole life costs. Distribution reorganisation and end-to-end process, this is about streamlining our back office and making sure the most efficient provider performs those back office functions. And end-to-end processes, we've looked at all of our asset creation processes to seek to reduce waste and reduce the number of steps in our processes. Rights scoping, this is about being creative about the solutions that we use and reducing our spend in a totex world. And Strategic Programming, this is about batching products from small individual projects in to significant pieces of work, which is better for our supply chain. So the key to this is a collaborative approach; it's heavily invested in between us and our supply chain and we have confidence that we can deliver this, because our supply chain have signed up to those efficiencies.

As I said, we have four key efficiency drivers that were on my pie chart at the beginning and one of those is Leverage and Scale and it's worth about £61 million in terms of the overall efficiencies. So I'm just going to talk a little bit about how we see leverage and scale as an opportunity for us. So firstly, we have a big supplier base and we have made some progress in reducing that supplier base but we still see consolidation as an opportunity and we've set ourselves a target you can see there. Our (tail?) is worth significant value; it's worth over £1 billion of spend over the AMP and we know that by consolidating those suppliers we can deliver value. A couple of examples, our 34 asset maintenance suppliers we've reduced down to seven. We've halved the number of chemical suppliers and we've cut our number of pump suppliers by 60%. All of this tender activity has delivered us in excess of 10% savings, so we know it delivers value.

I talked about batching; in AMP5 we would have managed many, many individual small projects separately. Our plan in AMP6 is to batch those together in to strategic programmes of work for our supply chain. This has many benefits, firstly giving the supply chain visibility of those big pieces of work means they can negotiate better prices with their supply chain. Secondly, by repeating work on many, many sites through the same supplier, they get better at it, they get more efficient at it. And thirdly, there's a reduced overhead by managing bigger programmes as opposed to many small ones. Other things in terms of leverage and scale, Liv mentioned earlier we've brought our water and our waste business together and you can see there some of the common activities between our water and waste business. These previously have been managed totally separately; by bringing them together we can compare and contrast commercial models and we can look to gain economies of scale by bringing some of the common activities together. Equally, where we have regional silos, we can break those down. We do have regional silos, some of our commercial arrangements are regionally. By breaking down those silos we can leverage our scale.

Managing our Demand, this was one of my key efficiency drivers in my original chart; it's worth £61 million in terms of the overall £287 and this is key. We can't just look at the supply side of the equation, we have to look at managing our demand, because that's what drives our overall cost base. And there are three areas that I can talk about today in terms of how we can do that. First of all, visibility of our spend. So by having greater visibility and more capability in terms of forecasting our volumes, we can actually use that in our commercial negotiations with our suppliers. By having better visibility of spend and volumes during the life of a contract, it enables us to negotiate it (in a life?) where we see we're spending more or giving suppliers more work. And thirdly, we're developing a number of analytical tools that allow us to compare contractors, allow us to compare different projects and where we can share best practice and highlight areas of opportunity.

In terms of Collaborative Planning, I mentioned this when I was talking about capital; by planning once and not planning in many places, it's obviously more efficient and also when we do a large construction project our big costs are when we start on site, so it's labour costs, it's plant and equipment hire, it's materials costs and by planning collaboratively with everybody involved in the critical path of delivery, we can ensure we get the right resources in the right place at the right time, eliminate downtime and eliminate waste. And again, we've run pilots where this has been extremely effective for us.

And thirdly, centralisation, so we've recognised in recent tenders that centralising activity is a great thing for – not only for us but also for our supply chain. A great example is our recent chemicals tender; we used to order chemicals on a site by site basis across many sites, very inefficient and also expensive for our supply chain as it caused them to have many runs to many sites in a similar area. So by centralising this, we've been able to reduce supplier costs in terms of their logistic costs, also have better visibility of stock levels and also compare usage site by site. Similarly, with our sludge tankering we've centralised our planning office to enable us to drive utilisation off our own tankers and also reduce our reliance on external tankers.

Standard Products, so as I said earlier, this is about designing it once and building it many times. We've identified a spend of about £500 million across the AMP of products which we wish to standardise. The picture you see there is of an aeration section, which is one of the tenders we currently have out of a standardised product. We have about 14 of these tenders out at the moment, so still lots to do but we've started the journey. Our UV disinfection reactor is a great example of some of the things I've been talking about. We've standardised the product design, we've fabricated it off site rather than on site because it's cheaper and we've batched the whole AMP6 requirement in to one and that's – all of those things together has enabled us to deliver over 50% savings.

On pumps, 7,500 pumps will be purchased or repaired over the AMP. We have significantly simplified our portfolio, from 300 down to 30, through standardising the design. We've gone to low cost country sourcing which is something that we don't do a lot of, but we intend to do a lot more of, and we've also looked to use vendor managed inventory which eliminates our lead times. You will have seen our vans downstairs, hopefully at the front, our new glorious vans. We redesigned our vans from large to small vans and we've also – which reduces our purchase costs and our running costs and we've also sought to refurbish tanker barrels so we don't have to replace the whole unit.

In an outcome driven environment, so in the world of ODIs, we have to manage our suppliers in life and we also have to think about how that impacts our contracts. So we are looking to implement, and we've created a framework to manage our suppliers. This will allow us to robustly and consistently manage our supplier base. It will enable us to do targeted cost assurance and audit activity, which we have done in the past, but we haven't done a huge amount of and we know when we do it, it delivers a significant efficiency up to 5%. And also, segment our supplier base; it's not a one-size-fits-all model, but it allows us to target those suppliers that are either critical to our operation or those with which we spend a significant amount of money. In terms of our contracts, I believe that one of the key things that can drive our supplier performance, having KPIs that count for us, KPIs that count for our customers and incentives that matter to our suppliers, and based on my experience I know this is a key lever that will drive supplier performance. We also have to think about how we link ODI outcomes to our contracts and we've started this journey, but again it will be a journey and we'll be looking at that over the coming months. And also we can have smarter commercial terms. I want to be able to, during the life of a five year contract, I want to be able to benchmark the costs of a contract with the external market and I want to be able to go back to the supplier if the pricing is out of kilter and so benchmarking clauses is an example of something we want to do. We also want to improve our pricing so that the suppliers are on the hook to deliver year-on-year efficiencies and something that we needed to happen to meet our plan and we want them on the hook to deliver the same. So there's a number of things we can do to improve our commercial terms.

We need to embed commerciality. Liv said earlier culture change is fundamental; culture change is absolutely key for us on this. We need to improve our commercial capability and we'll invest in training to allow us to do that, as well as obviously bringing in new talent. We want to improve our analytical capability to make fast fact based decisions and understand the value of things to Severn Trent. And I've been out and about in the business a lot over my first few months here and one of the things I've really identified is we need a really good feedback mechanism that allows our operators who are on the front line, day to day, dealing with our suppliers, we need them to be able to feed back to us in the commercial world so that we can then use that in our negotiations and discussions with our suppliers and I'm really confident that the digital revolution that Sarah talked about earlier is going to give us an app that will allow us to do that. And we need to have a balance between being a good partner, but having robust commercial discussions. In my first couple of weeks in fact it was in Severn Trent, I sat down with a supplier anticipating that we would be negotiating on a price that he'd offered us for a particular service. We sat down in the meeting and the supplier said to me, "Well I'm expecting you just to agree the price I've put on the table". He probably saw the utter horror on my face when he said this, as that was certainly not my expectation. It didn't actually work out too well for him and we did actually negotiate a better price, but I think it's indicative of the perception that we need to change with some of our suppliers.

So in summary, we have £287 million worth of efficiencies and we're really confident we can outperform for the reasons that I've outlined. There are a number of opportunities and efficiency drivers that we've identified and we have a really good plan to deliver those, but I'm also really confident that as I move through, other opportunities will present themselves to us. We've already locked in £100 million worth of savings through a lot of the activity that I talked about earlier that has already been done. And last but not least, culture change is absolutely key to us. It's a journey, we started that journey and I'm confident we've got the right team in place now that will allow us to deliver the change that's needed. Thank you very much. I'm now going to invite young Tony Balance to –

Tony Ballance: (Laughs) It looks see-through! Right good morning everybody. For those of you who don't know me, I'm Tony Balance, I'm Director of Strategy and Regulation at the company. I've been here coming up to ten years now and it has flown by, so I've not been here quite as long as Martin but I've firmly got my feet under the table. Now as some of you may know, obviously in my biography those who've taken the time to read it, I worked many moons ago at OFWAT where I was Chief Economist and part of the Executive Team there and of course a key component of my role relates to our Regulatory Submissions and obviously maintaining good relationships with OFWAT as our Economic Regulator. And I was of course the Director with responsibility for the overall delivery of PR14. I don't take sole credit for that, it did involve a lot of work from my colleagues, but nevertheless it was my team who were responsible for the delivery of the plan and the subsequent interaction with OFWAT.

I'm also responsible for the overall strategy for the Group, which of course includes what our strategy is in relation to market reform. Being a heavily regulated company we obviously need to take a view on the scope for market reform and the potential benefits for the company. Hence on our strategic framework we've got "Changing the Market for the Better" as a key component of our strategy going forward. I also helped deliver with Andy the Non-Regulated Growth Strategy and Andy is going to talk to us about that next.

I'm also responsible for our Regulatory and Public Affairs functions as part of looking after our overall Communications functions and activities and critically in ensuring – and I want to steal a few of OFWAT's words, that we, "Maintain the trust and confidence of Government as well as Regulators and customers in what we do". So I want to talk to you critically about the part of our Strategic Framework relating to changing the market for the better this morning.

So as many of you will be aware, we have a track record as a company of actively engaging in the debates about market and regulatory reform. Now we've done this in a number of ways; perhaps the thing that we're most famous for is through our "Changing Course" series of publications where we set out in the initial document the need for more reform in the sector for the long term benefits of both customers and investors. Now we also pointed out the need for bills to be as low as possible in order to maintain legitimacy in the overall regulatory regime. But also for the industry to be sustainably financed going forward and for better incentives and more competition in the sector. Now the subsequent reports built off that original report and in particular focused on things like sustainable financing and greater competition through water trading. Now this approach I believe has given us real valuable insight in to the way in which PR14 took shape because our thinking was already down the track in terms of the need for new incentives and as Liv alluded to earlier, PR14 did see the biggest change in the regulatory regime since privatisation.

Now I think it's important to say we intend to maintain our position at the front of the debate on market reform and we're intending to publish a new version of "Changing Course" later in the year, probably around May time, although we have to be sensitive obviously to the General Election that occurs in May.

Now a number of the changes at PR14 and other things that have happened in recent times have been in areas where we have previously tried to influence. I've given four examples on this slide. The first is the greater use of incentives for performance and efficiency through the use of ODIs and Totex which have been major developments and where we're confident we can outperform. I think greater competition was inevitable and the Water Act provides for competition from April 2017 and our plans for competing in the retail space are really well developed and Andy is going to talk to us more about that later.

Long term resilience was also likely to become more important and critically, and Martin talked a little bit to this, we got full allowance for our Birmingham Resilience Scheme, Elan Valley Aqueduct, as part of PR14; lots of intensive discussions with OFWAT around that particular scheme. The fourth thing I've highlighted on the slide is better dialogue with OFWAT and greater openness and transparency. Now this allowed us to make progress on the Birmingham Resilience case, but also on the need for pay-as-you-go to assure finance-ability which resulted in an overall settlement which was in 1% of the original bills that we put in our December plan.

I think it's probably important to say at this point, and Liv picked up on this, about how this price review felt because I've been involved in every single price review since privatisation and this was an extremely tough price review process to go through. I think in my experience it was the most interrogative, the most intense process and the outcome is one that is quite challenging. So while we got an answer that is close to what we put in our plan, that plan we believe was a tough plan which included the £370 plus million worth of efficiencies that we've locked in to delivering.

Now as I remarked, PR14 marked a significant change in the regulatory regime. Liv talked earlier about ODIs and the change and the opportunity that brings to us as a company. Totex also marks a significant change and moves us away from that tendency towards capex bias that the industry has had for a good while now. And it strengthens the incentives on companies to seek the lowest whole life cost solutions. Now the chart shown here – and Deepa asked a question about this – illustrates how totex will be accounted for with a fixed proportion of Totex spend added to the RCV which contrasts with the previous framework where actual capital expenditure would in due course go through to the RCV. Now overall we kept our so-called "menu choices" in line with the final determination, meaning that around 50% of the efficiencies will be kept by the company. OFWAT are going to be publishing their detailed mechanics of how this will be done at PR19 but suffice to say any true-ups will occur at the end of the AMP period.

As Liv and others have said, we're confident we can outperform during AMP6 and I think it's important to say there are a number of levers open to us to do this which we've touched on throughout the course of the presentations. The range on Return on Regulatory Equity or RORE is shown on this chart for the sector. It shows the upside and the downside scope for performance for Severn Trent, as compared to our peer companies. I think this illustrates that we're well positioned with greater scope on the upside than for all, other than the two enhanced companies South West Water and Affinity Water. Now overall Totex remains the biggest lever, given our £6 billion plus plan, with a scope to do more Opex/Capex solutions.

Now in the lead up to PR14, we were pushing the agenda for greater incentives for reward and not just penalties. I think we were one of one or two companies really that were pushing hard on the need for ODIs. A number of companies were really not keen to go down this track, having had consultation with their customer challenge groups who also weren't particularly keen in this space. Now comparing us against other companies, we have proposed more ODIs with rewards and hence have a higher upside potential on ODIs and as others have alluded to, we are backing ourselves to deliver.

Now I think over the course of the last several years and certainly all the time I've been here, we really have recognised the need to have a constructive relationship with our Regulators and in particular OFWAT going forward. Now we're going to continue to be active in the regulatory debate and we're closely working with OFWAT on their framework for PR19 or their Water 2020 Programme as it's now being called. Now we're also looking to collaborate constructively with other forward thinking companies. A good example of this is a recent report that came out which we published with Wessex Water and South West Water on contestable catchment services. And finally Open Water is an essential change the industry is going through. We've dedicated resource to this through secondments from Severn Trent in to the Open Water Programme and are active in defining the detail to make the market work smoothly. Now if we can get the market mechanisms to be as seamless as possible, that's good because it will reduce costs but it will also aid the functioning of an effective retail market within which we want to be active.

Now in terms of the politics of the sector, I think we would all recognise that the water sector is in a relatively good place at the moment, as we largely have the trust and confidence of Government and our customers and that's critical and it's clear we're not in the same space as banks or the energy sector in the policy debate. It's interesting when one looks at the questions that Government Departments are getting, DEFRA not really being asked many questions about water whereas DECC being asked lots of questions obviously about energy prices, competition in the market, with real pressure on the energy sector that you really don't see in the water space.

Now we're of course glad of that and recognise just how important it is to maintain that legitimacy of this sector and particularly of this company. And this explains our aim of keeping bills as low as possible for our customers, but also how we intend to keep on top of political issues, engaging with all the political parties and ensuring the facts are clearly set out. It's probably worth saying a word or two about Wales, Wales is particularly important to us; around 20% of our suppliers come from Wales and we're engaged actively in the process coming out of the Silk Review where the proposals are for Water Policy to be devolved. Now equally whilst we have a Water Act in place, much of the hard work and the detail still needs to be translated into practice and we need to iron out all of the details.

For those of you who are still digesting what might happen in AMP6, what might we be delivering there, how the framework works, we've already started debating and discussing what AMP7 and beyond will look like. Liv already alluded to Johnson Cox setting out his store for the next stage of evolutionary change and of course he made reference to the whole thing of vertical integration and questioned whether the logic of that continued to exist going forward. Now we think, however, that his comments are less scary than some have attributed things to what he was saying. We believe that market reform is likely but we believe he was mostly talking about retail and upstream reform in terms of water resources.

Now the future shape of the PR19 price control will be more granular than today. I don't think there's any questions about that. Perhaps there'll be eight rather than four control periods and it possibly will be staggered rather than all reviews happening simultaneously. In terms of the RCV, I think RCV allocation access pricing will become more important as to how pricing will be set going forward, but this doesn't imply RCV stranding, something that a lot of people are concerned about. It's about understanding where the costs are in the value chain, which will hopefully enable OFWAT to be more rigorous in the way in which it looks at efficiency of the sector, rather than them thinking about how those assets might be stranded. Now the evidence base for wholesale and retail separation is growing and we're seeing some companies already making active moves to seek exit in due course from non-household retail. OFWAT are also looking for companies to be part of shaping the change and as I said, we're playing a leading role in that.

So we think these changes create great opportunity and are working to take advantage of them and hence why our Strategic Review Framework refers to sustainable growth and changing the market for the better. We've talked about as a company trading in water resources for some time and that remains a long term growth opportunity, as the South and the East will be short of water in the future and will be looking for someone to supply it to them, but it is a long term strategy.

Sludge and green energy is more immediate and we're seeing an intersection of sludge treatment and food waste processing markets. I can't believe I'm saying this but sludge will be an exciting market to watch.

Finally, business retail has been widely debated. We have an advantage in the terms of our starting point compared to others, given our embedded customer base and market share. So, over to you Andy to talk more about our non-regulatory growth plans.

Andy Smith: Thank you Tony. I'm Andy Smith and I have been running the Business Services function since Liv created it back in August. Prior to that I spent seven years running Water Services within Severn Trent Water and back in the mists of time, before that, before joining Severn Trent, I spent my career in the non-regulated sectors. I worked for BP, Mars, Pepsi and Boots, both in the UK and overseas and all that experience in engineering, FMCG and retail is proving very useful in my new role.

Business Services brings together all of the non-regulated activity in Severn Trent in to one place, so we can give it focus. Within that, as Liv mentioned earlier, there are four standalone business units; Operating Services UK which also looks after Ireland and Italy, Operating Services USA, Water Purification and Renewable Energy. Two key points on this slide; the first is that each of those teams has a dedicated leadership team focused on its offer in its markets and on its customers. That's critical for us to be able to drive the focus and the growth and the ambition that we have for each of these teams. Secondly, each of the businesses is related to water and waste water; it's what this group does. So there is an opportunity to leverage scale in both knowledge and capability as is shown figuratively on this chart, through customer service, technical capability and the support functions.

I'm going to give you my key messages and then I'm going to step through each of the businesses in turn, giving you an idea of where we are, how we've organised and why and where we see potential future growth coming from. Services past performance has been patchy; there's no escaping that. However, in the past couple of years under Martin Kane's leadership, the business has been stabilised and I've got a great platform and some good momentum for me and my team to take forward. We've reorganised, as I've indicated, by our focus on non-regulated activity and our focus on the four Business Units. But also, within each of these, we've applied exactly the same organisational change that Liv described earlier. We've de-layered and we've focused. We've also improved our talent. We've brought people in from outside of our organisation and we've also redeployed talent within. We are going to benefit more from Group capabilities; I don't think we've utilised this as much as we can do, should do, or need to. We have knowledge, technology and capability and I'm going to be referring this throughout the presentation.

Now as Tony said, and Liv said, competition is set to increase in the UK and we do have a strength in non-regulated businesses already and that puts us in a good place to take advantage. Opportunities in the USA we also believe are going to grow. We see municipalities there who handle the most of the water treatment market, are facing fundamental pressure from their customers to increase standards, from their regulators to increase standards and they're under some financial pressure, so I'll say a little bit more about that later. Renewables investment is a hugely exciting area for us. As Liv has trailed, we're going to be investing £190 million over the next five years, to increase our performance in this area. So we are targeting investments and I want to emphasise we're targeting investment to drive top line growth and also bottom line growth. We need to be generating sustainable, profitable growth.

So moving on to the UK, which also looks after Ireland and Italy, Ireland is very small and I'm not going to say anything about Italy, it continues with its business plan following refinancing over the past 18 months. Now in the UK we've chosen to combine our de-regulated treatment businesses with our business retail offer. We believe that that's going to give us an advantage, particularly with our larger customers. Let me talk first about our deregulated treatment businesses and at the heart of that we have a fantastic contract with the MOD. We serve over 1,300 sites and that contract has got 14 years left to run. Now what these customers want, the end users want, they want exactly the same thing that our customers at Severn Trent Water want. These are the Ministry of Defence personnel, the Defence personnel, the Services personnel, their families, the people working on the bases that we look after and they want clean water, they want the effluent taken away, they want fantastic customer service; all of the stuff that Sarah talked to you about earlier. As a client, the Ministry of Defence want a safe, efficient, value-for-money operation. They also want long term asset management; as I said, there's 14 years of this left to run. That's what Liv was talking about in wholesale and Martin was talking about in asset management. So we've got a lot that we can bring and I don't think we've done enough frankly, in bringing Group capability to the benefit of our MOD customers. We need to be doing more technology transfer. We need to be doing more skills transfer and we need to be doing more selling and selling what we're capable of doing and bringing added value services to the MOD and I've made sure that I've strengthened my team with key transfers in our reorganisation from Severn Trent Water to make that happen.

We are winning new business; I'm delighted in December we won a fantastic contract with the Coal Authority. Mine water – the old mine workings, water is building up, that needs treated and by showcasing what we do with the MOD and what we do within Severn Trent Water, we were able to prove to our customer that we could deliver what they wanted; safe, efficient, value-for-money long term operations. Again exactly the same thing that we've got a great capability in the Group to do. On a smaller level in water hygiene, this is looking after water that's in the cooling systems that's running this building and anybody that's got a building portfolio has to ensure that the cooling systems are safe. You've heard of legionella, we provide a service that makes sure the biology and the chemical treatment of those assets works. I was delighted to see at a recent visit I made to University College London where we've won a recent contract, that in the client meeting, my colleague was able to show the person who was running that facility, live technology data that was coming in over the internet and they were able to talk about what was happening on their plants, the maintenance schedules, the same story that Sarah told you earlier in Severn Trent Water. It's a small business but I see some growth potential and I look forward to updating you on that in the future.

We have a large customer base, 200,000 non-household customers in our area right now and 1,300 large customers by the volume of revenue. We can sell to those customers this offer and that's why we've combined the organisation under Nick Grant in the UK to bring together the treatment businesses with retail. Let me move on to retail. It's a big market; £3 billion in England and Scotland and we have, in our area, a share of around about 12% based upon what we have today. Now this is going to be a low margin business, single digits and at the lower end of the range we expect. But nonetheless it's attractive given its scale and given our capability in that market and the potential we see in order to sell more in to our customers there. I'm not going to tell you the detail of how we see the market developing or the detail of how we're going to participate; that's commercially sensitive and I don't want to give that to our competitors. But I can give you some indication about how we see things at a high level which hopefully will be useful. The first point and it's a basic one but one worth making nonetheless, is that this market is not homogenous. People tend to talk about the "retail sector". At the small end, we have one person shops, one person offices, relatively small operations who have got more similarity with our domestic customers than they have with our larger customers who are taking many hundreds of thousands of pounds or millions of pounds worth of water a year and operating hundreds or thousands of sites up and down the country. Those offers are going to need to be different. They're both attractive. At the smaller end there's a bigger margin, there's less churn; at the bigger end there's a tougher margin but there is scale and we're going to compete in both of those markets and we've organised to enable us to do that with dedicated teams serving each of those segments. And as Sarah intimated, we're going to be deepening our segmentation of those customers to refine our offer and win in those markets.

We are targeting and learning right now in area – we've got 18 Key Account Managers operating with our business customers to learn what they are looking for. We've also got our Continuous Improvement Operations making those processes better and training our people ahead of the market opening. We've got a small presence in Scotland, we chose to have a targeted focus presence in that market. Some of our competitors have chosen a different approach, but we focused in on the larger end of the customers to learn about that and I'm delighted that we've got a winning offer there, we've learnt what customers are looking for and how to deliver that with the quality and price and value that they're looking for and we won one in three of the tenders we compete in. We are going to be adding small and medium enterprises to our operation in the coming weeks in that area. So overall, we're building our teams to retain our existing customers. If we're going to compete in this market we've got to retain our existing customers and to compete effectively across the UK. Looking to invest in our sales culture, our sales capability, we've got great value to add.

Moving on to America, we operate in 23 states; you see them coloured in there. And if you added up all that we do, in terms of the assets that we run and the customers that we serve, we're about half the size of Severn Trent Water, so a sizeable business. Now it is a different operating model, we do not own the assets. Margins, again single digits at the upper end of the range this time, rather than the lower end of the range. It is a huge market, we estimate about $50 billion and $2 billion of that is in the private sector right now. We think that that is set to increase. Municipalities which control of this market right now are facing pressure from customers, exactly the same as we have in the UK. My observation is that in the developed world customers want the same; whatever their nationality they want safe, clean drinking water, the want their effluent taken away, they want value for money and they want efficient service. The municipalities are facing pressure, not just from those customers but from increasing regulatory requirements. They've got pressure on road, rail, public amenities; they're under financial pressure from pensions and we see them turning increasingly to the public and private partnerships and getting from the private sector the expertise and the financing to help them deliver. We see that happening in two ways, traditional operator maintained markets that we're in right now, but also concessions. These are arrangements by which the municipality gives a concessionaire the assets for 25 to 50 years in return for an up front fee and an on going annual fee. We've seen a handful of those right now. It's sporadic, it's early days, but we see a presence developing in that market and we're going to be there, evaluating those opportunities as they come. We're the fifth largest player in the US right now by revenue; we're aiming higher. We've got a good offer, we're a trusted partner, your partners in these arrangements need to trust you to deliver; they're putting the water quality in your hands, they're putting the effluent quality in your hands. They need to trust you and we've got some great relationships that have rolled over many years with our existing customers. We frankly need to be selling more. We've got value added service that we can add to those customers and we need to be improving our sales culture on our sales pipeline in those businesses. We've run the reorganisation that I talked about and we brought people in from outside the organisation to strengthen our Ops Teams and also strengthen our Sales Force. So I'm confident there that we'll be seeing more growth coming from that team.

On to Water Purification, where we changed the team 12/18 months ago. We brought in hires from outside of our organisation and I'm delighted to say that they're returning this business to profit. They've done that by a similar story to the one you've heard before. They're focused in on customers, three key markets across three regions and three technologies. We talked to our customers and they told us they liked our products, they thought they were reliable, they liked the brands, but bluntly they cost too much and our service wasn't good enough. So what we did, we focused our expertise on value engineering. We value-engineered those products. We've taken cost out that customers aren't willing to pay for and we put features in that they do want to pay for. We focused in on the aggregation of marginal gains – difficult to remember at this point – with getting our manufacturing operation slickened up and connecting it in to our Sales Ops. So our Service has improved and we've improved our supply chain. We've taken technology and capability from America in to China and we've improved our global supply chain and Helen talked about that earlier, about expanding our supply chain to deliver a reduced cost. All in all, our offer is now better. We're now winning tenders against stiff competition that nine months ago we would have lost. The market has buoyed up a little bit, but overall our performance is better. There's more to come from this business, China continues to develop, the Middle East continues to develop, there's a whole after market for sales and service that we've not accessed fully yet and in the marine ballast area, that market is starting to take off. Ship builders are finally starting to spec this product in. They're starting to retro fit and I'm delighted that we won an order for 14 units recently off a major oil company for our BalPure product. So again, more to come from this business in terms of growth.

And last but by no means least, on to renewable energy. £190 million of investment in the Midlands over the next five years. We've got a dedicated team focused on this now, to continue to drive that investment and drive the performance. Two technologies, anaerobic digestion and solar, and I'll say a little bit more about where and why in a second and as Liv said, 50% of our generation by 2020. Now this provides efficient Green energy and is attractive in its own right, but also it's a long term hedge for the Group about – on increasing energy prices. We have been in this for some time. Water companies are big users of energy, for pumping sewage, water pumping treatment and so on and Severn Trent Water uses around 900 megawatt hours of electricity, 200,000 houses; that's a big town. We've been doing this for some years, we're a leader in terms of the volume that we generate for ourselves and we're ahead of the next best WASC at 19% and we look to be increasing. We are going to be investing in solar. If you take a look outside you'll see the Midlands is the sunshine capital of the UK, but I'm assured that we do have enough sun rays to make this work. Essentially it's a combination of panel prices which have come down and incentives which make this an attractive investment. We can also utilise operational land that we cannot develop and we cannot use elsewhere, that enables us to collocate this generation with our users and that avoids pass through costs, so that's attractive. You can see a picture of a wind turbine and hydro there. We're pretty much maxed out on that, given current costs and current technology but we'll continue to keep an eye on that as things may develop. Anaerobic digestion is going to be at the core of what we do. It already is; sewage sludge, crop and food waste, which I'll say a little bit about in a minute. We were the first to inject biogas directly in to the Grid and you'll see that – for those of you going to Minworth this afternoon will see that. That's more efficient because the power stations, the bigger power stations convert that to electricity more efficiently than the local engines, but we were the first to do it – the first water company to do it. So we've got a track record of bringing technology, innovative technology to the market fast. Delighted that we have our first food waste plant up and running at Coleshill and again we did that to time and we did that to quality and it's ramped up as being ahead of our targets. And again half of you, or some of you, are going to go and see that this afternoon and I hope you come back as enthused by food waste as we are in our team. So that's exciting. We're building on a technology that we know and we're going to build that out. Now as Tony said, future de-regulation of the sludge market will throw up other opportunities and we're keeping a close eye and a close calculator on the opportunities that that will bring.

So to sum up, we're ready for competition. We've got a customer focused organisation, we've got customer focused strategies and we've got a customer focused mind set and we're ready to compete here in the UK as deregulation happens. Importantly we're leveraging Group capabilities; we've got capabilities in what customers are looking for, in what our clients are looking for and we've got opportunities as I've illustrated to bring the fantastic performance that we deliver in the UK now to the benefit of our non-regulated clients in the UK and across the rest of the world. We are invested in renewables, as I've said, £190 million there to provide a sustainable long term hedge for our Group and we're positioned for growth. We're targeting growth in our existing markets, there's more that we can do there as we increase our capability and our sales culture and we get these fantastic leadership teams focusing their people on doing the right thing for customers. Thank you very much. Mike?

Mike McKeon: Okay good morning everyone and let me add my welcome to Severn Trent Centre. I'm going to talk to you very briefly about the financing approach; much of this you'll have already seen but I want to go in to a little bit more depth as to what is behind some of the thinking that we talked about. So I want to talk first of all about what we – remind you of what we said on 28th January and talk a little bit about how we approach the decisions that we made and how we looked at those particular things, look a little bit at the context of shareholder distributions because sometimes we focus on the immediate but actually it's the longer term that we actually look at and then I get the privilege of wrapping up a little bit on what we've tried to say today and try to put that into context in one slide, if indeed that's possible, and then I'll be delighted to hand over to Liv to look at the final slides before the Q&A.

So what did we say? Well first of all we need to look at the context. The context was that the final determination has lower returns. We know that; lower returns in equity, we're 20% down and yes debt costs came down as well and indeed they came down between the draft determination and the final determination and I'll show you in a minute why we believe that happened because debt costs actually came down during that period. Yes OFWAT raised the notional gearing of companies again, so we went from roughly 58% for the last period now to 62.5%. That's not an absolute but it is actually what OFWAT have said the notional companies should be financed against and we are under geared against that and we need to think about that. And the new cost of debt which is a relevant thing to what I'm going to talk about in a second is actually lower than the average costs there. So we've been seeing a declining trend in these areas here. So what did we say? Well we said we'd rebase the dividend by 5% for the first year of AMP6 coming up and I'll explain to you why we'll do that in a second, but that was the position we took forward.

We also said, and the shareholders liked this, they said that we would link it to RPI and we said at least RPI, so that gives us the opportunity – and you've seen many of the things that we've seen earlier gives us the opportunity to believe that we will outperform and that outperformance, as we'll show you in a minute, has over time in the past and probably will do in the future, deliver future benefits for shareholders. So we think this is a progressive position to be in as we stand here today. We don't know all the answers but we certainly know some and we certainly have confidence about some of those as we go forward. We said we will move the gearing to 62.5%, that's not an absolute goal, that's not an absolute target but we said we should move towards that particular goal. And of course what we've said, we'll start with £100 million share buy back which will be completed now by the end of November and we can talk a little bit about why that fits in the framework we've got here.

But let me just first talk about interest rates, because there's really two areas that we want to focus on. Interest rates is one of them; this is the opportunity that we think we've got here. As I said to you before, OFWAT assumed that the 2% (real?) was for the new debt that every company in the sector needed to raise over the next five years. Now depending on your view of inflation, that means you either believe it's 5% nominal, 4% nominal or 3% nominal. What I want to show you now is where I think we are in terms of the rates and what we were looking at when we made the decisions that we made. If you look at the top left hand corner, what you have there is the forward curve for six month LIBOR. Now what you've got is three lines. The first line is in December 13, that's the green one, and what that shows is effectively very low spot rates, largely unchanged today, but in six months' time you're talking about rates that were rising up to about 4%. You then look at another line in June '14 and a very similar picture was looking there. And then look at what happened in February '15. It actually happened slightly before February '15 but the trend was moving that line down. So while the spot rates in terms of short term floating rates are very, very low, actually what's happened is that the curve has moved down. And what that says to me and what that says to us, is essentially that rates are going to be lower for longer and that really means that we have to think about how we're going to take advantage and what we need to do there. So one of the things that we did look at then was what historically have we done? We've largely fixed the rates, so we've had security around those rates and we did that in 2009, but 2009 was a different world. It was a different world away; we'd come out of the Financial Crisis, well in fact we've been deep in the Financial Crisis, Lehman's have gone bust, we had the Financial Crisis, we went into a Sovereign Debt Crisis. At that time there was even questions whether we could actually raise the money at all. So we went for a fixed rate position. We outperformed by £100 million the final determination in 2009 over the course of the last five years. But today is different. Why? Because we're facing ultra low interest rates, but we're also facing ultra low interest rates structurally which are lower on a floating basis than they are on fixed and if you look at the chart in front of you, you will see on the right hand side what you see is the fixed rates. The fixed rates, if you take ten years' fixed rates, forward start fixed rates, you're talking about – here in this particular chart, a 1.87 real. That is over 100 basis points higher than what you can get in terms of floating rates, so this is the opportunity before us and I want to talk to you now about how we might go about actually seeking to land some of this opportunity.

So that's the position, what are we going to do about it? Well what we're doing about is how do we refinance the business? Now we are fortunate in the sense that we have probably one of the highest rates of refinancing in the sector. We have some 28% of our debt needs to be refinanced and if you add to that the debt that we need to raise – new debt that we need to raise to fund the £6 billion of Totex Programme, the £3 billion, the largest Capital Programme we've had, then you're talking about a total of £2.5 billion. That is our opportunity and we need to think about how we dynamically manage the cost of that particular refinancing. The refinancing itself we believe is entirely achievable because we will have sustainable investment grade credit ratings and the markets are very buoyant at this moment in time, largely the bond markets. But it's going to come through the refinancing that we are largely going to find the opportunities and if you look at the chart on the top, you've seen – many of you will have seen this before, we're just highlighting a few things here. This is our famous Manhattan Chart, we were in Manhattan a couple of weeks ago, it was snowing, this one isn't snowing but it does have two things on the top of it and it says by March 2016 we've got to refinance 700 million Euros of Euro bonds which are a coupon of 6.325%. 6.325% compare that to 1%. You've then also got a 2018 400 million again at a 6% coupon; that is retiring. And in the meantime you can see on the chart at the bottom, we're also raising new money. So what we have decided to do is we need to get in to the market fairly quickly. Now of course that £100 million buyback will help that, but we're also going to look at how we might manage the near term maturities and try and get in to that market quicker and maybe some liability management. We're looking at that. It will depend on the economics, it will depend on to what extent the cost of getting out of these maturities earlier might be a lower cost than actually what we're going to get from the interest costs that we run through forward. So that's how we've taken the approach we did. The opportunity is there in terms of the interest rates; that diversion between floating rate and fixed rate. But we are going to take a balanced approach. We're not going to do everything in floating rates; we will still be looking to borrow long, that is to say ten years plus, but we will be looking to say maybe have the first five years of that period swap back into floating rates for a proportion of the activity that we're talking about. So that's how we're going to try and play the game as we go forward.

But then how does that translate in to a financing plan which translates in to returns for shareholders? Well what I've tried to put down here is to talk to you about how the long term sustainability, which is a key factor that we look at, actually factors in to the decisions that we've made. And what you've got here in front of you is a ten year picture of where our dividends have come from. Now back in 2005 some of you may remember, we had to focus on our Water Strategy; we basically demerged and sold off a number of other businesses, so we're focused on regulated water and non-regulated water. At that point we geared the company up and we set off on a dividend strategy of index-linked dividends and growth rates over and above that particular index linked situation for AMP4 and AMP5 and we've decided to continue with that index link through into AMP6. So this is a continuum of where we are, but one thing we've always tried to do is to make sure we can earn our dividends in the year. So it is important that we are paying out dividends that we have earned through our performance in any particular year and in doing so, what we have done, is we have outperformed our regulatory settlements and you've heard much of the things this morning which will talk about how we're going to do that for the next five years. And so what we've tried to do here is to focus on the things that need to happen to allow us to give you confidence that this dividend will be sustainable and we believe absolutely that will be the case. Now the £100 million buyback will help in three areas. Certainly it will help getting us into the debt markets earlier. It will help get us into the 62.5% gearing and yes of course it helps dividend cover as well in this period and that's partly the reason why we've done it.

So that's a very quick whistle stop tour through many of the things that we've talked about both on 28th and subsequently to many of you. We're happy to take more questions in the Q&A session, but let me just talk and summarise what we've actually said today, because I think that's probably the point where we need to try and do this. We believe there are five areas where we can outperform and they are in detail worked through in our Business Plans inside the company. Totex is the first one; you've heard about how we are trying to approach this in a new way. We believe the opportunities are in how we innovate through that particular process and Martin has talked about how he and his team will be working through with wholesale operations to the Commercial Teams to make sure this all happens. This is real, this is what's going to happen, we're on it, it's going to happen. On ODIs we've been – as Tony said – we've been looking to try and get to that position for a number of years. We believe the incentives should be balanced; we shouldn't just have penalties, we should have incentives on the positive side. We're ready for the game; the game is there, we're ready for it, we're up for it and we've got a lot of people who actually now understand this and across our UK Operations we believe 85% of our people certainly understand that. Financing, briefly I've talked to you about that. Now it all depends to some degree on whether interest rates stay low for longer. That's what the graphs tell us but they could be wrong, so we need to get in there and actually take the opportunities while they're there with a balanced risk approach which we believe we can do and who knows, it might last longer, it might last a shorter period; we don't know that yet but we will certainly be actively managing the financial situation which is different to what we did before, where we took a much more passive situation. But that doesn't mean we're taking unmeasured risks; we are taking risks that we're actually measuring.

On efficiency, Helen has talked quite extensively about what we're doing in the commercial world. We need to become more commercial, the opportunities are in front of us, we need to grab these as we go forward. And then finally, on the new thing that we announced today on energy, we're pretty excited about the opportunity we have here. We have the skills, we have the technology, we have the ability and the footprint to actually do this particular work, so we're very confident that this will deliver for us and we look forward to talking to you about that in the future.

So in summary, let me talk to you about what this means in our view for investors in this particular company and this particular sector. We believe the sector fundamentals remain. What are they? Well they're basically low risk, inflation linked returns on a growing asset base. That's the core of what we do, we grow assets and we link those assets to inflation and we perform against those regulatory settlements. We believe that we have a pragmatic and sustainable financing proposition here, which is important because we need to be sustainable and we need to make progressive returns and we need to make sure that we sustain that against a credit rating which is investment grade because we need to access the funds and we believe we've got that. We are a rare asset we believe because we are growing our asset base to £10 billion and we'll grow that based on the performance that we have and the programmes that we've got there today. Of course, we have to perform against everything here and we've said that we'll link our performance to returns and over time we will see whether those returns come through and we believe that we have in place the plans that we could deliver on our commitments. So overall, we believe this will continue to create long term value for our shareholders. So that's just a whistle stop tour of where we are on the financing. What I'd like to do now is just hand you back to Liv who will close up and go forward.

Liv Garfield: Brilliant. I think we might do a Q&A first and then end with the two slides after, just to shake it up! Woo hoo! We're so wild round here. So we're going to grab some stools and John's going to let us know our questions. You've got five of us to ask questions from now so we have increased our numbers. Thank you Tony.

John Crosse: Right, Q&A, who would like to go first? Right at the very back there Simon.

Question: Yes, thanks for the presentation. A question for – a few questions for Mike actually on the debt side. First regarding the credit rating you said investment grade, can you be a bit more specific about you know current rating? You want to stay there or you have some flexibility about it? And what kind of ratios should you follow? Is it just gearing or you have other ratios you follow? Second about the funding, you have £2.5 billion over the next five years, you're looking to refinance that over like – you know the next two years or spread out over the next five years? And lastly, will you be looking to come to the bond market in Euros, given the very low interest rate compared to the Sterling one or is it just focused on sterling? Thanks.

Mike McKeon: Three questions. Right, if I can remember all of them… the last one, are we looking – what markets are we looking at? We look at both Euros and Sterling markets, we don't take currency risk, so we would look at the all-in cost of borrowing in Euros and converting them back into Sterling. I have to say, if I was doing it immediately today that would probably still be cheaper, so the Euros are a cheaper source of finance today than even swapped back into Sterling than the Sterling market but that doesn't mean to say we would ignore the Sterling market. Certainly that would be the case for that. Would we go straight away? We may look at the near term maturities that we've got and consider going a little bit early, but that would be a question of the pure economics; does it makes sense to do that? Does it not make sense to do that? And we will continue to roll that forward as we go through. As you saw, there's a big maturity next year, but there's also a big maturity in 2018, but we also have new needs as we go forward, so our principal source of financing will remain the bond markets, but we've also increased our revolving credit facilities, we've also been borrowing money from the European Investment Banks, so we have other sources as well and we'll progressively be looking to have that mix and that mix will be the most efficient mix that we can make and the timing of it will be yes, partly dependent on the maturities as they come through, but we're not waiting for the last date for these to happen. We'll have to see how that actually works. What was the last question? Credit rating yes, we are currently A3 on Moody's with negative outlook and we are BBB+ on Standard and Poor's, so we have – and we have had this for a number of years, certainly since 2009, we've had a split rating. Actually the reality is we borrow and we pay for the lower of those ratings, i.e. BBB+. We're confident that we would remain more or less at that level. We don't have a specific ratings target, that's not how we drive the business, but we're extremely mindful that we do need an investment grade credit rating to access the funds and access the markets. So we are not by any means forgetting about our ratings, but we don't drive the business specifically through a particular ratings target; nor do we drive it particularly through a gearing target. We've said we've recognised the gearing position, we should be looking at that and we are quite frankly, if we are under geared compared to what OFWAT has allowed us in the notional rating and the notional balance sheet, we're probably deploying too much equity. So we need to get the right balance. I stress the word "balance" because that is the important bit. No one decision is made in isolation against the others, so that's how we would look at it.

Bobby Chada (Morgan Stanley): Thank you. I had a couple of questions on renewables and then one on the Efficiency Programme. So to go back to the renewables points earlier, can you give us a feel for how much of that investment broadly will be anaerobic digestion versus solar and what the kind of IRRs you're looking for are? Because certainly some of the more recent auction results on the CFD Regime for solar have been – it's hard to see how they would be attractive. And then my second question is on the Efficiencies, I mean you gave more numbers than I could write down in terms of examples. To meet the budget from AMP6 my understanding is you need to do 7% and then you threw in a lot of numbers that were bigger than that. So if you look at the schemes, or the packages of things that you've approved, what kind of efficiency are you seeing in that, albeit it's only over a few months, versus that 7% number please?

Andy Smith: In terms of returns, as Liv said, low double digits and we look – to answer your earlier question from the previous session – we look at each of these investments in turn. This is not a lump sum that we're investing right now. Each particular scheme, be it solar or AD, we will look at the economics that are in place at that time. In terms of investment in AD versus solar, it's about 2/3rds, 1/3rd.

Bobby Chada (Morgan Stanley): And that low double digit, I thought Liv said that was payback period?

Liv Garfield: IRR.

Mike McKeon: Just to help out on that, if you look at the Programme that we've got today and you took the parameters we've got today, that would be the outcome. But clearly as we get closer to when we actually press the button on these things, we'll need to check that those parameters are still true because we've got a number of factors; the input costs and the returns that you get from those.

Liv Garfield: We spent quite a bit of time, as you can imagine, going through this before we decided to make the investment calls, so I hear the feedback that says you've seen difference elsewhere, I think what we can evidence is we've already created 28%/30% later this year on the current assets which we're going to I guess enhance a little bit and then spend on you. We're very, very confident against this versus the current generated assets already, so it's a strategy that we're very confident in delivering. Good, in terms of Helen, do you want to just -?

Helen Miles: Yeah, so overall the efficiency is at 7%. In my first few months of being here, a lot of the activity that I've seen has delivered in excess of that, but clearly there are going to be puts and takes and clearly I've only seen a very small part of the overall supplier base.

Liv Garfield: So we're not going to get drawn on it, I guess is the key point. There are some good numbers in there right, in terms of the first phase that Helen's delivered. There will be some investment out of that, so it is north of the 7% hurdle that we need to deliver on the contracts that we're signing. However some of that we're going to choose to reinvest back in, so there's an element of we give you a number, you're going to immediately update your model and say, "Okay it's not 7, it's now X", some of that we're going to choose to re-spend and as Helen said, there's puts and takes. We'll keep you fully in the loop. What we try to do to help is to share that we've got the first £100 million locked in and that all of the Year 1 numbers are now in. So we tried to give those two hints during the course of the day to give you strong guidance as there was £100 million over the AMP, done, and there is the Year 1 numbers also locked in for what we needed to do for the first year. We're not going to get drawn on anything beyond that for today in terms of saving percentages.

Bobby Chada (Morgan Stanley): Can I ask how you envisage us being able to track the operational efficiency?

Liv Garfield: You can absolutely ask it and I guess (laughs) what we're going to say is we tried to give you loads of insights today to give you confidence. The key thing is it's a tricky AMP right? So the first thing we've tried to give you the sense today is that there are five areas for out performance but it's an outperformance against an AMP which is a tricky regulatory settlement. So we're confident that our first focus is just to make sure that we deliver the FD. That's focus number one. The second focus then is how can we outperform? We speak to you twice a year formally. You can expect us to give you updates at every half year update on all of these, whether it's totex outperformance, whether it's ODIs or whether it's how we're expecting the year to look. You can expect that. We'll give you a sense, at the May results, of what our year out turn is this year and some of that will be factored in I guess in terms of what we've delivered now to get ahead of the game. But we're not going to get drawn on giving any further sense of it because it's a long way to go, right?

John Crosse: Okay thanks, next question.

Ed Reid (Lazarus): Two questions, the first one on financing, have you looked at the index linked market? I think you've got slightly lower index links than your competitors and also EIB and whether there's any financing available through that route? And then secondly on non-household retail, I know you don't want to get drawn on the market, but a couple of questions around firstly kind of working capital requirements of a national market and then secondly, whether you think that people from outside of the water industry might enter the market?

Mike McKeon: Yes we have about 28%/30% of index linked today. We could raise some more; absolutely we could, but at the moment we feel we've got about the right balance. So about a third of our debt, not quite, is index linked. And what that would mean is that roughly 1% point increase in inflation or decrease in inflation is about £14 million on revenue. It's about £11 million on non-cash interest charge, so if you're thinking about dividend cover, then that's about the right balance. It's more or less balanced. Were we to go a much higher level it's doubtful whether we'd get materially lower costs in cash terms than we get today from just going to the normal nominal market. So I would certainly say that it's not excluded, but at the moment that's not our focus of attention, so I don't believe that's where we should go. What was the other part of the question? Yes, we've obviously been talking quite extensively with the EIB. We have to retire about £300 million but we're also on the cusp of signing up for about £500 million plus on – I won't tell you the actual rates, but trust me, they're pretty low. So it's about the cheapest game in town these days (laughs).

Liv Garfield: Very good. I mean I think Andy gave a strong impression and said, "We've already got a non-reg business and we've already invested money in that in the past, so working capital I guess to some extent invested". Small numbers but nothing worth factoring into models, right? So small numbers and attempted to be funded within the current numbers, right? So as in plans we've already got.

Mike McKeon: The business generates cash flows so we'll be using that cash flow, plus we've got also some other opportunities to generate cash elsewhere through surplus land and we will use that cash to recycle back into the –

Liv Garfield: We're talking tiny working capital right, in terms of services right? And in terms of just anybody else entering the market?

Andy Smith: They might.

Liv Garfield: They might. I mean that's the key point, right? It's the only answer you can give is they might, they probably will, it's going to be competitive, that means competition enters. It doesn't really bother us who enters; it's about our performance and it's for us to go out and get our story right; that's the key thing in a competitive world is to focus on your own offer and your own creation.

Ed Reid (Lazarus): One follow up which is would you consider entering other markets yourself, in terms of what you're doing?

Liv Garfield: So our intention is to be the very best company in our sector; that is absolutely Plan A right? That's what we're going to do and for the first phase you should expect us to be religiously obsessive about being the very best company in our sector and if we then have amazing assets and somebody offers us amazing money for those amazing assets then of course we'll have a conversation with anybody. But the reality is, if it's a competitor, no, we're just going to make sure that we're really great. If it's a non-competitive ask, we'll entertain a conversation but we get asked lots of questions like that already around the world, as to other companies, other countries that would love to know how we do water and our aim isn't to be a consultancy; our aim is to be absolutely the very best company in our sector and in our market and that's just what we're going to do is do that.

Martin Brough (Deutsche Bank): Just a follow up on the renewables, just to challenge you a little bit, the 28% that you say you're meeting 28% of your energy needs from renewables at the moment, to be clear are you actually paying for the full costs of that renewables or are you just paying for the 15% which is already in everyone's bill and you're just generating 28% from renewables and selling that to other people and getting the subsidies from other customers? Because it's a bit misleading in a way if you're just generating extra renewables and selling that and collecting the ROCs and other incentives from other people surely?

Liv Garfield: You can start with the ROCs then and we'll come back on to the – go on then –

Mike McKeon: Basically at the moment about 20% of that 28% is in our invested capital in the regulated business. So essentially it's a regulated asset for which we get a return and we're allowed the costs against generating of that, so you can argue that that's effectively "free electricity" for the regulated business, therefore they're paying 80% to the market. Now that includes the other 8% which is actually non-regulated and we sell at market prices to the regulated business. So what we don't have to do is when we're actually on site, we don't actually pay the grid costs, so there's a large pass through cost element in commercial tariffs at the moment, which is essentially the reverse of the tariffs that are paid to people in renewable energy, so that's the tax if you like. We avoid paying that, so essentially it's a net-net good deal for the regulated customers, while it still makes the returns that we think it should make. So we will carry on doing it on that basis.

Martin Brough (Deutsche Bank): So just to be clear will you be paying more for your energy than other water companies that would just be buying the statutory minimum renewables?

Mike McKeon: No, market price.

Liv Garfield: Market price. We're not trying to create anything funny here. We're saying that we have got the opportunity to self generate on site locally energy that we can then consume ourselves on site locally. That's the answer, is to do that and we'll follow market rate to make sure that it's fair but I guess that's what it will be.

Martin Brough (Deutsche Bank): You don't think that's misleading in terms of who's actually paying for that renewables?

Liv Garfield: No, the opposite, I think if you listen to our customers – because we've been very clear with our customers about our energy plans, it's part of the things that we did when we consulted with them, as part of the brief, was we've got an opportunity to choose to invest capital to create energy locally which effectively will keep your bills low. There's an opportunity there from a customer perspective to know that their hedged versus AN Other water company that isn't hedged. We have a long term opportunity that says we are hedged, we can control our costs on the basis that we're creating ourselves good value energy. I think it's the opposite, if I – all of our customers, when you look at the customer feedback we got from the tens of thousands of customers we spoke to, saw this as a positive; it's greener, it's cost efficient and it hedges – all good.

Martin Brough (Deutsche Bank): Okay thanks.

Liv Garfield: We'll have to take you on the Coleshill tour later and continue the chat on the bus, but no genuinely positive but we'll keep indoctrinating you during the course of the afternoon on the Coleshill bus tour.

Ashley Thomas (Soc Gen): Yeah thank you it's Ashley Thomas from Soc Gen. Liv and Tony referenced Johnson Cox's speech last week but if we look at the six bullet points he sort of had up for looking at issues for PR19, one of the key ones was shift from RPI to CPI. So I guess sort of two questions, to what degree do you think OFWAT has already taken account of the sort of statistical premium in RPI when setting the cost of capital in the current – or the price control we're about to enter? And the second point is sort of going forward, if we do see a full shift from RPI to CPI sort of would you expect that to be effectively NPV neutral? So that's on inflation. Just a very small follow-up just on these renewables (laughs) sorry, but on solar do you effectively see the market opportunity for you as being a ground mounted solar where I'd argue there's a bigger policy risk, certainly with the Conservatives, or mid scale roof mounted where at least the Conservatives seem supportive on that technology?

Liv Garfield: So on the last one then, the good thing about solar is it's a short build, so from the minute you have the opportunity it's a very short build to be able to lock it in. So what we'll make sure that we're clear on is as you say policies change all the time, so different Government parties, policies, different things. That's been true for the last five years and we've invested cleverly and wisely in the last five years in a massively different climate of changing policies. So we see the opportunity mostly for ground because we have lots of spare land next door to our sites. We do have some for mounted. We will make sure that we prioritise to be carefully keeping in line with what we see could be changes and we'll be moving at speed where we think we need to move quick, right? But what we will make sure that we also keep doing is each time we look to spend a penny we recheck our position in terms of our ability to execute it inline with the current policy. So you should expect us to be – generally I think what I guess we're trying to bring out from today, is we're much more dynamic. So on all of our policies, you're expecting a more dynamic pacier implementation of stuff that we've said. So we shouldn't get caught out on the basis that we're moving at pace. Once we've made an announcement we'll be moving at pace to execute against that. In terms of the RPI/CPI I'll let Tony take the detailed technical point. My general point on it before he gets in to the technicalities of it is there's many things that are on the list of things that OFWAT is going to look at over the next few years, so CPI and RPI is one of eight things that they said they're going to look at. It's always looked at in every regulatory review in every one of the regulated sectors. It's an on going conversation topic. It's something that I think we'll know more about over the next couple of years. One of the things they've also said is they want to make sure they have good opportunity for sector investment and good transparency. So I think however they handle whichever policies get introduced for PR19, they'll be well signalled and I genuinely believe well handled for all stakeholders involved. So I believe it is one of the conversation topics but I think it's not an in-isolation conversation topic. I'll let Tony add more detail on your specifics.

Tony Ballance: Yeah I won't get in to too much technical detail but the tenet of your question is effectively around what would happen if you changed any of the indexation parameters and I think you're correct that given you model in real terms, OFWAT has to ensure a company can finance its functions, that you'd expect any change to be, as a first pass, to be NPV neutral because effectively you're just changing the way in which inflation is accounted, whichever measure you take. So that would be our expectation. I think there's an awful lot of work to do to understand better the pros and cons of making any changes in that space though.

John Crosse: Okay let's just try and squeeze in two more –

Koen Bender (Mercurius Vermogensbeheer): Good afternoon. This morning you mentioned consolidation in the sector. Are you actively looking at opportunities yourselves?

Liv Garfield: We never comment on M&A of any type so you know that's going to be a quick answer to that question (laughs). So it's just – it's nothing we ever do.

Dominic Nash (Macquarie): Hi there yes two questions please. Firstly on energy costs, I'm not asking about renewables don't worry, but you obviously do have a massive electricity bill over the next five years. How much have you already locked in and how much could you benefit from the falling energy prices and is that in the numbers that you've given us this morning on your £100 million already locked in? And secondly I've got a question for sort of like how do you reckon Helen and Tony's view, Helen's view is that there's leverage in scale and combining water and waste water together and sort of cross references and Tony's view is that we're going to see a disaggregation of regulatory bodies going forward. How are you actually going to reconcile those two?

Liv Garfield: Okay good, so we're not going to get into the specifics of whether the actual upside that we will get from energy prices is factored in to what Helen's already announced or not, but I guess they're smallish numbers on an annualised basis in terms of you know we didn't lock everything in, we have now hedged as you can imagine, we continue to keep ourselves looking at hedging with prices as they are now. So we think we've had a good result on how we handled our energy prices over the last while and we're keeping a close eye on it. We've done – between Andy and Helen we've taken a bit of specialist expertise externally to help us make sure we make the right calls on that and we work closely with the Treasury Team on how we're doing that. So we've got a more dynamic policy on that as well and we think that's given us some benefits which will flow through as part of our delivery of the AMP. So that's on that. I don't believe anything they said was counter intuitive so maybe you have to live here to realise that. So what Tony said is that we believe there's an opportunity to – you know if the market goes towards sludge trading that we can do that and if water resources happens that we can be able to sell water and Helen said everything she buys she's going to buy it at the cheapest possible cost with the best commercial terms; that's all good, right? So neither of those are different. What we'll have to do is if sludge trading arrived, actually it's the renewables agenda that Andy talked about is where sludge trading to some extent would be exciting. Because the fact that we're already setting up a separate Renewables division, that actually gets us ready for what could be what's introduced by Tony. So actually it's in Andy's area with Tony.

Dominic Nash (Macquarie): So more combined services and the combined debt programme and how the Regulator – and that's going to be a –

Liv Garfield: Yes but what you'll do is just equivalent of input right? So I've lived through this in other industries and the reality is you just have to be really clear that it's equivalent of input and that it's at the fair price. That's what would have to happen for sludge trading to take place, is that you would have people going to the same sites, you would have tankers actively being used for different things, it's about equivalence of input and obsessive management of compliance. We're living in that world going forward because that's the world that we're creating in this regulatory space. That's true for other regulated divisions as well in other companies. We're not nervous about that, we've got good experience amongst a number of the senior team of living through that exact market set up. We're getting ourselves ready for that now.

John Crosse: Right Jamie, if you ask one I'll let you ask one.

Jamie Tunnicliffe (Redburn): No, I just wondered in terms of culture change which you've sort of stressed through the morning, why did it seem to require OFWAT to push you towards what seems a bit of a sort of resilience outcome?

Liv Garfield: I've only been here for the last 12 months but I can't say that I would recognise that as a fair point, so I think if you look at all the stuff that's been created in this organisation in terms of the proactive creation of the Business Plan, in terms of the identification of the fact that we'd love to do something like the Birmingham Resilience Scheme, I think that was self created. I think your question is from then the actual version that was signed off, this is the first ever Resilience Scheme that's been signed off in the industry and I think that means dual learning. So I think it meant learning on our behalf as to exactly how we wanted to position the Resilience Scheme, I think it's learning on the Regulator's part as to how they want to look at Resilience Schemes, so I think it was just real time learning, unfortunately played out in front of all of you. It's like having your dirty laundry washed a little bit in public. In probably a normal situation I guess although it wasn't the very first, I think it would have played out with a lot less public attention. I think this is just one of those things that played out a little bit in public. I think actually it's just two organisations learning together, for the right outcome for customers which is it at the end of the day, cheaper bills, same outcome; all good.

Tony Ballance: I think you could expect the way in which OFWAT looked at the Birmingham Resilience Scheme to set the benchmark for how they will look at big capital schemes going forward, so I think as Liv said, we were both learning as we went through that process.

Liv Garfield: And certainly we've learnt an awful lot and we'll make sure that we factor that in going forward for anything else in the future. Very good so two last slides just to finish with –

John Crosse: Yeah just before I hand back to Liv to close for two minutes and everyone else is sitting down, just to remind you lunch will be served behind you where the tea and coffee was. Do go and have a look at the Performance Area out the back. There is still some of the devices exhibition downstairs if you want to pop back down and have a look at that and do look out, if you are going on the site tours this afternoon, people will be coming round with signs one for Minworth, one for Coleshill, when you see those if you could finish up and follow them downstairs they'll put you on your buses. If you aren't going on the site visit then stay here and we will grab you once the buses have gone and we'll take you back to Coventry Station for your journey home. So thank you and I'll hand over to Liv now to close.

Liv Garfield: Thank you very much. So just literally two slides to finish with. So the first thing is that we believe that we've got a really attractive proposition in the form of the future of Severn Trent. We truly appreciate the opportunity to share with you in a lot more detail than we normally get at the Annual Results or the Half Year Results, why we're massively excited about the space that we occupy and about the future of this sector and our chance to perform within it. And these are some of the reasons why we're excited. So we do have very strong RCV growth, we know that's an important creation of value for shareholders for the long term and for our business. We are absolutely prepared for 1st April, so we predicated a year ago that this was the way the market would go, that this was the writing on the wall in terms of how we'd have to step up with big efficiencies, that we'd have to make sure that we were ready to deliver in a world of incentivisation and we got ourselves ready. So we took big decisions early on, whether that's the delayering of the organisation, whether that's the chance to begin supplier negotiations early. We effectively said there's no point waiting until 1st April and then beginning, we might as well spend all of this year working our socks off to get ourselves into good shape. It is cultural, so outperformance is linked to the fact that your teams every day believe it, live it and feel it and we've spent so much of this year on the cultural change. There's still a journey to go on, but we believe that first phase has landed. Everyone's educated on ODIs, everybody is clear on the world of Totex and what it means and it's the chance for us to then succeed.

I think I've got a great team in place. I hope you've enjoyed listening to them today. Obviously one more to join us on 1st July but literally all set up and raring to go. You've also had the chance to meet a good chunk of our strategic leaders who acted as hosts earlier. I know we busied you around a little bit because we were desperate to get you to see as much of the stuff the teams had put into the effort, but the idea was for you to sense that the depth exists, not just in the top layer but actually across the organisation.

We're excited about renewables. We've still got a bit of convincing to do for a couple of you (laughs) but genuinely this is a fantastic opportunity, it's something that will mark us out in the next few years versus other similar companies in our sector because we will be hedged. It will be a stand alone very good business that we're confident we'll deliver great returns against and that gives us real confidence that says it is a differentiator. We've got a flexible balance sheet. We have a great opportunity with financing that others don't have, because we have first of all more debt to raise because we're spending more and second of all, more debt that rolls off and that's a great opportunity with interest rates as they are. And we've got experience in non-regulated. It doesn't mean we've not got work to do; of course we've got work to do to understand, to scope and to shape, but the fact that we've got experience in non-regulated, the fact that we've got a division in a different building that knows what the world of retail looks like and we've made some fantastic hires this year, means that we feel as though we start what is going to be a new regime for the world in our sector. We start with some experience under our belt and the passion to really make a success.

So the final remarks, this is what we hoped that you took out of today. So just in case you didn't I wanted to recap on them and make sure that everyone leaves I guess clear that this is what we believe the key messages are. So there will be winners and losers and we absolutely believe that we're backing ourselves that we will be a winner. That does not mean that it wasn't a massively tough final determination; it was a hugely tough final determination. Nonetheless I guess the good thing that OFWAT did is they signalled that for months beforehand. So it's not like you arrived on 12th December and were like, "Ouch that's tough!" We all knew about it from April, May, June last year and we effectively took that big deep breath a year ago and accepted it would be of that ilk and had a small team working on how do we try and get the best possible outcome in the circumstances? And the rest of the business focused on let's make us a winner even in a tough determination moment and that's our plan is absolutely to outperform.

There are five ways that you can outperform. They'll be different scales of those in different years but there are absolutely opportunities for there to be winners across the piece. We want to be a standard setter in renewables; we believe genuinely that gives us an opportunity. It's a really good financial proposition for us. It's a good hedge for us going forward. It's actually a great thing for our customers. We know they support it as well.

Business Services is something you've asked about before. We hope we've been much clearer today as to exactly what it is and why there is a strong alliance for those Divisions we've talked about today to be linked to us and how we share the calibre, the procurement, the know-how and make those a success and make sure that the patchy history is a history and moving forward you have confidence in our ability to deliver. And we have some really great early signs, so we've delivered £100 million of Opex savings through the restructuring. We've now locked in the Year 1 numbers on supply chain and also delivered £100 million over the AMP in terms of the supplier contracts that are signed. That's half of the efficiencies locked in and delivered and we're not even at 1st April.

So a huge amount still to be done, no shortage of that I can assure you. So the pace has to keep going. We've started our digital revolution and we hope that you've enjoyed the chance to see that and we appreciate the chance for all of you to come today to what I hope you believe I guess is a fantastic location to get a sense of our excitement for the future and I guess our plans from here on in. So without further ado, lunch is next door. Thank you once again for coming. I look forward to any questions over lunch.

[Music until end]

[End of Transcript]