



OUR PURPOSE
AND
OUR VISION

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IT'S NEARLY 20 YEARS SINCE GLAS CYMRU CYF.
WAS FIRST FORMED*. THE COMPANY WAS CREATED
WITH A CLEAR PURPOSE: TO ACQUIRE DŴR CYMRU
WELSH WATER, WHICH WAS ACHIEVED IN MAY 2001,
AND THEN TO RUN IT "BETTER" FOR THE BENEFIT OF
ITS CUSTOMERS

*April 2000

OUR PURPOSE

In 2017, the combined Board of Dŵr Cymru Welsh Water and Glas Cymru Holdings reviewed the purpose of the Group in the light of changing market and regulatory conditions, and concluded that its core purpose remained just as valid as before. At its meeting in March 2019, the Board adopted a new statement of the purpose of the business:

WELSH WATER'S PURPOSE IS TO
PROVIDE HIGH QUALITY AND
BETTER VALUE DRINKING WATER
AND ENVIRONMENTAL SERVICES,
SO AS TO ENHANCE THE
WELL-BEING OF OUR CUSTOMERS
AND THE COMMUNITIES WE SERVE,
BOTH NOW AND FOR GENERATIONS
TO COME.

Unusually, in the case of Glas Cymru, the purpose of the company came first, with the ability to then design on a "blank sheet

of paper" the optimal corporate form and ownership model for the company to deliver that purpose. It was created in the strong belief that a company with a clear, single purpose and a corporate form to match would be a better way to provide essential water and environmental services to the people and communities we serve – better than what has gone before and better than under other, more common ownership models.

The particular non-shareholder ownership model chosen (a Company Limited by Guarantee) aims to have the best of both worlds – it combines the commercial rigour and discipline of being a corporate entity, with access to competitively priced finance through the listed bond market, whilst having a single focus on acting in the best interests of its customers. It does not need government support and is not a financial burden on the State. Without the risks of short-term shareholder pressure to maximise dividends, diversify its activities or divest itself of assets, the company is able

to take a longer term perspective. From the outset, the business was designed to be just as driven to improve efficiency and to act commercially at all times. However, in our case, the resulting "upside" belongs to our customers and is used for their benefit through the "Return of Value", such as lower customer bills or additional investment in service resilience.

The role of the independently selected Membership of the company also reflects its purpose. Members carry out important corporate governance roles under the Companies Act, helping to ensure that it stays true to that purpose and performs well for its customers. However, Members do not have any financial interest in the business and, whilst they are representative of the people we serve, they do not represent outside interests – their only duty is to the company itself. This enables them to best focus on their governance role and the interests of the business as a whole.

OUR VISION AND CULTURE

OUR VISION IS SIMPLE:

TO EARN THE
TRUST OF OUR
CUSTOMERS,
EVERY DAY

Drinking water and environmental protection are services which customers cannot fully judge the quality of for themselves – drinking water may look clean and healthy but may be contaminated by micro-organisms or other pollutants that we cannot see or taste. They are also services that we all have to rely on together – our own health is crucially dependent on the quality of the drinking water and sanitation of our neighbours. As such, our customers need to know that they can trust us to be providing a safe, reliable and high quality service – at all times, for the whole community and for the long-term.

This relationship of trust needs to go beyond just providing a good customer service when a particular customer is in contact with us, important though that is. Such trust is hard to win and easy to lose. One consequence of our Vision is that we will always aim to be highly open and transparent in providing

information to our customers about our performance and our policies, making it as easy as possible for them to judge how we are doing and to help shape our future plans. As such, we made an early commitment to fully comply with the UK Corporate Governance Code.

Our vision is equally applicable to all the customers of Welsh Water, 90% of whom are in Wales and around 10% of whom live in Herefordshire, Chester and other adjoining parts of England.

Our Vision also stresses that we have to meet our customers' expectations "every day" – both in meeting whatever immediate challenge may be thrust upon us by the weather or other operational emergency but also in planning now for the risks and opportunities that will be faced by future generations.

OUR CULTURE

The Culture of our business has evolved over time to support the achievement of our Vision.

Welsh Water has always been a highly professional organisation with people who took great pride in the technical standards of the work that they put in to the business. Over time, this has developed into a Culture where we are focussed on the outcomes we deliver for our customers and the environment, constantly striving to do a better job for them through innovation, embracing change and the sharing of best practice with others. Our Culture is encapsulated in our six company values, which were developed by colleagues from across the business in 2013.

To achieve the best outcomes for our customers and the environment, we need to have the very best people, with the highest levels of motivation and engagement. Therefore, we need to actively promote a more diverse workforce, drawing the best people from all parts of the population we serve. We also need an inclusive Culture where everyone can develop to their full potential, so as to enjoy a healthy and rewarding career.

WELSH WATER'S COMPANY VALUES

TRUSTED

Trusted to do the right thing

PROUD

Proud to put customers first

SAFE

Safe at all times

EXCELLENCE

Achieving excellence in everything we do

HONEST

Honest with everyone

OPEN

Open to new ideas

OUR STRATEGY — CUSTOMER-LED SUCCESS

Our business strategy is very simple – “customer-led success”. If we all concentrate on getting things right for our customers, then we will naturally meet the objectives of our numerous other stakeholders (including regulators, governments and our debt market investors) and so we will be successful as a business. This business success will in turn allow us to return more value to our customers, thereby further improving their trust in us – a “virtuous circle”.



Under “customer-led success”, every part of our business is empowered to focus on its customers and how we can better work together to do a better job in meeting their expectations. This objective is equally important for support teams within Welsh Water, who need to focus on their internal customers, enabling them to do an even better job for our external customers.

Following extensive involvement with our customers, recognising the wide variety of customer groups that we serve, we have distilled six customer promises to guide our planning and to measure our progress in delivering our strategy and our vision. These promises are of equal importance to our household customers, our business customers and also in the provision of new infrastructure to developers. It is noteworthy that our customers’ expectations of us extend beyond the service that they personally receive from us and also include our other important social responsibilities for the natural environment and the communities on which we all depend.

WELSH WATER’S SIX CUSTOMER PROMISES:

- 1 Clean safe water for all
- 2 To safeguard the environment for future generations
- 3 A personal service that’s right for you
- 4 Put things right if they go wrong
- 5 Fair bills for everyone
- 6 A more sustainable and prosperous future for our communities

OUR LONG-TERM MISSION — WELSH WATER 2050

Over recent years, we have found a strong endorsement from our customers for the sustainability principle that we should be taking necessary actions today to ensure that future generations of Welsh Water customers can enjoy at least the same service and the same environmental quality as customers today.

This long-term perspective is particularly important for an industry in which assets can have very long assets lives, so that the service that we can provide today is heavily impacted by investment decisions made by Welsh Water and its predecessors 10, 30 or even 100 years ago. The future trends that we face, for example in climate change, customer expectations, land-use and technology, are often slow and uncertain but will have a profound impact on the public service that we provide within the lifetime of assets or systems that we are investing in today.

Whilst a long-term planning horizon is not new in our industry, the Board of Welsh Water took a step further in 2016 and adopted a long-term mission statement:

Welsh Water 2050 – to become a truly world class, resilient and sustainable water service for the benefit of future generations.

Following extensive research involving a wide range of external sources, we have identified the eight most significant future trends that will heavily impact on our service over the next 30 years – including most notably the impact of climate change. We then carried out detailed engagement with our customers on their expectations and priorities, and adopted 18 Strategic Priorities which will guide our research and innovation agenda. Welsh Water 2050 provides the long-term context for our successive five year investment plans, beginning with the period 2020-25.

This innovative approach is captured in an evaluation model, our Welsh Water Resilience Wheel, and will enable us to plan and report on measured and affordable progress towards the objectives set out in Welsh Water 2050, so as to ensure the long-term sustainability of service for our customers.

THE WELL-BEING OF CUSTOMERS AND THE COMMUNITY

A consistent finding from our engagement work with all groups of customers has been their expectation that we should play a wider, social role in making the areas we serve a better place to live.

As a large business operating in the heart of the communities we serve, customers believe that we have wider responsibilities than just the provision of core water and wastewater services, essential though those are.

Welsh Water's operating Licence places important legal duties on us in terms of our impact on the environment and communities. For example, we have a duty to enable access and recreation at our reservoir sites under the Water Industry Act 1991 and we have a duty to promote biodiversity in the carrying out of our licensed activities under the Environment (Wales) Act 2016.

These responsibilities align closely with the long-term goals set out in the Well-being of Future Generations (Wales) Act 2015, which are equally applicable to our operations in England as well as Wales.



Some particular aspects of the work we do to promote these common, long-term well-being goals include:

ECONOMY

Investing in the infrastructure to enable new economic and housing developments, and supporting our local suppliers to develop their businesses.

ENVIRONMENT

Playing our part to improve natural ecosystems and enhance biodiversity, through our published plan Making Time For Nature 2017.

RECREATION

Investing in leisure facilities at sites across our region, enabling a range of outdoor activities to enhance the health and well-being of our communities.

EDUCATION

Providing environmental lessons for over 60,000 children a year, helping them to be better global citizens of the future.

LANGUAGE

Providing a wide range of Welsh language services and promoting their use by more of our customers.

DIVERSITY

Encouraging people from all parts of the population we serve to consider careers with us, whilst actively working to break down gender and other barriers to inclusivity.

COMMUNITY

Providing in-depth support for customers in vulnerable circumstances and to communities with particular needs, particularly through our ground-breaking Water Resilient Communities initiative.

At the suggestion of our colleagues, the Glas Cymru Community Fund was launched in 2017, with an initial annual budget of £100,000 a year to promote community projects and to support our people in their fundraising and volunteering. The Fund particularly aims to support projects that are closely related to our environmental, educational and other activities, and also communities which are heavily impacted by our investment programmes.

LONG-TERM COMPETITIVE ADVANTAGE

Whilst the Glas Cymru non-shareholder business model is attractive to many people because they feel that it is appropriate for the essential public service that we provide, it was also designed to maximise its competitive advantages, so as to deliver the best possible outcomes for our customers in the long-term.

Welsh Water operates under the same external pressures of independent economic regulation by Ofwat as other water companies in England and Wales; a system that enforces comparative competition between the companies.

We believe that our particular business model and our clear purpose give us five important competitive advantages, particularly in the longer-term:

1

Greater involvement from our customers in drawing up our plans and greater support from our customers in helping us to provide a high quality service

2

the ability to recruit and retain high quality people in our business, attracted by its strong sense of moral purpose and the importance of the job we do

3

a strong corporate culture that reflects that purpose and which helps to motivate and guide our people

4

a longer-term planning horizon than most businesses are allowed – enabling us to invest in our assets, systems and people for the optimal long-term result

5

secure access to long-term, low cost finance from bond investors who are attracted to the low risk, single purpose nature of our business, entrenched through the strong commercial disciplines in our corporate and financing structures.

NON-CORE BUSINESS DEVELOPMENT

Given our clear purpose, we have always focussed on doing a better job for our existing customer base. Unlike some other businesses, "growth" is not a necessary requirement for us to be considered successful. Indeed, by making a virtue of the relatively low-risk nature of the essential public services we provide, we have deliberately sought to maximise the competitive advantage of lower cost finance in a highly asset intensive business, in which finance is the largest single cost item. Diversification into higher risk activities could put at risk that low cost finance and might risk diluting our focus on our central purpose.

However, our business does need to adapt to important developments in our core water and wastewater markets, and we should be aware of potential commercial opportunities in these and related markets, where there could be scope for us to generate additional value for the benefit of our customers. With the support of Members, we updated our group structure in March 2016 so as to make it easier for us to pursue limited non-core activities within the wider group but outside of the regulated water business. Such

investments are limited to £100 million in total, as compared to an overall Regulatory Capital Value of the group of around £6,000 million, so as to ensure that these activities do not undermine the overall low-risk nature of the group's activities.

One potential opportunity would be for Glas Cymru to take on the provision of core water and wastewater services to additional customers outside of its existing licence area, for example through the acquisition of other water suppliers or by applying to serve new developments "out of area". This would be a legitimate step for us to take if we believed that we could offer a competitive service provision for the new customers involved, whilst ensuring at least no detriment to the value that we generate for the benefit of our existing customers "in area". Importantly, that "no detriment" test needs to consider the risk of distraction of management time from the core business and the risks of operating at distance, as well as the purely financial returns involved. To date, the substantial premium to asset value that has been required to acquire an existing water business has meant

that this "no detriment" test has clearly not been achievable.

We have also been actively exploring the opportunities in new and closely related markets which would enable us to make a limited expansion of our range of business activities. Examples include in the bioresources market, where organic material is recycled to produce renewable energy and natural fertilisers, and in the bulk sale of water across company boundaries to parts of the country where water shortages are predicted in the future. To invest in such expansion, we would need to be sure that we have a particular competitive advantage, related to our existing assets, skills, locations or our brand strength. These activities would need to be suitable to our overall group risk appetite and capable of earning secure financial returns in excess of our cost of capital for such an activity, so that the profits earned can be used by the Group to return more value to our core business customers. As such, these new business ventures will contribute to the achievement of our existing purpose, by improving the value for money of our services to our customers.

CONCLUSION — RETURNING VALUE TO CUSTOMERS

Given our purpose, the “bottom line” for Welsh Water is to offer better value drinking water and environmental services to our customers, year after year. Through our annual suite of reports for customers and stakeholders, they are able to judge for themselves how we are doing against the various measures of the “value” generated by our business.

Whilst there is still much to improve and some aspects of our service that currently do not meet the expectations of our customers, sustained progress has been made across all the important customer measures:

IMPROVING SERVICE

Over the last 20 years or so, we have reduced water leakage by a third, made significant improvements in drinking water quality (achieving 99.98% compliance with quality standards), reduced serious pollution by two-thirds and seen written complaints fall by 70%

CUSTOMER BILLS

Bills are lower today in real terms than they were in 2001, with below RPI price increases in every year since 2010

HELP FOR CUSTOMERS IN VULNERABLE CIRCUMSTANCES

Helping over 120,000 customers through our funding of social tariffs; far more than any other water company

INVESTMENT IN RESILIENCE

With internationally leading investment programmes such as Rainscape (retro-fitting sustainable urban drainage solutions into communities) and Landscape (managing catchments to meet the challenges of changing climate and land-use)

COMBATING CLIMATE CHANGE

We have reduced the carbon emissions from our operations by around 80% since 2010

CUSTOMER TRUST

Independent research for the Consumer Council for Water in 2019 found that Welsh Water had the highest customer ratings for customer trust and value for money.

In part, this ongoing improvement in value for customers reflects 20 years of cumulative investment back into the business of profits that in other companies would have been paid out to shareholders as dividends.

Since 2001, this "Return of Value" to customers has totalled nearly £450 million, comprising bill rebates for customers, company funding for social tariffs (in addition to cross subsidy from other customers) and part-funding by the company of additional investments in service (which is not subsequently added to the Regulatory Capital Value of the business).

RETURN OF VALUE TO WELSH WATER CUSTOMERS SINCE 2001

| | | |
|---------------|-----------------------|--------------|
| 2001 – 2005 | Customer rebates | £23 million |
| 2006 – 2010 | Customer rebates | £129 million |
| 2011 – 2015 | Social tariffs | £22 million |
| | Additional investment | £114 million |
| 2015 – 2020 | Social tariffs | £37 million |
| | Additional investment | £116 million |
| Total to date | | £441 million |



Dŵr Cymru
Welsh Water