

Our competitive advantage

How we offer value

The following are key features that we believe make us attractive to investors, alongside the specific differentiating factors described below.

 <p>Clarity on allowed returns through to 2020, with a track record of regulatory outperformance</p>	 <p>Wholesale revenue and asset base linked to RPI inflation to at least 2020</p>	 <p>Sustainable dividend policy, targeting a growth rate of no less than RPI inflation per annum to at least 2020</p>	 <p>Robust capital structure: stable A3 credit rating</p>
 <p>Planning for the long-term, protecting and delivering essential services</p>	 <p>Significant improvements in customer service and operational performance, with more to come</p>	 <p>Customer and environmental benefits delivered through substantial capital investment, driving long-term RCV growth</p>	 <p>Deeply integrated with the environment, with external recognition for our responsible business credentials</p>

How we differentiate ourselves from our competitors within the water industry

<h3>Systems Thinking approach to how we operate improves efficiency and resilience</h3> <p>We have adopted an innovative systems-based approach to our regional water system and wastewater drainage areas which we call Systems Thinking.</p> <p>By thinking of our entire network as a system, and using our integrated control centre, we are able to optimise cost and service performance, as well as encourage a proactive, rather than reactive, culture.</p> <p>This helps us to:</p> <ul style="list-style-type: none"> improve the reliability of our assets to reduce unplanned service interruptions; improve our use of data, at local asset level and centrally, to optimise performance; and allocate resources to production teams with full accountability for asset and system performance. <p>This approach was built into our business plan in order to help us deliver both operational improvements and cost savings across the regulatory period.</p> <p>As a result of this Systems Thinking approach, we are improving the resilience of our assets and network. This enables us to continue to provide a reliable service to our customers long into the future.</p>	<h3>Prudent financial risk management delivers long-term predictability</h3> <p>Our clearly articulated financial risk management policies, covering a variety of market risks, help us reduce our exposure to the economic and regulatory environment, therefore providing more predictable returns to investors.</p> <p>Our policy on inflation hedging is to match the debt portion of our RCV, offset by the effect of our pension scheme liabilities, with index-linked debt. This provides equity shareholders with a reliable one-to-one exposure to RPI movements, controlling the risks of unexpected movements in inflation.</p> <p>Interest rate exposure on our remaining nominal debt is managed by fixing the underlying interest cost out to 10 years, on a reducing balance basis, and is supplemented by substantively fixing interest rates for each forthcoming regulatory period at the time of the price control determination. This enables us to manage uncertainty in the approach to setting the cost of debt at each price review, and our approach to debt financing enables us to consistently lock in long-term debt at good relative value.</p> <p>We adopt an asset-liability matching policy for our defined benefit pension schemes by investing in assets such as fixed income swaps, corporate bonds and gilts which perform in line with the liabilities so as to hedge against changes in swap and gilt yields. This therefore reduces the volatility of the required funding level.</p> <p>The pension schemes also hedge inflation exposure, partly through RPI swaps and partly through an inflation funding mechanism, whereby company contributions are flexed for movements in RPI, providing a natural hedge against any inflationary uplift on the RCV.</p>
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