

Dŵr Cymru - Corporate Governance Code

This Code documents the framework we employ to facilitate effective management in order to deliver the long-term success of the company for the benefit of our customers. Ofwat have developed a set of principles that represents the minimum standards for Board leadership, transparency and governance for companies in the water sector. Ofwat have favoured a self-regulatory approach where ownership rests with the Board. As an unlisted company that voluntarily complies with the UK Corporate Governance Code, we welcome Ofwat's guidance which we believe complements the Code. We will highlight where we meet or exceed the principles in our Annual Report.

The 2014 UK Corporate Governance Code sets out standards of good practice in relation to leadership, effectiveness of the Board, accountability, remuneration and relations with Shareholders. Although the Code is more applicable to companies whose shares are listed on the London Stock Exchange, we endeavour to follow the spirit of the Code and the principles it sets out. As a company limited by guarantee, our governance structure comprises a Board which consists of a majority of independent Non-Executive Directors, and a membership body that fulfils the vital role of holding the Board to account to enable a strong governance framework. The membership body is empowered to hold the Board to account by voting at our AGM. We endeavour to enhance the effectiveness of our membership body by ensuring interaction between our Board and our Members at a minimum of two meetings a year and through regular contact with Members via the Executive and Company Secretariat teams.

Each year we publish our Annual Report & Accounts in as fair and balanced a manner as possible and our Directors confirm that the company is a "going concern" and make a long term viability statement. As reported in our Annual Report & Accounts, Dŵr Cymru complied with the 2014 UK Corporate Governance Code throughout the period. In our Annual Report & Accounts we will report against the 2014 UK Corporate Governance Code, including ensuring a "fair, balanced and understandable" review of the performance, business model and strategy of the company.

Ofwat has also set out proposed principles in relation to the role of holding companies. We believe that we have a simple structure and will explain our group structure in our Annual Report & Accounts in a way that is clear and simple to understand.

As a company responsible for providing a vital public service, we understand that how we are governed is crucial to gaining the trust of our customers. We believe that strong Board leadership and management, in conjunction with appropriate committees including Audit Committee, and robust internal and external audit functions, are the pillars of good governance.

See below for a list of how we meet the 2014 UK Corporate Governance Code. We have also indicated where there are parallel Ofwat principles.

Section A: Leadership

- Our Board meets at least nine times per annum and meets on an ad hoc basis as required.
- There is formal schedule of matters specifically reserved for its decision. (*Ofwat*)
- Our annual report includes a statement of how the Board operates and matters reserved for the Board. (*Ofwat*)
- Each committee reports to the Board on the decisions it has made and its minutes are made available to Board Members. (*Ofwat*)
- We have a combined Board (holding and regulatory companies) as we have shared objectives. This unitary board owns the strategy of the company, and has a strong independent element. The composition of the Board is strong and well equipped to make strategic decisions. We appoint high calibre individuals with diverse skills and experience. The Board is made up of a majority of independent Non-Executive Directors. We do not have any mechanism for the appointment of alternates to our Board. (*Ofwat*)
- Our annual report identifies our Chairman, Chief Executive, Senior Independent Director and the Chairmen and members of the Board committees.
- In our annual report we set out details of the number of meetings of the board and its committees, and of individual attendance by Directors.
- We arrange appropriate insurance cover in respect of legal action against our Directors.
- We have separate individuals who fulfill the roles for the Chairman and Chief Executive and their job descriptions are set out in writing. (*Ofwat*)
- Our Chairman was independent on appointment and has not been an Executive of the company previously or an investor. (*Ofwat*)
- We have a Senior Independent Director who represents the interests of Members.
- Our Chairman holds meetings with the Non-Executive Directors without the Executives present on at least an annual basis.
- The Senior Independent Director and the Non-Executive Directors meet without the Chairman present at least annually to appraise the Chairman's performance and on such other occasions as are deemed appropriate. This occurred in the last year to determine the appropriateness of the Chairman taking a six month leave of absence for personal reasons.
- Directors are asked to ensure that any concerns they may have about the running of the business are recorded in the Board minutes.
- We would ask directors to provide a written statement to the chairman, for circulation to the board, if they have any such concerns upon their resignation.

Section B: Effectiveness

- The Board determines whether a Director is independent (in character and judgement and their relationships or circumstances) upon appointment and annually. All Non-Executive Directors are identified in the annual report and detail of whether or not they are considered independent is disclosed.
- A majority of the Board comprises independent Non-Executive Directors.
- We have a Nomination Committee comprising a majority of independent Non-Executive Directors with clear terms of reference.
- Our Nomination Committee evaluates the balance of skills, experience, independence and knowledge on the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment. *(Ofwat)*
- Decisions on new appointments are made in the context of skills and experience of the whole Board, not individual merits. The Nominations Committee leads this process. *(Ofwat)*
- Non-Executive directors are appointed for specified terms subject to annual re-election. Any term exceeding 6 years is subject to a rigorous review. We explain Board tenure in our Annual Report.
- The work of the Nomination Committee including the process it has used in relation to Board appointments is described in the annual report.
- Our Board has a policy on diversity.
- We explain where an external search consultancy has been used, and will identify this in the annual report and include a statement to make clear that the consultancy has no other connection with the company.
- Non-Executive Directors' appointment letters are available for inspection. The letters set out the expected time commitment.
- Non- Executive Directors are encouraged to advise the Board of other commitments.
- A full time Executive Director would not be permitted to take on more than one Non-Executive directorship in a FTSE 100 company.
- Directors receive a full, formal and tailored induction on joining which is tailored to each director's personal requirements.
- Directors' training and development needs are reviewed regularly.
- Directors have access to independent professional advice at the company's expense.
- Committees are provided with sufficient resources to undertake their duties.
- The appointment and removal of the Company Secretary is a matter for the Board as a whole.
- All Directors have access to the advice and services of the Company Secretary.
- The performance of the Board, committees and individual Directors is evaluated at least annually and reported on in the Annual Report. We are committed to have an externally facilitated evaluation at least every three years. This occurred in 2011, 2014 and will be undertaken in 2017. The external facilitator will be identified in the Annual Report. *(Ofwat)*
- The Non-Executive Directors, led by the Senior Independent Director, review the performance of the Chairman.
- All Directors stand for re-election by Members annually at the AGM. Members are given sufficient biographical details and opportunities for contact with Directors to take an informed decision on their election.

Section C: Accountability

- Our Directors take responsibility for preparing the Annual Report and Accounts and reporting on the question of whether the business is a going concern. The Directors are responsible for ensuring that the Annual Report and Accounts is fair, balanced and understandable and provide the information necessary for stakeholders to assess the company's performance, business model and strategy.
- Our Directors will present the Annual Report in as open and transparent a manner as possible and will include information on the group structure, company performance and key risks in an accessible manner. *(Ofwat)*
- A review of the effectiveness of our risk management and internal control systems is undertaken at least once a year.
- We have an Audit Committee comprising of at least three independent Non-Executive Directors with clear terms of reference. *(Ofwat)*
- At least one member of the Audit Committee has recent and relevant financial experience.
- Our Audit Committee reviews whistleblowing reports provided by the Business Assurance function, to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.
- Audit Committee monitors and reviews the effectiveness of the internal audit activities.
- Audit Committee recommends the appointment, reappointment and removal of the external auditors.
- We put out our external audit contract out to tender at least every ten years. We appointed new auditors in 2015.
- The work of the Audit Committee is included in the Annual Report.

Section D: Remuneration

- We have a Remuneration Committee comprising at least three independent Non-Executive Directors with clear terms of reference, explaining its role and the authority delegated to it by the Board. *(Ofwat)*
- Remuneration committee has delegated responsibility for setting remuneration for all Executive Directors and the Chairman, including pension rights and any compensation payments.
- We describe in our annual report the work carried out by external consultants to support this Committee, and a statement will be included in our Annual Report that the Group has no other connection with the consultants currently providing this support.
- We do not have share schemes and therefore remuneration for Non-Executive Directors does not include share options or other performance-related elements.
- The Remuneration Committee has carefully considered what compensation commitments (including pension contributions and all other elements) the Directors' terms of appointment would entail in the event of early termination and our policy is reported in the remuneration report of the annual report.

The Members of Glas Cymru are invited specifically to approve the Remuneration Report, Policy and all new long-term incentive schemes at our AGM.

Section E: Relations with Members

- Our Members are a key part of our corporate governance controls and hold the Board to account.
- Contact from the Members is circulated to the Board as a whole through the Company Secretary's report.
- Governance and strategy are discussed with Members at meetings twice a year and on an ad hoc basis as required.
- Notice of the AGM and related papers are sent to Members at least 20 working days before the meeting.
- Members vote (by show of hands) on resolutions at our AGM. Resolutions include the approval of the Report and Accounts, appointment of the Auditor, election of the Directors and approval of the Remuneration Policy.
- We ensure that all valid proxy appointments received for general meetings are properly recorded and counted.
- We also have a regular dialogue with investors and include information on this in the Annual Report.

Transparency

- In accordance with the Disclosure & Transparency Rules and Ofwat guidance, we include a corporate governance statement in the directors' report section of the Annual Report.