Glas Cymru Holdings Cyfyngedig and Dŵr Cymru Cyfyngedig

Statement on Corporate Governance 2019

Corporate governance standards are fundamental to the values and decision-making framework of the Group. The underlying principles of good governance are accountability, transparency, probity and a focus on the sustainable success of the company. This statement documents the governance framework we employ to facilitate effective management in order to deliver the long-term success of the company for the benefit of our customers. In 2014, Ofwat developed a set of principles that represented the minimum standards for Board leadership, transparency and governance for companies in the water sector. This guidance has been revised and reissued and was in force from 1 April 2019. Ofwat have favoured a self-regulatory approach where ownership rests with the Board. As an unlisted company that complies with the UK Corporate Governance Code as a condition of its statutory Licence to provide water and wastewater services, we welcome Ofwat's guidance which we believe complements the Code. We report annually on the application of the Code in the Corporate Governance section of our Annual Report and this year we have also highlighted how we comply with Ofwat's Guidance.

The UK Corporate Governance Code sets out standards of good practice in relation to leadership, effectiveness of the Board, accountability, remuneration and relations with Shareholders. As a Group owned by 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 votes at our AGM on decisions such as director appointment and remuneration policy that would be made by shareholders in a shareholder-owned company. We endeavour to enhance the effectiveness of our membership body by ensuring interaction between our Board and our Members at a minimum of two general meetings a year, two regional meetings a year and through regular contact with Members via the Executive and Company Secretariat teams.

Each year we publish our Annual Report & Accounts which reflects the performance of the Group in a fair and balanced manner and our Directors confirm that the company is a "going concern" and provide a long term viability statement, together with a "fair, balanced and understandable" review of the performance, business model and strategy of the company.

Compliance with Ofwat Guidance

We are responsible for providing a vital public service, and we understand that how we are governed is crucial to gaining the trust of our customers.

Ofwat revised its Guidance on Board Leadership, Transparency and Governance with effect from 1 April 2019. This builds on the 2014 Guidance and we consider that we meet all four of the Objectives as follows and as set out in detail in our Annual Report and Accounts:

1. Purpose, Values and Culture – "The regulated company board establishes the company’s purpose, strategy and values, and is satisfied that its culture reflects the needs of all those it serves." The Chief Executive’s Message in our Annual Report sets out the details of our Company Purpose and the Governance Report provides details of the Vision and Culture that underpin decision-making and are monitored by the Board. The Company Direction and Performance Statement sets out how the Company has set its aspirations and performed for all those it serves.

2. Standalone Regulated Company - "The regulated company has an effective board with full responsibility for all aspects of the regulated company's business for the long term." We have an identical Board of Directors for our holding company, Glas Cymru Holdings Cyl., and for our
regulated Company, Dŵr Cymru Cyf. There is an identity of interests and purpose between the two companies because our sole focus is on providing essential services to our customers at the lowest possible cost. The Governance Report sets out in detail the role of the Board and those matters delegated to Committees, all of which report into the Board of the regulated Company.

3. Board Leadership and Transparency - "The board's leadership and approach to transparency and governance engenders trust in the regulated company and ensures accountability for their actions." We publish the following information in the Governance Report: explanation of group structure; explanation of dividend policy; explanation of principal risks; details of Board and Committee Membership, meetings, attendance; and explanation of executive pay policy.

4. Board Structure and Effectiveness - "Boards and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs." The way we achieve this is set out in detail in our Committee reports. As set out below, the effectiveness of our Boards and committees is subject to regular assessment.

Compliance with the Corporate Governance Code

See below for a list of how we meet the UK Corporate Governance Code 2016. In updating this Statement in 2019 we have also referred to the 2018 Code, which will formally apply to our reporting from 2019-20 onwards. We have also indicated below where there are particular requirements of the Ofwat Objectives.

Section A: Leadership

We have a combined Board (holding and regulatory companies) as they share the same 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.

A1 The role of the Board

- We are headed by an effective Board which is collectively responsible for the long-term success of the Company.
- Our Board meets at least nine times per annum and on an ad hoc basis as required. The Board is a joint board of Glas Cymru Holdings Cyfyngedig (Group holding company) and Dŵr Cymru Cyfyngedig (the regulated company which trades as Welsh Water), with identical interests across the two companies.
- Each Committee reports in to the Board of the regulated company, (Dŵr Cymru Cyfyngedig) and its minutes are made available to all Board Members. (Ofwat)
- Our annual report identifies:
  - our Chair, Chief Executive, Senior Independent Director and the Chairs and members of the Board committees;
  - our group structure, the dividend policy and dividends paid,
  - the principal risks to the future success of the business, and how these have been mitigated,
  - the number of meetings of the board and its committees, and of individual attendance by Directors;
  - an explanation of the company's executive pay policy and how the criteria for awarding short and long term performance related elements are substantially linked to stretching delivery for customers and are rigorously applied. (Ofwat)
- The Board develops and promotes the company's purpose and consults widely with stakeholders including customers and colleagues. The Group's overriding purpose is the provision of an
essential public service to customers in providing clean water and protecting our environment. (Ofwat)

- In regularly reviewing our strategy against our purpose, values and culture we are conscious to identify and correct any misalignment. (Ofwat)
- Our annual reporting sets out the Board’s activities and includes a statement from the Board focusing on how the company has set its aspirations and performed for all those it serves. (Ofwat)

A.2 Division of Responsibilities

- We have a clear division of responsibilities between the running of the Board and the executive responsibility for the running of the Company’s business. No one individual has unfettered powers of decision-making.
- We have separate individuals who fulfill the roles of the Chair and Chief Executive and their job descriptions are set out in writing. Although we have identical Boards for our holding company and our regulated company (Dŵr Cymru Cyfyngedig trading as Welsh Water), there is identity of interests. The Board of the regulated company therefore has full responsibility for all aspects of the regulated company’s business, including the freedom to set, and accountability for, all aspects of the regulated company’s strategy. (Ofwat)

A.3 Chair

- Our Chair was independent on appointment and has not been an Executive of the company previously or an investor.
- Our Board Chair is responsible for its leadership and ensuring its effectiveness.

A.4 Non-Executive Directors

- We have a Senior Independent Director who provides a sounding board for the Chair and acts as an intermediary for the other Directors when necessary.
- Our Chair 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 Chair present at least annually to appraise the Chair’s performance and on such other occasions as are deemed appropriate.
- Non-Executive Directors constructively challenge and help develop proposals on strategy.
- Any concerns Directors may have about the running of the business are recorded in the Board minutes.
- We ask Directors to provide a written statement to the Chair, for circulation to the board, if they have any such concerns upon their resignation.

Section B: Effectiveness

B.1 The composition of the Board

- 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 regularly review at the Nomination Committee both Board succession issues and membership of Committees to ensure that the Board and its committees have the appropriate balance of skills, experience, independence and knowledge of the company. The Board regularly reviews this in discussions with the Company Secretary, Nomination Committee and as part of our annual effectiveness review.
- The Board regularly seeks input from customers or other stakeholders where needed to inform the Board’s decision-making. (Ofwat)
• The Board is fully focused on the activities of the regulated company. Should any conflicts of interest be identified, action would be taken to address this, and no influence from third parties compromises or overrides the independent judgement of the Board. (Ofwat)
• There is a majority of independent members on each of the Audit, Nomination and Remuneration Committees and all Committees are chaired by the Chair of the Board or an independent Non-Executive Director.

B.2 Appointments to the Board
• 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, 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 Nomination Committee leads a rigorous and transparent 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 which seeks to promote the diversity of skills, background and experience, including gender 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.

B.3 Commitment
• Non-Executive Directors’ appointment letters are available for inspection. The letters set out the expected time commitment.
• Non-Executive Directors are required to advise the Chair of the Board of proposed additional commitments, so that the associated time commitment and potential to impact on their effectiveness can be considered by the Nomination Committee.
• A full time Executive Director would not be permitted to take on more than one Non-Executive directorship outside the company.
• All Directors allocate sufficient time to the Company to discharge their responsibilities effectively and this is reviewed as part of the assessment of their individual effectiveness.
• Board and Committee meeting materials are provided 5 business days in advance.

B.4 Development
• Directors receive a tailored programme of induction on joining and ongoing educative and informative programmes on topics relevant to the operation and governance of the business.
• In order to aid a final candidate’s understanding of the responsibilities attached to being a Non-Executive Director in this sector, we arrange for the proposed final candidate to meet Ofwat ahead of a formal appointment being made.
• Directors’ training and development needs are reviewed regularly.

B.5 Information and Support
• 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.
• Board and Audit Committee meeting materials are provided 5 business days in advance.
B.6 Evaluation

- The performance of the Board, committees and individual Directors is evaluated annually and reported on in the Annual Report. This includes consideration of the balance of skills, experience, independence and knowledge, the diversity of the Board, how stakeholder needs are addressed and how the overarching objectives are met. We are committed to have an externally facilitated evaluation every three years. This occurred in 2011, 2014 and 2017. The external facilitator and the outcomes of the review are identified in the Annual Report. (Ofwat)
- The Non-Executive Directors, led by the Senior Independent Director, review the performance of the Chair.

B.7 Re-election

- 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

C.1 Financial and Business Reporting

- 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 provides 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)

C.2 Risk Management and Internal Control

- A review of the effectiveness of our risk management and internal control systems is undertaken at least once a year.
- The Board determines the appropriate risk appetite in achieving our strategic objectives, whilst ensuring sound systems of internal control and risk management.
- The Annual Report and Accounts contain a robust assessment of the Company’s principal risks.

C.3 Audit Committee and Auditors

- We have an Audit Committee comprising 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.
- The Audit Committee has formal and transparent arrangements for considering how it should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the Company’s auditors.
- 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.
- The Audit Committee monitors and reviews the effectiveness of the internal audit activities.
- The Audit Committee recommends the appointment, reappointment, removal and remuneration of the external auditors.
- We put 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)
- The Remuneration Committee has delegated responsibility for setting remuneration for all Executive Directors and the Chair, including pension rights and any compensation payments.
- Executive Directors’ remuneration is designed to promote the long-term success of the company.
- Performance-related elements are transparent, stretching and rigorously applied.
- There is a formal and transparent procedure for developing policy on Executive remuneration and for fixing the remuneration packages of individual Directors.
- No Director is involved in deciding his or her own remuneration.
- 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 share-based performance-related elements.
- The Committee has discretion to withhold awards of variable pay or to claw back payments in particular circumstances, details of which are reported in our remuneration report in the annual report.
- 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 to approve the Remuneration Policy at least every three years, and to approve the application of the Policy on an advisory basis as set out in the Remuneration Report, 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. We apply the shareholder principles on governance to our Members.

E.1 Dialogue with Members

- We have a regular dialogue with investors and include information on this in the Annual Report.
- Governance and strategy are discussed with Members at meetings twice a year and on an ad hoc basis as required.
- The Company’s Treasury team continues to ensure that our Investors are well informed, through quarterly reports and the annual Investor meeting in London, as well as regular informal meetings. The Board receives a report following meetings with Investors and, where appropriate, takes into account the views expressed by Investors on issues affecting the Company.
- Our Group Treasurer is always happy to arrange to meet with Investors where requested.

E.2 Constructive use of meetings

- 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 Annual 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.
• The Chairs of Audit, Remuneration and Nomination Committees are available to answer questions at the AGM.

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 and Accounts (link will be available from 6 July 2019).

Approved by the joint Boards of Glas Cymru Cyfyngedig and Dŵr Cymru Cyfyngedig

6 June 2019