



# GOVERNANCE REPORT

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# CHAIRMAN'S INTRODUCTION TO GOVERNANCE

“ THIS YEAR, MORE THAN EVER DURING THE PANDEMIC RESTRICTIONS, GOOD GOVERNANCE HAS BEEN KEY TO UNDERPINNING THE COMPANY'S DECISIONS IN OUR PROVISION OF ESSENTIAL SERVICES TO THE 3.1 MILLION PEOPLE THAT WE SERVE. ”

## GOVERNANCE

During the year ended 31 March 2021, we have applied the principles of good governance and complied with all the provisions contained in Ofwat's Board Leadership, Transparency and Governance Principles and the 2018 UK Corporate Governance Code (the Code). More details are provided on pages 105 and 106.

## BOARD CHANGES

As mentioned last year, Menna Richards and Anna Walker both retired from the Board in July 2020, ahead of which Debra Bowen Rees joined our Board in January 2020. In January 2021 we were delighted to welcome Jane Hanson to the Board as a Non-Executive Director and Audit Committee Chair-designate in preparation for John Warren's retirement from the Board at the AGM in July this year, when he will have completed just over nine years' service. Jane has extensive experience in risk management, corporate governance and internal control from her involvement in companies in heavily-regulated markets (for further details, please see her biography on page 104).

We are very grateful to John for his valuable input over the last nine years, and pleased to welcome Jane, who will ably take forward the work of the Audit Committee.

## STAKEHOLDERS

The Board is mindful that its decision-making must promote the long-term success of the Company and recognise the interests of the Company's many stakeholders. Our corporate structure, without

shareholders, ensures that the key focus of the Board is on the interests of our customers and communities across the Company's supply area (for further detail, please see pages 39 to 44 which includes information about the Company's engagement with its key stakeholders). In the light of the specific provisions in the Code around workforce engagement with the Board, we have continued to review the ways in which we engage with the workforce. Engagement has been through formal and informal meetings, which during the current pandemic have mostly been held remotely by video-conference, although Non-Executive Directors have visited operational sites across our supply area when we were permitted to do so under the Covid-19 restrictions. Non-Executive Directors regularly attend employee engagement sessions which are held with our Employee Engagement Champions and other employees drawn from across business areas and our geographical supply area. During 2020-21 one of these sessions focused specifically on Executive Remuneration and the work of the Remuneration Committee. Further details on our wider engagement with employees and the Directors' Section 172 Statement are set out on pages 39 and 44, respectively.

## OTHER ENGAGEMENT WITH OUR PEOPLE

The Board met on 12 occasions during 2020-21. Despite the pandemic restrictions the Board has continued to meet regularly by video-conference and has heard from members of the Executive team and senior managers across the business during the year as well as continuing to meet with

## KEY FOCUS AREAS IN 2021-2022

Looking ahead to the aftermath of the pandemic and planning for the economic consequences, in particular how we will support our customers.

Focusing on those of our performance objectives where our performance is behind our peers.

Reviewing the Welsh Water 2050 vision as we start to prepare our plans for the PR24 price control covering 2025-2030.

Maintaining oversight of the Company's adoption of Smarter Ways of Working as we emerge from the pandemic restrictions.

Continuing to review the Company's response to Climate Change related weather events, and planning for greater investment in resilience and business continuity planning.

Reviewing succession plans for the Board.

Executive team members and managers informally. Induction programmes for Debra Bowen Rees and, more recently, for Jane Hanson following her appointment, have included colleague introduction meetings arranged via video-conference, and while Debra did manage to undertake some site visits during 2020, additional site visits to operational sites and our contact centre will resume as soon as this becomes possible.



DESPITE THE  
RESTRICTIONS  
THE BOARD  
HAS  
CONTINUED  
TO MEET  
REGULARLY

# CHAIRMAN'S INTRODUCTION TO GOVERNANCE

## PURPOSE, VALUES AND CULTURE

Our culture of "doing the right thing" for our customers, being focused on customer service and delivering uninterrupted services in spite of operational challenges, has stood us in good stead to maintain workforce morale as we have had to adapt our ways of working during the last year. During this period, direct engagement of the Executive Team and Board members with colleagues across the business has also been important to provide feedback on which the Executive Team can act – for example in reinforcing the importance of using the technology available to us to maintain internal communications, ensuring that managers continue to hold individual feedback meetings with colleagues despite not being able to meet physically. The importance of keeping colleagues and customers safe at all times, maintaining the

### KEY FOCUS AREAS DURING 2020-2021

Ensuring the adequacy of steps taken to keep our workforce and customers safe while continuing to deliver essential services.

Determining how best to help our customers address the impact of Covid-19 on their personal and business lives.

Planning, and then commencing, the delivery of the performance objectives and capital plan set by our regulator Ofwat for 2020-25.

Considering our strategic response to the impacts of climate change, including hearing from the Chief Executive of the Royal Meteorological Society, on the likely extent of these impacts.

Recruiting a new Chair of Audit Committee to replace John Warren who will retire at the AGM in July 2021.

health and wellbeing of our people, has been a key theme of communications during the pandemic. You can read more on our Purpose, Values and Culture on pages 7 and 107.

## BOARD EVALUATION

During the year, I led an internally facilitated evaluation of the Board's performance with support from the Company Secretarial team, to identify opportunities for the Board to improve its effectiveness, building on the recommendations from previous reviews. A summary of the outcomes of the Board's discussion of the evaluation and agreed actions going forward is set out in more detail on pages 114 and 115 of this report.

## DIVERSITY AND INCLUSIVITY

Succession planning remains a key area of focus for the Board and the Nomination Committee. This year has seen a renewed commitment across the business to ensuring that the Company is as inclusive as possible to enable those of all backgrounds to reach their full potential. The Board continues to oversee the focus by the Executive Team on promoting diversity in the widest sense, to enhance the range of backgrounds, skills and experience across our workforce and in our executive pipeline, and to ensure that we reflect the communities we serve. The Board has also reflected this commitment to diversity as we review the composition and balance of the Board and ensure that Directors with the appropriate skills and experience and from diverse backgrounds join the Board to bring fresh perspective and challenge. We are pleased to have taken our support of the Parker Review Recommendations, which focus on increasing the ethnic diversity on boards, a step further during the year by approving a target to appoint one Board member from an ethnic minority background to the Board

by December 2025. You can read more about our plans on diversity and inclusivity as a company on page 88.

## MEMBERS

Our unusual not-for-shareholder structure, where we have Members and not shareholders, means that we are very fortunate to have a record of good attendance at our Annual General Meetings held in July each year. With our AGM in July 2020 and our half-yearly meeting with Members in December 2020 both convened via video conference, this level of attendance improved further as Members from across our supply area were able to attend these meetings without having to travel. As a result of the pandemic restrictions, our Members have not been able to attend in person any tours and events organised by the business during the year but we were able to organise virtual workshops in July and September 2020 on topics such as "Responding to Drought situations" and "Water Quality issues" and "Drainage and Wastewater Management Plans". Members also had the opportunity to hear from the Chair of the Remuneration Committee in relation to the Remuneration Policy for AMP7 in advance of the AGM. This year we will convene the AGM by video conference once again, but hope to be back to meeting in person again soon.

## CONCLUSION

Overall, I am confident that the Board has achieved its aim of ensuring strong compliance with the key principles of good governance in all aspects of its decision-making.



**Alastair Lyons**  
Chair of the Board

3 June 2021

# GOVERNANCE AT A GLANCE

## KEY BOARD DECISIONS

- Approving the Company's response to Covid-19 and how this response was adapted as we understood the impact of the ongoing pandemic on our customers
- Approving the Group's junior Bond issue for March 2021
- Approving the process and appointment of a new Non-Executive Director and Audit Chair Designate with effect from 1 January 2021
- Approving business plans and budgets for 2021-22
- Approving the scheme of charges for 2021-22 with the average water and sewerage bill falling by 2% despite the increased costs caused by the pandemic – the 12th year our bill increase has been at or below inflation
- Approving the adoption of a target of 90% reduction in carbon emissions by 2030 against the baseline 2010-11 emissions, and an aim to achieve 100% carbon neutrality by 2040

See also the list of key decisions which demonstrated the Board's engagement with stakeholders in accordance with section 172 Companies Act 2006 on pages 44 to 46.

## BOARD CHANGES

- Chris Jones, former CEO, retired on 31 March 2020 but remained on the Board in an Executive capacity until 15 May 2020
- Non Executive Directors Menna Richards and Anna Walker both retired from the Board at the conclusion of the AGM on 3 July 2020
- Jane Hanson, Non-Executive Director and Audit Chair-designate, was appointed to the Board on 1 January 2021
- John Warren, Non-Executive Director and Audit Chair, will retire from the Board at the conclusion of the AGM to be held on 2 July 2021.

## KEY GOVERNANCE CHANGES

During the year, the Board implemented the following improvements:

- the Board's procedures and Committees' Terms of Reference were further reviewed and updated
- additional arrangements were made for Non-Executive Directors to meet more frequently with Employee Engagement Champions, senior managers and other employees from all areas of the business
- the timing of Board meetings was reviewed and agendas split across an evening and subsequent all-day meeting to ensure adequate time for decision-making
- our "bottom up" risk reporting was formalised to ensure streamlined reporting of risks from teams across the business
- a new Committee has very recently been established to oversee the Group's Environment, Social and Governance reporting, to be chaired by Debra Bowen Rees.



# GOVERNANCE AT A GLANCE

## GOVERNANCE FRAMEWORK

We pride ourselves on conducting our business in an open and transparent manner. Our governance framework remains flexible, allowing for fast, efficient and effective decision-making and management oversight.

Our governance framework demonstrates how the Board monitors the performance of our operations, governance, risk and controls, while maintaining oversight over the way the business is operated by the Executive team and its constituent management committees. These are responsible for implementing the strategy agreed by the Board to achieve the Company's medium and long-term objectives and deliver the required operational performance targets in accordance with an established risk management framework, compliance policies, internal control systems and reporting requirements.

The Executive team appointed by Peter Perry since taking the role of Chief Executive Officer comprises 16 individuals representing all the key functions of the business,

and is closely supported by our risk management and business assurance functions.

Supporting the Executive team there is a clearly defined management structure and governance framework, consisting of sub-committees and project-specific steering groups, which operate within defined terms of reference and in accordance with our Group policies. All decisions made by individuals or by committee which involve financial spend or an associated risk are governed by the Group's established Delegation of Authority. This authority is structured to ensure that day-to-day operational decisions can be taken efficiently, while ensuring higher-risk and high-value commitments for approval go through the appropriate channels.

By maintaining this structure of management control, Welsh Water's operations are run effectively and decisions are made in line with our commitment to our values to always do the right thing. This structure also ensures that all decision-making is adequately informed and is supportive of the

Directors' duties under Section 172 of the Companies Act 2006 to act in a way that reflects:

- the need to foster the Company's business relationships with suppliers, customers and others; and
- the impact of the Company's operations on the community and the environment, and the desirability of the Company maintaining a reputation for high standards of business conduct.

Details of how we engage with our key stakeholders and examples of how the Board has taken their interests into consideration during the year are described in the Section 172 Statement on pages 39 and 44.



Glas Cymru Members' Meeting: Tour of Zonal works, Llanelli

## OUR MEMBERS

Individuals independently drawn from across our supply area (with no financial stake in the business) who hold the Board to account for the stewardship of our assets and for providing an essential public service.



## THE BOARD

Responsible for the overall conduct of the Group's business including our long-term success; setting our purpose; values; standards and strategic objectives; reviewing our performance; maintaining oversight of our governance framework; and ensuring a positive dialogue with our stakeholders is maintained.

**AUDIT COMMITTEE**

Reviews the integrity, adequacy and effectiveness of the Group's system of internal control and risk management and related compliance activities.

**NOMINATION COMMITTEE**

Reviews Board composition and ensures Board diversity and balance of skills.

Reviews Board and Executive Committee succession plans to maintain continuity of skilled resource.

Responsible for the process of recruiting new Directors and their proposal to the Board for appointment.

**REMUNERATION COMMITTEE**

Sets, reviews and recommends the policy on remuneration of the Chairman, the Executive Directors and the senior management team.

Determines the remuneration of the Chairman and the Executive Directors in accordance with the Remuneration Policy.

Maintains oversight of the remuneration policies and practices for the whole workforce having regard to these when determining the remuneration of the Executive Directors.

**QUALITY AND ENVIRONMENT COMMITTEE**

Reviews and monitors risks to the business arising from operational, environmental and health and safety related issues.

Scrutinises operational performance and targets and the improvement strategies of the Water and Waste Activities.

Maintains a positive dialogue with relevant stakeholders, in particular environmental and water quality regulators.

**FINANCE COMMITTEE**

Makes decisions on financial matters in between Board meetings as and when required.

**TECHNOLOGY COMMITTEE**

Reviews the development and implementation of the Group's Digital Strategy.

Maintaining oversight of the effectiveness of the Group's information technology (IT), operational technology (OT) and information security provision in support of the achievement of the Group's medium-term business objectives.



## EXECUTIVE COMMITTEE

Comprising the leaders of the principal business units and functional areas, the Executive Committee is appointed by the CEO to support him in the performance of the CEO's duties including the development and implementation of strategy, operational plans, policies, procedures and budgets; the monitoring of operating and financial performance; the assessment and control of risk; and the prioritisation and allocation of resources.



## SUPPORTING COMMITTEES AND GROUPS

Key Executive Level Forums which support the Executive Committee



STRATEGIC  
CHANGE  
COMMITTEE

CAPITAL  
PROGRAMME  
GROUP

INFORMATION  
SECURITY  
STEERING GROUP

REGULATORY  
GROUPS

OTHER INTERNAL  
STAKEHOLDER  
GROUPS

# BOARD OF DIRECTORS



**ALASTAIR LYONS CBE**  
CHAIR OF THE BOARD

Appointed: May 2016

F R Q N CHAIR T

#### Responsibilities

Alastair was appointed Non-Executive Director in May 2016 and was deemed independent on his appointment as Chair of the Board in July 2016. He is also Chair of the Nomination Committee.

#### Skills and Experience

A chartered accountant by training, Alastair has 20 years' experience as a non-executive chairman of both listed and private companies. During an extensive executive career in financial services, he was Chief Executive Officer of both the National Provident Institution and the National & Provincial Building Society, Managing Director of the Insurance Division of Abbey National plc, and Director of Corporate Projects at National Westminster Bank plc. He was awarded the CBE in 2001 for services to social security having served as a Non-Executive Director of both the Department for Work & Pensions and the Department of Transport.

#### Other past experience

Chairman of the Admiral Group, the direct motor insurer, from 2000 to 2017, Chairman of Towergate Insurance, Chairman of Serco, the international services group, Deputy Chairman of Bovis Homes, and Senior Independent Director at Phoenix, the life assurance consolidator.

#### Current external appointments

Chairman of Harworth Group plc, Vitality UK, AECS, the Admiral Group's European holding company, and the Eaton House Schools Group.



**GRAHAM EDWARDS**  
SENIOR INDEPENDENT  
NON-EXECUTIVE DIRECTOR

Appointed: October 2013

A N Q CHAIR

#### Responsibilities

See summary on page 126.

Graham was appointed Senior Independent Director in July 2020. He is also Chair of the Quality and Environment Committee.

#### Skills and experience

Graham is currently Chief Executive Officer of Wales & West Utilities. He has significant senior management experience in the utility sector running electricity distribution and water businesses with South Wales Electricity, Hyder and Thames Water. Prior to working in utilities he held senior positions in various functions across a wide range of manufacturing businesses including Engineering, Production and Human Resources. Graham has an MBA from Cardiff Business School and is a Fellow of the Chartered Institute of Personnel and Development.

#### Other past experience

Chair of CBI Wales and Business in the Community Wales. Non-Executive Director of the Royal College of Music and Drama.

#### Current external appointments

Board member of the University of South Wales.



**PETER PERRY**  
CHIEF EXECUTIVE OFFICER

Appointed: October 2017

F N Q T

#### Responsibilities

Within the strategies set by the Board, to manage the Group's business effectively.

#### Skills and experience

Peter was appointed Chief Executive Officer in April 2020. He was the Managing Director of Dwr Cymru Welsh Water from October 2017 after four years as Chief Operating Officer. Appointed Operations Director of Welsh Water in July 2006, Peter has a civil engineering background and was formerly the Chief Operating Officer for United Utilities Operational Services (UUOS), having previously been the Operations Director with responsibility for the operational contract with Welsh Water and UUOS's water interests in Scotland and Ireland. Prior to that he worked for Welsh Water for over 20 years.

#### Other past experience

Director (representing Wales) at The Water Regulations Advisory Scheme, the national body specifying standards for materials and workmanship used in potable water supply.

#### Current external appointments

Chair of Business in the Community Cymru – HRH The Prince of Wales' Responsible Business Network, dedicated to challenging companies to be more responsible in their impact on communities and the planet. Member of the Water UK Board.



**MIKE DAVIS**  
CHIEF FINANCIAL OFFICER

Appointed: January 2020

F

**Responsibilities**

Primary responsibility for the Group's financial operations.

**Skills and experience**

Mike graduated as a chemical engineer and is a Chartered Accountant by profession. He has previous experience in the Media, ICT and Mining industries including as Finance Director for two private equity start-up businesses. Mike previously held the positions of Director of Strategy and Regulation and Financial Controller at Welsh Water, with a focus on regulatory price reviews and competition.

**Other past experience**

Non-Executive Director at RCT Homes, a registered social landlord, chairing its Asset Management Committee and Treasury Committee. Director of UK Water Industry Research.



**DEBRA BOWEN REES**  
NON-EXECUTIVE DIRECTOR

Appointed: January 2020

A Q R

**Responsibilities**

See summary on page 111

Debra is also a Member, representing the Board on the Independent Member Selection Panel, which recommends the appointment of Members to the Board.

**Skills and experience**

Debra has a wealth of experience in leadership and management, including managing safety-critical, regulated infrastructure. After a successful career and a number of senior positions in the Royal Air Force, Debra joined Cardiff Airport in 2012 as Operations Director, before being appointed Managing Director in 2014. She became the Chief Executive of the Welsh Government-owned airport in 2017 and was responsible for leading the airport through a period of transformational change. In August 2020, Debra stepped down as Chief Executive of Cardiff Airport and subsequently from the Board of Directors in September 2020.

**Current external appointments**

Chair of the South West Wales Branch of the Institute of Directors. Non-Executive Director of the Port of Milford Haven. Trustee and Board Member at Hijinx Theatre Company.



**PROF. TOM CRICK MBE**  
NON-EXECUTIVE DIRECTOR

Appointed: October 2017

Q T CHAIR

**Responsibilities**

See summary on page 128

Tom also Chairs the Technology & Policy Committee.

**Skills and experience**

Tom is Professor of Technology & Policy at Swansea University, with his academic interests sitting at the research/policy interface – from data science, cyber security, and intelligent systems, through to digital public services and national infrastructure. He has provided expert advice to both the Welsh and UK Governments across a number of policy areas, and is also a Commissioner of the National Infrastructure Commission for Wales. Tom is a Chartered Engineer and Chartered Scientist and Fellow of the Learned Society of Wales. He was appointed MBE in the 2017 Queen's Birthday Honours for services to computer science.

**Other past experience**

Vice-President of BCS, The Chartered Institute for IT.

**Current external appointments**

Commissioner of the National Infrastructure Commission for Wales. Non-Executive Director of Sector Development Wales Partnership Ltd. (a Welsh Government organisation known as Industry Wales) and Swansea Bay University Health Board.

# BOARD OF DIRECTORS



**JANE HANSON**  
NON-EXECUTIVE DIRECTOR

Appointed: January 2021

A Q

#### Responsibilities

See summary on page 111

Jane will take up the role of Audit Committee Chair on John Warren's retirement from the Board at the AGM in July.

#### Skills and experience

Jane is a qualified Chartered Accountant and has extensive experience of Enterprise Risk Management, Corporate Governance and Internal Control frameworks in heavily regulated, FTSE, Not for Profit and private sector organisations. She also has wide experience of developing and monitoring customer and conduct risk frameworks and overseeing large and complex IT and transformation programmes. Jane is also a magistrate.

#### Other past experience

Non-Executive Director at Direct Line Group plc (Chair of Group Board's Risk Committee), William Hill plc, Old Mutual Wealth plc (Chair of Board Risk Committee) and Aviva Ireland (Chair of Audit Committee), and Independent Member of the Customer Fairness Committee at ReAssure Ltd.

#### Current external appointments

Chair of The Reclaim Fund Ltd.  
Non-Executive Director of Rothesay Life plc. Honorary Treasurer at the Disasters Emergency Committee.



**JOANNE KENRICK**  
NON-EXECUTIVE DIRECTOR

Appointed: November 2015

A N R CHAIR T

#### Responsibilities

See summary on page 130

Joanne was appointed Chair of the Remuneration Committee in July 2020, having served as a member of the Committee since September 2019 and as Chair of another Remuneration Committee for more than 12 months.

#### Skills and experience

Joanne was the Marketing Director for Homebase until the end of 2015. Prior to that, Joanne was CEO of Start, setting up and running HRH the Prince of Wales' public facing initiative for a more sustainable future. Former roles include Marketing and Customer Proposition Director for B&Q, Marketing Director for the National Lottery, and Group Sales and Marketing Director at Wilson Connolly. Joanne has also worked for Woolworths, Asda, Pepsico and Masterfoods. Joanne has a degree in Law from Nottingham University, and whilst at college she was one of the first women ever trained to fly by the RAF.

#### Other past experience

Non-Executive Director at Principality Building Society and BACS Payment Services Limited.

#### Current external appointments

Senior Independent Director, Deputy Chair and Chair of the Remuneration Committee at Coventry Building Society. Non-Executive Director of Safestore, the UK's largest self-storage business. Independent Chair of the Current Account Switch, Cash ISA Switch, and PayM Mobile Payments Services for Pay.UK. Chairman of the trustees of the children's charity, Make Some Noise.



**JOHN WARREN**  
NON-EXECUTIVE DIRECTOR

Appointed: May 2012

A CHAIR F CHAIR T R

#### Responsibilities

See summary on page 120

John is also Audit Committee Chair up until he retires from the Board at the AGM in July.

#### Skills and experience

John is a qualified accountant with more than 25 years' experience in senior finance roles and has extensive experience in chairing Audit Committees of major UK listed companies. Until his retirement in 2005, he was Group Finance Director for WH Smith PLC and, before that, United Biscuits (Holdings) Plc.

#### Other past experience

Non-Executive Director and Chairman of the Audit Committee of 4imprint Group plc, Greencore Group plc, Spectris plc, Rexam Plc, Bovis Homes Group PLC, Rank Group Plc, Uniq Plc, Arla Foods UK Plc, and BPP Holdings plc.

#### Current external appointments

Non-Executive Director and Chairman of the Audit Committee of Bloomsbury Publishing Plc.

# CORPORATE GOVERNANCE REPORT

## HOW WE MEET THE PROVISIONS OF OFWAT'S GUIDANCE ON BOARD LEADERSHIP, TRANSPARENCY AND GOVERNANCE

We are committed to meeting our obligations under Ofwat's Guidance on Board Leadership, Transparency and Governance (the "Guidance") as updated in 2019 and as required by our Licence conditions. During the financial year to 31 March 2021, we consider that we have continued to meet all four of the Objectives as follows:

Guidance Provisions	How We have Complied with the Provisions	Further information
<b>Purpose, Values and Culture</b>	<p>The Board of the Appointee (or otherwise referred to as, Dwr Cymru Cyf. our regulated company or the Company) has established the Company's purpose, strategy and values, and is satisfied that these and its culture reflects the needs of all those it serves.</p> <p>Our vision and culture underpin our decision-making and are monitored by the Board (see definition of the Board below).</p> <p>The Company Direction and Performance Statement sets out how the Company has set its aspirations and has performed for all those it serves.</p>	<p>See pages 6 to 9</p> <p>Annual Performance Report is available from mid-July 2021 on our website: <a href="http://dwrcymru.com/annualperformancereport">dwrcymru.com/annualperformancereport</a></p>
<b>Standalone Regulated Company</b>	<p>Dwr Cymru Cyf. has an effective Board with full responsibility for all aspects of the business of the Appointee for the long term. We have an identical Board of Directors for our holding company, Glas Cymru Holdings Cyf. and Dŵr Cymru Cyf. (the "Board") as our sole focus is on providing essential services to our customers at the lowest possible cost. Our Corporate Governance Report sets out in detail the role of the Board and those matters which are delegated to Committees, all of which report into the Board.</p>	<p>See pages 107 to 111</p>
<b>Board Leadership and Transparency</b>	<p>The Board's leadership and approach to transparency and governance engenders trust in Dwr Cymru Cyf. and ensures accountability for its actions.</p> <p>Information on the following are published in this Annual Report: our group structure; dividend policy; principal risks and uncertainties; details of Board and Committee Memberships; meeting attendance; and executive pay policy.</p>	<p>Group structure (see page 211)</p> <p>Dividend Policy (page 65)</p> <p>Principal Risks and Uncertainties (page 68)</p> <p>Board and Committee Membership and Meeting Attendance (pages 102 and 112)</p> <p>Executive pay policy (pages 136 and 137)</p>
<b>Board Structure and Effectiveness</b>	<p>The Board and its Committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs.</p> <p>We keep under review the balance of skills, experience and independence on our Board, which has a majority of Non-Executive Directors, and the membership of our key Board Committees.</p> <p>An annual Board and Committee effectiveness review is undertaken – every three years this is conducted by an independent external evaluator.</p>	<p>Board biographical details including Committee memberships (pages 102 to 104)</p> <p>Board skills and experience of the Board (pages 102 and 119). Information about the independence and objectiveness of our Directors (page 113)</p> <p>The conclusions of our 2020-21 internally facilitated Board Effectiveness review can be found on pages 114 and 115</p>

# CORPORATE GOVERNANCE REPORT

## HOW WE MEET THE PROVISIONS OF THE UK CORPORATE GOVERNANCE CODE

Sound corporate governance is an essential feature of our decision-making which generates value for our stakeholders and allows us to deliver an essential public service.

Our governance processes are in pursuit of the Company Purpose and are based on transparency and fairness, underpinned by the values of the Group.

Ofwat's Principles of Leadership, Transparency and Governance and the UK Corporate Governance Code 2018 (the "Code") are the standards against which we measure our governance practices.

We have applied the Code's principles and complied with its provisions during the financial year.

Our Annual Report for 2019-20 noted that we had not fully complied with Provision 41 of the Code, as regards engaging with the workforce to explain how executive remuneration aligns with wider company pay policy. This year (2020-21) some of our Non-Executive Directors held a specific employee engagement session with workforce representatives to discuss the principles of executive remuneration and the role of the Remuneration Committee, as part of the regular Employee Engagement sessions that take place with both the Executive team and our Non-Executive Directors. These engagement sessions provide a forum for employee queries to be discussed, by way of elected representatives, across a broad range of topics. For more details on the employee engagement sessions held during the last year please see page 108.

The sections of this report set out how we have complied with the provisions of the Code, the main principles of which cover the following areas:

Section of the Code	Further information
<b>Board leadership and company purpose</b>	See pages 107 to 109
<b>Division of responsibilities</b>	See pages 110 to 113
<b>Composition, succession and evaluation</b>	See pages 114 to 119
<b>Audit, risk and internal control</b>	See pages 120 to 129
<b>Remuneration</b>	See pages 130 to 148



Operational Site Visit at Sluvald Water Treatment Works, Pontypool – Debra Bowen Rees and Jane Hanson



## BOARD LEADERSHIP AND COMPANY PURPOSE

### HOW WE APPLY THE PRINCIPLES OF THE CODE

- The dynamics of our Board is of a collegiate Board that is effective at promoting the achievement of the Company's medium and long term objectives in the context of its Purpose.
- The Board has established the Company's purpose, values and strategy and is satisfied that these and our culture are aligned and will deliver wider societal value. Our Directors act with integrity, lead by example and always seek to promote the desired culture.
- The Board has oversight of the implementation of strategy, and ensures that the necessary resources are in place for the Company to meet its objectives against which it measures the Company's ongoing performance. The health and safety of our people and our customers is always the principal concern of the Board. It has also established a framework of prudent and effective controls, which enable risk to be assessed and managed.
- In order to meet its responsibilities to the wider stakeholder group, including governments, our regulators, our customers, and our people, the Board ensures there is effective engagement with, and encourages, input from them.
- The Board ensures that workforce policies and practices are consistent with the Company's values and support its long-term sustainable success. Colleagues can raise any matters of concern through their elected representatives' regular meetings with the Non-Executive Directors or, confidentially, via the Business Assurance team or the dedicated whistleblowing phone to which we subscribe.

## THE BOARD

The Board is responsible for promoting the long-term, sustainable success of the Group for the benefit of its stakeholders and is the principal decision-making forum for the Group, intent on providing inspirational leadership, both directly and through its Committees, and delegating authority, as appropriate, to the Executive team. The Board has determined the Group's Purpose which is consistent with its values and supported by its strategy, and is satisfied that the Group's culture is aligned with the achievement of that Purpose.

The Board is responsible for organising and directing the affairs of the Group in a manner that delivers its agreed medium and long-term objectives. Through the effective governance framework that it has in place, the Board delivers its strategy of providing strong and sustainable financial and operational performance, which is especially important to the Group given the long-term nature of investment needed in its core services to customers. The Board is also accountable for ensuring that in carrying out its duties the Group's legal and regulatory obligations are being met, and that it operates within appropriately established risk parameters.

The Board sets the strategy of the Group based on proposals formulated by the Executive team and it reviews the progress achieved by the management of the business in meeting the agreed strategic objectives. The Board's long-term goals for the Company, in the context of future challenges and changing customer expectations, are set out in our published strategy document, Welsh Water 2050. Details of the strategy are set out in the Strategic Report of this Annual Report and Accounts (see page 25). The Board is mindful of its role as custodian of a long-term business, with an obligation to ensure that the next generation receives the assets it needs to deliver the Company's Purpose.

In February 2021 the Glas Board adopted targets for carbon reduction and ultimately for net zero carbon emissions. The decision taken was to adopt a target of 90% reduction in carbon emissions by 2030 (against the baseline 2010-11 emissions), and to aim to achieve 100% carbon neutrality by 2040. This decision follows the Welsh Government's declaration of a climate emergency in April 2019, the publication of widespread and compelling evidence to support the need for urgent action, and extensive engagement with our independent environmental advisory panel, comprised of a broad range of environmental NGOs, Welsh Government, our Regulators, customer representatives, land and farming representation, industry and academics.

# CORPORATE GOVERNANCE REPORT

## MAIN BOARD DISCUSSIONS DURING 2020-21

See also the list of key decisions which demonstrated the Board's engagement with stakeholders in accordance with section 172 Companies Act 2006 on pages 44 to 46, and the list of key decisions on page 99.

Below are some examples of the interaction by Board Members with colleagues and other third parties during the year. Unless otherwise stated, all engagement has been carried out remotely via video conferencing.

### RELATIONS WITH EMPLOYEES

#### EMPLOYEE ENGAGEMENT CHAMPIONS AND REPRESENTATIVES OF TEAMS ACROSS THE BUSINESS

Employee Engagement Sessions to discuss a range of topics to including the Company's response to Covid-19; the role of the remuneration committee and issues facing the business since Covid-19; charging for water services, cyber security culture, developing ways of working in a post-Covid-19 workplace; customer services issues and carbon neutrality initiatives.

#### FEEDBACK RECEIVED FROM AN EMPLOYEE ENGAGEMENT CHAMPIONS SESSION WITH NON-EXECUTIVE DIRECTORS

"I really enjoyed the meeting and the open format...it has benefited me mentally, and given me a boost, from speaking with other colleagues and the Non-Executive Director about any concerns from myself and my team."

#### BOARD "LUNCHES" INFORMAL MEETINGS WITH MANAGERS (VIA VIDEO CONFERENCING)

Attended by all Board Members.

"Really enjoyed the session, it has improved my mood today and further increased my trust in the leadership of the company."

#### OPERATIONAL SITE VISITS (LIMITED IN 2020-21 BY PANDEMIC RESTRICTIONS)

##### June 2020 – Alastair Lyons

Kimmel Park Depot  
Bretton Water Treatment Works

##### August 2020 - Debra Bowen Rees and Tom Crick

Felindre Water Treatment Works  
Gowerton Wastewater Treatment Works

##### September 2020 – Alastair Lyons

Leominster Wastewater Treatment Works  
Bewdley Bank Service Reservoir Extension  
Broomy Hill Depot  
Eign Wastewater Treatment Works

##### October 2020 – Debra Bowen Rees

Retail Services, Linea (St Mellons)  
Cynon Wastewater Treatment Works  
Lower Carno Reservoir

##### December 2020 – Alastair Lyons

Denbigh Depot  
Bryn Cowlyd Water Treatment Works

##### December 2020 – Debra Bowen Rees

Cog Moors Wastewater Treatment Works (Advanced Anaerobic Digestion)

##### March 2021 – Debra Bowen Rees and Jane Hanson

Cryptosporidium teach-in (via Microsoft Teams) by colleagues based at Glaslyn laboratories.

"The questions were broad enough to stimulate some really varied discussions and the hand raising function (Microsoft Teams) was great for letting everyone have their voice heard. Really enjoyed it, thanks for giving us all the opportunity!"

"Really enjoyed the session, was great to have a platform to talk about the operations point of view."



## BOARD LEADERSHIP AND COMPANY PURPOSE

### OUR MEMBERS AND INVESTORS

We apply listed company principles on governance to our Members and (Bond) Investors. We have regular dialogue both with our Members and Investors which is set out below. For further details about our Glas Members, see the governance framework diagram on page 101.

Our 60 Glas Members (this total excludes our nine Board Members who also serve as members) are appointed by the Board but are selected by an independent Member Selection Panel which aims to maintain the Members as a balanced and diverse group, broadly reflective of the range of our customer and other key stakeholders' interests. The independent Chair of the Member Selection Panel is Sir Paul Silk, and the other members of the Panel during the year were Menna Richards (a former Non-Executive Director), Arthur Walford (former Company Secretary of Bupa Plc) until July 2021, and Chris Jones (former CEO).

During 2020–21, no Members retired, one Member stepped down and nine new Glas Members were appointed following an advertised (via social media) and open recruitment process. On appointment, new members are invited to a full day's induction which is usually held at one of our operational sites. During 2020–21, the induction was held via video conference, although introductory site visits are planned.

#### RELATIONS WITH MEMBERS

##### AGM, HALF-YEARLY MEETING AND QUARTERLY WORKSHOPS

- The Board uses regular general meetings to communicate with our Members, including updates on the Group's performance and strategy.
- Debra Bowen Rees (and Menna Richards up until July 2020) takes a particular interest in Glas Members and is available to meet with any Member outside of scheduled meetings.

##### DIALOGUE WITH COMPANY SECRETARIAT

- Regular dialogue via email (and/or via a Members' LinkedIn Group where Members can communicate with other Members) on up-to-the-minute progress updates on operational events affecting the business including extreme weather events and, since last year, Covid-19.
- Fortnightly Press coverage via email and intermittent emails to update Members on issues affecting the business.

##### MEMBERS SELECTION PANEL

- The Company Secretariat liaises with the Panel periodically to seek feedback on the format and content covered at Members' meetings and in relation to the annual Member Recruitment process, following which the Panel recommends the final list of candidates to Board for appointment.

#### RELATIONS WITH INVESTORS

##### REGULAR COMMUNICATIONS

We are wholly debt-financed and raising debt at a low cost is a key part of our financial strategy. We maintain best in sector credit ratings so that we represent low-risk investment in the sector. Our long-term strategy continues to be to maintain our gearing at the level at which the Board considers we would be able to obtain access to the most efficient level of debt funding. Access to financial markets is key to the delivery of our strategy and we maintain close and open relationships with our bond investors.

##### DIALOGUE WITH GROUP TREASURER

The Treasury team ensures our investors are well informed through quarterly (from April 2021, six-monthly) Investor Reports, approved by the Board. The Board receives a report following meetings with Investors and, where appropriate, takes into account in its decision-making the views expressed by Investors on issues affecting the Company. Our Group Treasurer arranges to meet with Investors as required or when requested.

##### INVESTOR ENGAGEMENT AND ROADSHOWS

- During Covid-19 our annual Investor meeting has been via video conference. On 21 July 2021, Investors will be sent a 'voiced over' presentation and invited to ask questions via email.
- Roadshows were held in advance of the launch of our Bond issue on 31 March 2021. More details on the Bond issue are on page 62.

#### RELATIONS WITH OTHER KEY STAKEHOLDERS

Further information on how we engage with our key stakeholders is set out within the Strategic Report on pages 39 to 43.

# CORPORATE GOVERNANCE REPORT



## DIVISION OF RESPONSIBILITIES

### HOW WE APPLY THE PRINCIPLES OF THE CODE

- Our Chair of the Board is responsible for leadership of the Board and ensuring its effectiveness – he demonstrates objective judgement and promotes a culture of openness and debate, which in turn facilitates constructive Board relations and ensures the effective contribution of each of our Directors
- Directors receive accurate, timely and clear information with the support of the Company Secretary, who also ensures that the Board has the resources it needs to function effectively and efficiently. Our Non-Executive Directors have access to the Company Secretary and (where required) external advisors to provide them with support and advice. Board and Committee meeting materials are provided five business days in advance
- There is an appropriate balance of Executive and Non-Executive Directors on the Board and 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 or group of individuals has unfettered powers of decision-making
- Our Non-Executive Directors allocate sufficient time to discharge their responsibilities effectively and they constructively challenge and help develop proposals on strategy
- The effectiveness of the Board is essential to ensuring the long-term success of the business and there is a clear division of responsibility between the strategic focus of the Board and the Executive responsibility for implementing strategy in the day-to-day running of the business. The Chief Executive Officer is responsible for leading the business and appointing the appropriate executive team to deliver the strategy, whilst the Non-Executive Directors constructively challenge the Executive team.

## ROLES AND RESPONSIBILITIES

### THE BOARD MEMBERS

All Board members are Directors of both the holding company Glas Cymru and the regulated operational company, Dŵr Cymru Cyfyngedig. The identical Board membership ensures a unified approach where the interests of the operational company are promoted as if Dŵr Cymru Cyfyngedig were a separate public listed company, in line with Ofwat's guidance on Board Leadership, Transparency and Governance.

The Board has collective responsibility for:

- setting the strategy, and ensuring the long-term success of the Group for the benefit of its customers and stakeholders;
- challenging, encouraging and monitoring performance of the Executive team against the strategic objectives;
- ensuring adequate financial and human resources to achieve the Group's objectives;
- overseeing and ensuring the Group's compliance with

statutory and regulatory requirements;

- overseeing major capital investment projects; and
- setting the risk appetite for the business and ensuring the adequacy and efficacy of the Group's systems of internal controls and risk management.

### DECISIONS AND MATTERS RESERVED FOR THE BOARD

The Board has adopted a formal schedule of Matters Reserved for the Board's consideration. This is monitored by the Company Secretary and reviewed by the Board on an annual basis.

The Board has delegated detailed consideration of certain responsibilities to Board Committees, while retaining overall responsibility for decision-making in these areas. There are regular meetings of the Audit, Nomination, Quality and Environment, Remuneration and Technology Committees. The Finance Committee meets or conducts business via email communications

or by telephone on an as required basis. A description of the work of these Committees is set out on pages 100-101. All Committees are chaired by an independent Non-Executive Director, except the Nomination Committee which is chaired by the Chair of the Board, and comprised of a majority of independent Non-Executive Directors. Appointments to the Committees are made on the recommendation of the Nomination Committee which reviews Committee membership annually, and are for a period of up to three years, which may be extended for two further three-year periods, provided the Director remains independent. The Committees are constituted with written Terms of Reference that are reviewed annually to ensure that they remain appropriate and reflect any changes in best practice and governance.

These Terms of Reference and Matters Reserved for the Board are available on request from the Company Secretary and can also be found on the Company's website at [dwrwymru.com/boardterms](http://dwrwymru.com/boardterms).

<p><b>CHAIR OF THE BOARD</b></p>	<p><b>SENIOR INDEPENDENT DIRECTOR</b></p>	<p><b>NON-EXECUTIVE DIRECTORS</b></p>
<ul style="list-style-type: none"> <li>• is responsible for the leadership of the Board.</li> <li>• sets the agenda for Board meetings.</li> <li>• ensures the effectiveness of the Board and its Committees and good governance.</li> </ul>	<ul style="list-style-type: none"> <li>• meets with other Non-Executive Directors and the Executive Directors on an annual basis to review the performance of the Chair.</li> <li>• acts as an informal sounding-board for all members of the Board.</li> </ul>	<ul style="list-style-type: none"> <li>• challenge the Executive Directors constructively and monitor the delivery of the Board's agreed strategy within the risk and control framework set by the Board.</li> <li>• are involved in mentoring and supporting members of the Executive team and senior managers across the business.</li> <li>• take an active interest in operational issues affecting the business (see page 108 for details of site visits undertaken by Non-Executive Directors during 2020-21).</li> </ul>
<p><b>CHIEF EXECUTIVE</b></p>	<p><b>EXECUTIVE TEAM</b></p>	<p><b>COMPANY SECRETARY</b></p>
<ul style="list-style-type: none"> <li>• beyond matters reserved to the Board, the Chief Executive has primary responsibility for leading the management of the Company, with support from the Executive team.</li> </ul>	<ul style="list-style-type: none"> <li>• has responsibility for implementing the strategy agreed by the Board and for the day-to-day management of the Business.</li> </ul>	<ul style="list-style-type: none"> <li>• supports the Chair of the Board in ensuring the Group demonstrates good governance.</li> <li>• preparing agendas for Board Meetings which are agreed in consultation with the Chair of the Board and Chief Executive, although any member of the Board may request that an item should be added to the agenda.</li> </ul>
<p><b>MEMBERS</b></p>		
<p>As a Group owned by a company limited by guarantee, we do not have shareholders, but our Membership is made up of individuals drawn from across our supply area (or who have a strong connection with it) who carry out a vital governance role. Membership is personal, unpaid and Members have no financial stake in the business. This independence allows Members to hold the Board to account for the stewardship of our assets and for providing an essential public service in a manner which will be sustainable for future generations.</p>		
<ul style="list-style-type: none"> <li>• the Company Secretarial team is available to support all Non-Executive Directors and the Executive team and works to promote good information flows between the Board, Executive team and internal committees and management teams within the Group.</li> </ul>		

# CORPORATE GOVERNANCE REPORT



## DIVISION OF RESPONSIBILITIES

### EXTERNAL APPOINTMENTS OF THE EXECUTIVE DIRECTORS

Peter Perry is Chair of Business in the Community Cymru and a Member of the Water UK Board. Mike Davis does not currently hold any external appointments.

### ATTENDANCE AT BOARD AND COMMITTEE MEETINGS 2020-21

Twelve scheduled board meetings (including three additional meetings which addressed our response to Covid-19, insurance renewals, and a discussion on carbon reduction targets) took place during the year (2019-20: 13). The table below shows the actual number of scheduled meetings attended and the maximum number of scheduled meetings which the Directors could have attended. Every effort is made by each Director to attend all meetings.

Director	Board	QEC	Audit	Remuneration	Nomination	Finance	Technology
Peter Perry	11/12	6/6	6/6	4/4	3/3	1/1	4/4
Mike Davis	9/12	-	5/6	4/4	-	1/1	-
Chris Jones <sup>1</sup>	2/2	1/1	0/0	1/1	0/0	0/0	0/0
Alastair Lyons	12/12	6/6	-	4/4	3/3	1/1	4/4
Menna Richards <sup>2</sup>	4/4	2/2	-	2/2	1/1	-	-
Graham Edwards	10/12	6/6	6/6	-	3/3	-	-
Debra Bowen-Rees <sup>3</sup>	12/12	6/6	4/4	2/2	-	-	-
Tom Crick	12/12	6/6	-	-	-	-	4/4
Jane Hanson <sup>4</sup>	3/3	2/2	2/2	-	-	-	-
Joanne Kenrick <sup>5</sup>	12/12	-	6/6	4/4	2/2	-	4/4
Anna Walker <sup>6</sup>	4/4	-	2/2	2/2	-	-	-
John Warren	12/12	-	6/6	4/4	-	1/1	4/4

1. Stepped down as CEO on 31 March and retired from the business on 15 May 2020

2. Retired as a Non-Executive Director on 3 July 2020

3. Joined the Remuneration Committee and Audit Committee from September 2020

4. Appointed as a Non-Executive Director on 1 January 2021

5. Joined the Nomination Committee from July 2020

6. Retired as a Non-Executive Director on 3 July 2020

### BOARD EFFECTIVENESS

The composition of the Board is reviewed annually by the Nomination Committee to confirm an appropriate diversity of background, skills expertise and experience, and as part of Director succession planning. The composition of the Board Committees was also reviewed and changes to current Membership proposed and approved. The Forward Schedule for future Board Meeting agendas is reviewed by the Board at each Board Meeting so that any members of the Board can suggest items for inclusion.

### DIRECTORS' INDUCTION

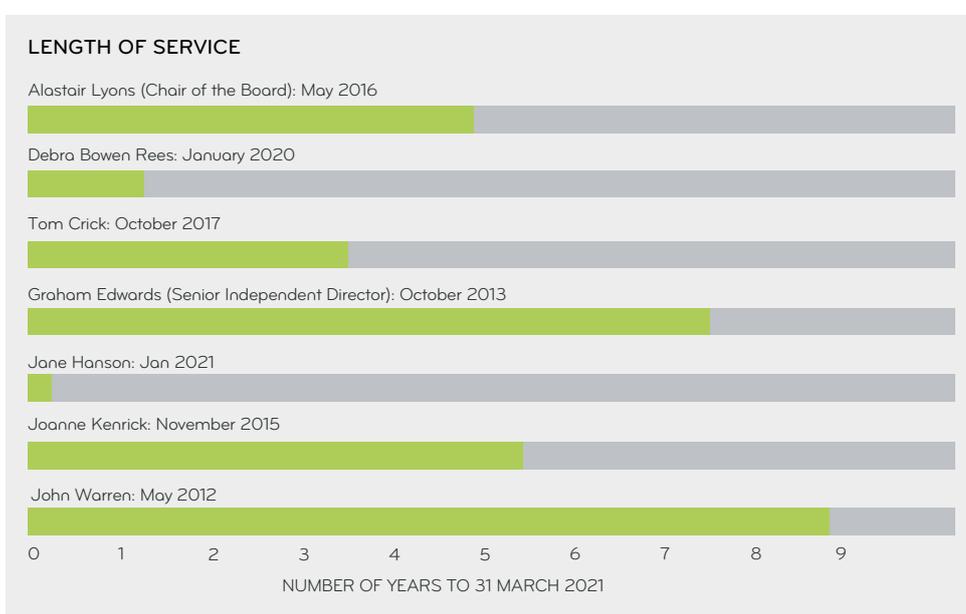
We follow a rigorous and transparent procedure for the appointment of new Directors to the Board. The induction process includes access to Board and Committee papers as appropriate, site visits and one-to-one meetings with other Non-Executive Directors, principal advisers to the Company, members of the Executive team and senior managers across the business. Where appropriate, new Non-Executive Directors also attend the Institute of Directors' course for new directors. Directors receive a tailored programme of induction on joining and ongoing educative and information programmes on topics relevant to the operation and governance of the business. During the year, an induction programme commenced for Jane Hanson who joined the Board on 1 January 2021.

## NON-EXECUTIVE DIRECTORS – TERM AND RE-ELECTION

Non-Executive Directors are appointed for a three-year term which can be renewed for up to two further periods of three years. In any event, no Non-Executive Director can serve more than 10 years under the terms of our Articles. In addition, each Director formally seeks re-election every year by Glas Members at the AGM and any Director appointed during the year will seek election at the next AGM following his/her appointment.

John Warren, a Non-Executive Director and Audit Chair, is due to retire this year having completed just over nine years as a Director. He will step down at the conclusion of the AGM on 2 July 2021 and, accordingly, will not be offering himself for re-election as a Director.

Glas Members will be asked to approve the election of Jane Hanson as a Director of the Company at the AGM, being the first AGM following her appointment with effect from 1 January 2021.



## INDEPENDENCE

We consider the independence of our Non-Executive Directors on an ongoing basis and formally on an annual basis. With the exception of the Chair of the Board, who was deemed to be independent at the time of his appointment, all of our Non-Executive Directors are deemed to be independent in accordance with the UK Corporate Governance Code and free from any relationship which would compromise their independent judgement.

Our constitutional documents do not specify a particular allocation of time required by Non-Executive Directors to be effective in their roles. However, the Nomination Committee reviews the extent to which Non-Executive Directors have the appropriate time to fulfil their role effectively and considers any new commitments that Non-Executive Directors propose to take on, alongside their existing roles.

# CORPORATE GOVERNANCE REPORT



## COMPOSITION, SUCCESSION AND EVALUATION

### HOW WE APPLY THE PRINCIPLES OF THE CODE

- Glas Cymru has a formal, rigorous and transparent procedure for the appointment of new Directors to the Board
- The Board and its Committees have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively. The Board regularly reviews this in discussions with the Company Secretary, Nominations Committee and as part of its annual effectiveness review
- 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
- All Directors stand for re-election by Members at each Annual General Meeting
- Each Non-Executive Director holds office for an initial period of three years which may be extended for a further two periods.

## BOARD EVALUATION

During 2020-21 we conducted an internal review, having had an external review carried out by Ian White in 2019-2020 in accordance with the Code requirement that companies should carry out an externally facilitated evaluation of the Board at least every three years.

### BOARD EVALUATION CYCLE

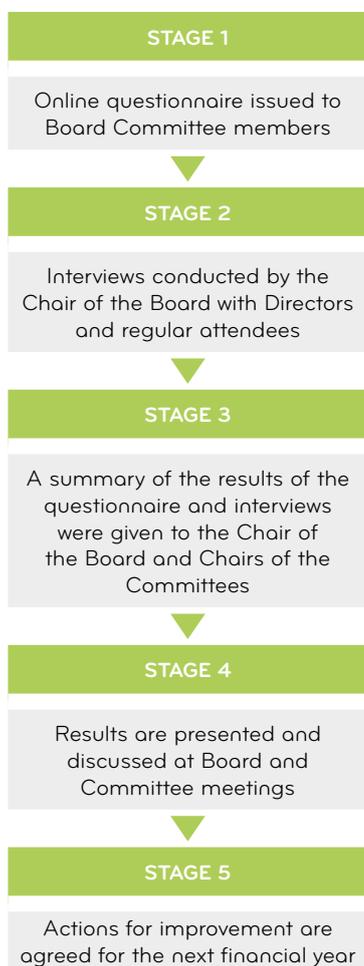


The evaluation process involved all Board members and other regular Board attendees, completing an online questionnaire. Matters considered included: dynamics, behaviour and culture; the Board's decision-making and strategic approach; the process for Board Succession; content and format of Board papers and matters covered by the main Board and each Committee, together with individual feedback to the Chair and Committee Chairs on their particular roles.

The Board Directors discussed their responses to the questionnaire in one-to-one meetings with the Chair of the Board. The Board then met in March 2021 in two small informal groups to discuss the results of the review and discussed the specific recommendations that had been proposed to enhance the Board's effectiveness, together with an assessment of progress since the previous reviews and any material matters identified in the individual questionnaire results.

The Board agreed that good progress had been made in implementing the recommendations identified in the external evaluation carried out in 2020, which included suggestions in relation to:

- Additional opportunities for Board engagement with the workforce.
- Improvements to the content and format of papers and presentations.
- Reminding attendees who are not Directors that they can have an equal voice at Board meetings.



**DEVELOPMENT: UNDERSTANDING THE OPERATIONAL BUSINESS**

As part of the ongoing development of our Directors, the Company Secretary ensures that developments in legislation, corporate governance and reporting are brought to the attention of the Board and its Committees as appropriate. Regular attendance from our auditors, KPMG, at meetings of the Audit Committee means that Directors are kept up to date on current developments in governance.

Details of the operational site visits made by our Non-Executive Directors are set out on page 108. The Board also received "teach-ins" on relevant issues during the year, including on the impact of climate change and in relation to innovation opportunities.

**KEY RECOMMENDATIONS IN THE 2020-21 BOARD EVALUATION**

Recommendation	Agreed Actions 2021–22
The Board succession planning and number of Non-Executive Directors should be kept under review in the context of non-executive rotation and planned Board activity	To be reviewed at Nomination Committee meetings in May and November 2021
Diversity in its widest sense should continue to be actively promoted	Nomination Committee to seek to appoint a Director of BAME ethnicity by December 2025
The Board should seek to coordinate its strategy and measurement and reporting in relation to Environment, Social and Governance issues	The Board agreed to establish a new Environment, Social and Governance Committee to oversee and coordinate the delivery of public value, to be chaired by Debra Bowen Rees
The Board should ensure that consideration of the interests of stakeholders is fully reflected	Ensure that minutes explicitly demonstrate the consideration of stakeholder interests in reaching decisions
How most effectively to engage with Glas Cymru Members post pandemic should be reviewed	A plan will be developed to ensure regular and active communication with Members
The Board should identify ways to continue the direct engagement with customers that was developed during the preparation for PR19	Develop a plan for the Board to hear from representative groups of customers and third sector organisations representing customers
Continue the process of informal engagement with employees developed during the past year and return to physical meetings and site visits once Covid-19 restrictions allow	Quarterly meetings of at least two Non-Executive Directors with Employee Engagement Champions and other colleagues drawn from across the business. Continue regular meetings with a cross-section of managers
Consider how to make Board and Committee most productive	Matters Reserved for the Board and Committee Terms of Reference to be reviewed with the strategic focus of the Board in mind
Develop further the Company's risk management framework with particular regard to the definition of risk appetite and stress testing scenarios	The Board will consider risk management together with emerging and "Black Swan" risks at meetings in May and November 2021

Overall the review concluded that the Board continues to operate effectively. The dynamics of the Board are of a collegiate Board with a good balance of experience, who work well together and are keen to promote the success of the Company. The Board operates as an open and transparent forum for discussion and debate. Everyone has an opportunity to be heard and is encouraged to participate, which contributes to a positive and supportive culture. In addition, the Board has a good understanding of the matters on which it should focus and is in touch with its major stakeholders.

The Chair of the Board (Chair), taking into account the views of the other Directors, reviews the performance of the Chief Executive Officer. The performance of the Chair was reviewed by the Board led by the Senior Independent Director (SID) in March 2021. Following the latest review, the SID considered and discussed with the Chair the comments and feedback that had been received from the Directors as part of the Chair's evaluation questionnaire and was able to confirm that the performance of the Chair continues to be very effective and that he demonstrates appropriate commitment to his role and duties, providing excellent support to the Executive Directors and being available to Non-Executive Directors.

# CORPORATE GOVERNANCE REPORT



## COMPOSITION, SUCCESSION AND EVALUATION

### NOMINATION COMMITTEE REPORT



#### ALASTAIR LYONS

CHAIR OF THE NOMINATION COMMITTEE

#### OTHER MEMBERS

- Graham Edwards
- Peter Perry
- Menna Richards (until July 2020)
- Joanne Kenrick (from August 2020)

Meetings held: 3

> SEE PAGE 112 FOR BOARD AND COMMITTEE MEETING ATTENDANCE

#### NOMINATION COMMITTEE FOCUS AREAS IN 2021-22

During 2021-22 the Committee will meet on at least two scheduled occasions (May and November).

Specific areas of focus will include:

- Board and Committee composition and succession planning;
- Continued focus on diversity and ensuring appropriate skills representation at the Board.

Others, such as the People and Workforce Director and external recruitment advisers, may be invited to attend for all or part of any meeting, at the invitation of the Chair. In the absence of the Chair, or when the Committee is dealing with the matter of succession to the role of Chair of the Board, the Senior Independent Director will chair the meeting. The Company Secretary acts as Secretary of the Committee.

### PRINCIPAL RESPONSIBILITIES

The responsibilities of the Committee are to:

- ensure the composition of the Board and its committees is regularly reviewed in the context of director rotation, the Company's strategy and activities, its diversity objectives, and the Board's terms of reference;
- establish plans for orderly succession to positions on the Board and its Committees;
- ensure that there is a formal, rigorous and transparent procedure for appointments to the Board;
- lead the process for such appointments and make recommendations to the Board; and
- maintain oversight over the succession plans developed by the Chief Executive for the Executive Team.

Additionally, to work and liaise with other Board Committees, as appropriate, including the Remuneration Committee in respect of a remuneration package to be offered to any new appointee to the Board.

The Committee meets the Corporate Governance Code requirement for a majority of members of the Committee to be independent Non-Executive Directors.



Priorities	Activity of Committee	Outcome of Committee Activity
<b>Governance</b>	<p>The Committee reviewed the agreed outcomes of the 2019-20 Board Effectiveness review, as pertinent to the Committee.</p> <p>The Committee conducted its annual review of:</p> <ol style="list-style-type: none"> <li>1. the Committee's Terms of Reference;</li> <li>2. Board Committee Memberships; and</li> <li>3. the appropriateness of the directorships of all Group Companies.</li> </ol>	<p>The Committee implemented the process for recruiting a new Chair of the Audit Committee ahead of the planned retirement of John Warren at the AGM in July 2021, having served nine years on the Board.</p> <p>The Committee determined that no amendments were required to its Terms of Reference.</p> <p>The Committee made a recommendation to the Board to approve the appointment of the Group Treasurer as Alternate Director to the Chief Financial Officer on those subsidiary companies with a minimum of two Directors (subsequently approved by the Board).</p>
<b>Board Composition and Balance</b>	<p>The Committee considered the current make-up of the Board, and gaps in skills, background and experience alongside the succession plan for the Chair and Non-Executive Directors (see below).</p> <p>The Committee reviewed the ongoing independence (excluding the Chair of the Board for this purpose) and attendance record of all Non-Executive Directors.</p> <p>Following the Parker Review updated report published in February 2020, the Committee considered the appropriateness of a target for the appointment of a BAME candidate to the Board.</p> <p>The Committee reviewed the Board Diversity Policy at the same time as giving consideration to the Parker Review report.</p>	<p>The Committee determined that the Board had the right balance of skills, background and experience to support the Company's long-term strategy. See pages 102 to 104 for the diverse range of skills of our Non-Executive Directors.</p> <p>The Committee determined that all of the Non-Executive Directors remained independent and devoted enough time to fulfil their duties, continued to demonstrate commitment to the role, and contributed to the long term sustainable success of the Company.</p> <p>The Committee determined to recommend to the Board a target of one Board member from a BAME background to be appointed by December 2025.</p> <p>The Committee approved the amendment to the Board Diversity Policy to include the ethnicity target.</p>
<b>Succession Planning</b>	<p>The Committee reviewed succession plans for the Chair of the Board and Non-Executive Directors, considering the order of retirement of existing Board Members including the appointment of a successor to John Warren.</p> <p>The Committee reviewed the membership of Board Committees following the retirement of Menna Richards (Senior Independent Director) and Anna Walker from the Board with effect from the AGM in July 2020.</p>	<p>The Committee recommended the appointment of Graham Edwards as Senior Independent Director with effect from July 2020 to succeed Menna Richards and the appointment of a Jane Hanson as a Non-Executive Director and Chair Designate of the Audit Committee with effect from January 2021.</p> <p>Joanne Kenrick joined the Nomination Committee and took up the role of Remuneration Committee Chair in July 2020. Debra Bowen Rees joined the Audit Committee and Remuneration Committee in September 2020.</p>
<b>Committee Effectiveness</b>	<p>The Committee conducted an annual review of its effectiveness against its own Terms of Reference.</p>	<p>The Committee considered that it continued to operate effectively and within its Terms of Reference.</p>

# CORPORATE GOVERNANCE REPORT



## COMPOSITION, SUCCESSION AND EVALUATION

### NOMINATION COMMITTEE REPORT

#### BOARD APPOINTMENT PROCESS

The Committee leads the process for making appointments to the Board. The Committee is satisfied that the process illustrated below constitutes a formal, rigorous and transparent process for the appointment of new Directors to the Glas Board which supports the Committee's role in undertaking a full evaluation of the skills, knowledge and experience required on the Board as well as an orderly succession to positions on the Board having regard to meeting our diversity and inclusion objectives.

During the year this appointment process was followed in respect of the recruitment of Jane Hanson for which the Committee engaged with Odgers Berndtson's Cardiff and London offices. This firm has no other connection with the Company.

#### STAGE 1

The Committee develops a specification which identifies the required skills and experience for the role. In most instances external recruitment consultants are engaged to lead the recruitment process and identify suitable candidates

#### STAGE 2

Creation of a diverse long list of potential candidates by the consultants from which the committee selects a short list for interview

#### STAGE 3

Interviews with the shortlisted candidates (selected by the Committee from an initial long list of candidates) are held with the Chair of the Board and the members of the Committee

#### STAGE 4

After consideration by the Committee, a recommendation is made to the Board to appoint the preferred candidate

#### HOW THIS SUPPORTS A DIVERSE PIPELINE

In accordance with the Board's diversity policy, in identifying suitable candidates for appointment to the Board, the Committee will consider candidates on merit against objective criteria and with due regard to the benefits of diversity on the Board. We only work with recruitment consultants who commit to putting forward a truly diverse long list of candidates for review by the Nomination Committee

#### SUCCESSION PLANNING

The Committee reviews and assesses Board composition on behalf of the Board and recommends the appointment of new Directors. It maintains oversight over the succession plans developed by the Chief Executive for the Executive team.

As part of the annual effectiveness review of the Board and Board Committees, the Board will consider the balance of skills, experience, independence and diversity representation as reviewed by the Committee.

The aim of the Board is to maintain or improve the current level of diversity with regard to skills, experience, background, race, gender and personal attributes.

The Committee reports on its progress in maintaining or improving the diversity of the Board and on our gender diversity ratios in its annual report within the Corporate Governance section of the Annual Report and Accounts. It also reports on its oversight of plans to promote diversity within our workforce to ensure that the individuals working for us are truly representative of the communities that we serve. The approach to diversity in senior management roles is governed in greater detail, through the Glas Cymru Group's policies which support equality and diversity.

In the opinion of the Committee, the Board currently benefits from an appropriately diverse range of skills and experience in our Non-Executive Directors. In addition to chairing or being a member of a Committee of the Board, each Non-Executive Director commits additional time to the Company, providing support in areas relevant to their particular interests and specialist knowledge. The Directors' Biographies set out on pages 102 to 104 include details of their background, skills and experience, which for the Board taken as a whole, are diverse and wide-ranging.

Following the External Board evaluation, the Committee and Board are satisfied that the Board has the right balance of skills, experience, independence and knowledge of the Company and that the individual Board members spend an appropriate amount of time in the fulfilment of their duties, continue to demonstrate commitment to the role, and contribute to the Company's long-term sustainable success.

## DIVERSITY

At the financial year end, 33% of our Board and 31% of our Executive team are women, while in the wider workforce, of those senior managers reporting directly to a member of the Executive team, 39% (2020: 36%) are women.

We continue to support the recommendations proposed by the Hampton-Alexander Review which encouraged companies to increase the percentage of women on boards and leadership teams (comprising the executive committee and direct reports to members of the executive committee) to 33% by the end of

2020. We are encouraged that we have been able to meet this target and will continue our focus on maintaining this. We also support the recommendations proposed by the Parker Review which encourages companies to increase the ethnicity on boards and, during the year, the Committee set a target to appoint one Board member from a BAME background by 2025.

We are not complacent in the areas where we know we can improve our diversity and inclusion. The Company is committed to providing equal opportunities, eliminating discrimination, and encouraging diversity amongst

its workforce. Our Board Diversity statement is published on our website at [dwrcymru.com/boarddiversitystatement](http://dwrcymru.com/boarddiversitystatement) and the Our Responsibilities section (page 88) details our plan to continue to improve the diversity of our Board and our workforce to ensure that the individuals working for us are truly representative of the communities that we serve.



**Alastair Lyons**  
Chair of the Nomination  
Committee

3 June 2021



# CORPORATE GOVERNANCE REPORT



## AUDIT, RISK AND INTERNAL CONTROL

### AUDIT COMMITTEE REPORT



#### JOHN WARREN

CHAIR OF THE AUDIT COMMITTEE

#### OTHER MEMBERS

- Debra Bowen Rees (from September 2020)
- Graham Edwards
- Joanne Kenrick
- Jane Hanson (from January 2021)
- Anna Walker (until July 2020)

\*John Warren retires at the AGM and will be succeeded by Jane Hanson

Meetings held: 6

> SEE PAGE 112 FOR BOARD AND COMMITTEE MEETING ATTENDANCE

#### HOW WE APPLY THE PRINCIPLES OF THE CODE

The Board, in conjunction with the work of the Audit Committee, whose report is below:

- 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;
- ensures that the Annual Report and Accounts present a fair, balanced and understandable assessment of the Company's position and prospects;
- determines the appropriate risk appetite in achieving our strategic objectives, while ensuring sound systems of internal control and risk management; and
- maintains oversight of the framework of internal control and risk management and ensures that the Company has the necessary financial resources and human resources to function effectively.

The Audit Committee is chaired by John Warren, formerly Finance Director for WHSmith plc and United Biscuits (Holdings) plc and currently also Chair of the Audit Committee at Bloomsbury Publishing Plc. He is considered by the Board to have recent and relevant financial experience. All Members of the Committee are independent Non-Executive Directors and the Board is satisfied that the Committee as a whole has sufficient sectoral experience and experience of financial matters.

Other regular attendees at meetings of the Audit Committee include the Chief Executive Officer, the Chief Financial Officer, the Director of Finance, the Head of Business Assurance (Internal Audit), the Company Secretary and representatives from the Group's External Auditors, KPMG LLP.

The Deputy Company Secretary acts as Secretary to the Committee.

#### PRINCIPAL RESPONSIBILITIES

The Board has delegated responsibility to the Committee to oversee:

- the integrity of the Group's financial statements including ensuring that we provide clear, complete, fair, balanced and understandable financial reports to all our stakeholders;
- the appropriateness and effectiveness of our internal control systems, including those concerning Public Interest disclosures (whistleblowing); and
- the effectiveness, performance, objectivity and independence of the internal and external Auditors.

Priorities	Activity of Committee	Outcome of Committee Activity
<b>Governance</b>	<p>The Committee received and reviewed the Company's key regulatory submissions and assurance processes relating to:</p> <ul style="list-style-type: none"> <li>the Annual Performance Report (APR), and draft Assurance Reports from Jacobs and KPMG. At the same time the Committee received the Company's annual Risk and Compliance Statement (and associated Ring-Fencing Certificate), and draft Assurance Report from Jacobs, together with the Internal Controls paper from the Executive; team and</li> <li>the publication of our Charging Schemes for 2021-22.</li> </ul> <p>The Committee considered and approved certain policies and procedures. These included Whistleblowing and related policies in relation to conduct, Treasury and Taxation policies, Supplier Payment Terms and the Internal Audit Charter.</p> <p>The Committee received an update from the Company Secretary on the Company's compliance with the 2018 UK Corporate Governance Code (the "Code") and Ofwat's Board Leadership, Transparency and Governance Principles. It also reviewed a draft of the proposed structure for the 2020-21 Annual Report and Accounts.</p> <p>The Committee reviewed its Terms of Reference and effectiveness as part of the detailed external Board evaluation conducted during the year.</p> <p>The Committee received regular updates on key compliance areas including our vehicle operator licence, data protection, information and security, business continuity planning, taxation and insurance arrangements.</p> <p>The Committee considered Audit Re-tender Plans and Audit Partner Rotation.</p>	<p>The Committee provided feedback to the Board on the assurance processes followed for the 2019-20 APR, together with the updates from Jacobs and KPMG, in advance of the Board's formal approval of the APR prior to publication in July 2020.</p> <p>The Committee applied a similar process in reviewing the assurance process that underpinned the Board's approval of the Company's Charging Schemes for 2021-22 in December 2020.</p> <p>The Committee gave its recommendation to the Board to approve these policies as set out in the Board's terms of reference.</p> <p>The Committee noted the progress in compliance with Provision 41 – in relation to employee engagement on the subject of alignment of Executive remuneration with performance, which the Company had previously noted in the Annual Report and Accounts 2020, it had not complied with during 2019-20. It also confirmed that the Company was complying with Ofwat's Principles.</p> <p>The Committee agreed some amendments to its Terms of Reference for approval by the Board. The Committee's review of its performance concluded that the Committee was working well and continued to perform effectively.</p> <p>An example of such an update was an introduction from the newly-appointed Chief Technology Officer following his initial review of the Company's information and operational technology systems and resilience against a cyber attack. For more details in this area, refer to Report of the Technology Committee on page 128.</p> <p>See separate update overleaf.</p>
<b>Going Concern and Viability Statement</b>	<p>The Committee reviewed updates from External Auditors in relation to increased going concern considerations as a consequence of Covid-19 alongside the Committee's review of the Company's long term viability assessment for inclusion in the Annual Report and Accounts.</p>	<p>The Committee provided its report to the Board in relation to its review of the Company's going concern statement and long term viability assessment in the Annual Report and Accounts and recommended these as appropriate.</p>

# CORPORATE GOVERNANCE REPORT



## AUDIT, RISK AND INTERNAL CONTROL

Priorities	Activity of Committee	Outcome of Committee Activity
<b>Financial Performance</b>	<p>The Committee reviewed financial performance in detail at the half year and year end (financial statements) and received regular reports from the Group's external auditors, KPMG LLP and the Company's Group Financial Controller in relation to accounting treatments.</p> <p>The Committee reviewed the Company's draft Bond issuance Prospectus in March 2021 and quarterly Investor Reports during the year. The Committee also reviewed and approved delegated authority to implement plans in relation to LIBOR reform which comes into effect from January 2022.</p>	<p>The Committee recommended that the financial statements be approved by the Board. It also confirmed, in respect of the 2019-20 Annual Report and Accounts, that it was fair, balanced and understandable.</p> <p>The Committee gave recommendations to the Board to approve the updated Prospectus and the quarterly (from 1 April 2021: six monthly) Investor Reports, subject to the Committee and Board's final comments.</p>
<b>Internal Control and Risk Management Systems</b>	<p>The Committee maintained oversight of the operation of the Company's systems of internal controls and assurance.</p> <p>The Committee received reports from the Head of Business Assurance on the outcomes of internal audit investigations and whistleblower investigations.</p> <p>The Committee received and reviewed Risk Reports made available to the Committee and Board and in particular those financial, data, and information systems risks pertinent to the remit of the Committee.</p>	<p>In addition to reviewing the findings of internal audits conducted during the year, the Committee received a detailed assurance report from the Executive on the internal controls and risk management process in place and any recommended changes thereto.</p> <p>The Committee critically reviewed the responses from management on internal audit investigations and closely monitored the status of overdue management actions. Where appropriate, management attended Audit Committee Meetings to present their response to an internal audit and, if deemed necessary, subsequent updates were agreed. An example of this is the six-month update of the fraud controls under our Capital Delivery Programme due to the nature and size of the Programme.</p> <p>Whistleblowing incidents were reviewed during private meetings held immediately after each Committee meeting.</p> <p>The Committee critically reviewed the strategic risks related to Information Security, Cyber and IT System Loss, Finance (funding), and the Impact of a Severe Recession (Covid-19 and Brexit).</p>

## AUDIT COMMITTEE FOCUS AREAS IN 2021-22

John Warren will retire as a Non-Executive Director and as Audit Committee Chair at the AGM in July 2021, having served nine years on the Board. John will hand over the responsibility of Audit Committee Chair to Jane Hanson. Jane has a strong background in financial, corporate governance, audit and risk management and has recent and relevant financial experience. Her biographical details are set out on page 104.

A key area of focus for the Committee during 2021-22 will be to commence the planned Audit re-tender process in the final quarter of the financial year, by which time the new Chair of the Committee will have had the opportunity to work with our existing External Auditors for a sustainable period and to agree the scope and the Committee's requirements of our External Auditors before leading the re-tender process. Further details on the Audit re-tender are set out below.

At the Committee's meeting on 20 May 2021, a summary of the UK Government's White Paper on Restoring Trust in Audit and Corporate Governance, published on 18 March 2021, which proposed reforms to audit, auditors, internal controls and corporate reporting, was considered. While we are not a Company with shares publicly listed on a stock exchange, we do have a Public Interest Entity (PIE) in our Group and, therefore, will be complying with the new requirements as will be overseen by the Audit, Reporting and Governance Authority (ARGA). Developments in our corporate governance frameworks following this White Paper will be another key focus area for the Audit Committee and will be monitored during 2021-22.

The Committee also plans to review Strategic Risk Reporting at the Board level and the processes for considering key risks at all levels of the business, taking into account lessons learned from the pandemic responses, other operational activity and improvements in business continuity planning during 2021-22.

## FINANCIAL REPORT AND SIGNIFICANT ESTIMATES AND JUDGEMENTS

During 2020-21 the Committee considered the following specific issues in relation to financial reporting of the interim and year-end results:

Key judgements and estimates	Audit Committee Review	Conclusions
Provision for impairment of receivables	The approach to setting the bad debt charge was reviewed in detail.	Having assessed the impact of Covid-19, the Committee concluded that the current bad debt provision was appropriate.
Classification of costs	Classification between operating expenditure and capital expenditure was reviewed.	Classification of costs between operating expenditure and capital expenditure was reviewed and considered to be appropriate.
Accuracy of the defined benefit pension liabilities assumptions	The assumptions in relation to the discount and inflation rates that applied to the pension valuation.	The Committee's review of the assumptions in relation to the discount and inflation rates that applied to the pension valuation, concluded that overall these were within the range of acceptable assumptions.

> THE ABOVE MATTERS ARE DISCUSSED IN MORE DETAIL IN THE AUDITOR'S REPORT ON PAGE 154



in July 2016 and a resolution passed to that effect. At the time of appointment, the term of the contract with KPMG was for a period of up to five years which was due to come to an end in Autumn 2020. The timing also coincided with the rotation of our existing External Audit Partner, James Ledward. While the Committee had agreed a plan to tender for external audit services during the 2020-21 financial year, it considered the guidance issued by the Financial Reporting Council (FRC) on 26 March 2020 in relation to the Covid-19 situation, and decided to defer this plan until 2021-22. With KPMG's agreement, KPMG's contract has been extended for a further year. James Ledward and KPMG have agreed that James will continue as our External Audit Partner and not rotate at the end of the 2020-21 financial year as generally required after a period of five years. This decision was also in line with the FRC guidance relating to Covid-19.

In the light of the ongoing pandemic and the change in Audit Chair effective from the AGM in July 2021, the Committee reviewed a proposal to extend the audit re-tender for a further year until the end of 31 March 2022 statutory audit and for James Ledward to continue as Audit Partner for the same period. This proposal was agreed by the Committee in February 2021, and it was also resolved to discuss the implementation of the process to tender at the November 2021 meeting of the Committee.

## NON-AUDIT SERVICES AND FEES

The Group's policy is that the External Auditors will not generally be used for non-audit services, and that all non-audit matters are subject to the Group's Procurement Policy. All non-audit fees paid to External Auditors must be approved by the Committee in advance (or in the event this is not possible, approved by the Committee Chair and Chief Executive Officer then reported

to the Committee at the next meeting); and, to comply with the FRC's revisions to the Code, a cap on fees for non-audit work across the Group has been agreed. In any one financial year a 70% cap of the three-year average statutory external audit fee for the whole group was applicable from the financial year starting 1 April 2020. During the period 2020-21, audit fees for the Group's financial statements totalled £302,000 (2020: £295,000), fees for other audit-related assurance services were £82,000 (2020: £91,000) and fees for other non-audit related services amounted to £38,000 (2020: £139,000). As a result, non-audit fees accounted for 15.9% of the average of the last three years' audit fees, which is well within the limit. For further details on the non-audit services provided by KPMG, see note 3 to the Financial Statements on page 180.

## INTERNAL AUDIT

The Head of Business Assurance (internal audit) presented his proposed internal audit plan for financial year 2021-22 at the February 2021 meeting of the Committee and has reported regularly on progress against the 2020-21 plan and, in detail, on any audit reports with a less than "satisfactory" outcome. Management responses to unsatisfactory and limited-satisfaction audits are discussed by the Committee and subsequently kept under review to ensure progress is made to remedy control weaknesses. Where there are unsatisfactory audit outcomes, the business area is reviewed again by Business Assurance once the remedial action has been completed.

The effectiveness of the internal audit function is monitored regularly using a variety of inputs including the Committee's review of the audit reports produced, the Committee's interaction with the Head of Business Assurance, and updates at each meeting on progress against the internal audit

plan, which includes the quality audits undertaken and reported on at meetings of the Quality and Environment Committee.

## WHISTLEBLOWING

The Head of Business Assurance also presents a Whistleblowing Report to the Committee in a private meeting (attended by members of the Committee, the CEO, the CFO and representatives from internal audit and the Company Secretary only) at the end of every meeting, which includes details of any new public interest disclosures made or referred to the Internal Audit function, and the outcomes, and "lessons learned" from the investigation of such allegations.

## INTERNAL CONTROL AND RISK MANAGEMENT

The Committee received regular reports on systems of internal control and risk management (as detailed in the table above) and on the progress of programmes to improve compliance and internal controls across the business.



**John Warren**  
Chair of the Audit Committee

3 June 2021

# CORPORATE GOVERNANCE REPORT



## AUDIT, RISK AND INTERNAL CONTROL

### QUALITY AND ENVIRONMENT COMMITTEE



#### Graham Edwards

CHAIR OF THE QUALITY AND ENVIRONMENT COMMITTEE

#### OTHER MEMBERS

- Debra Bowen Rees
- Tom Crick
- Jane Hanson (from January 2021)
- Menna Richards (until July 2020)
- Alastair Lyons
- Peter Perry

#### INDEPENDENT CONSULTANTS

- Steve Brown (Expertise in the Environment and Wastewater performance)
- Julian Dennis (Expertise in Water and Public Health)

Meetings held: 6

#### > SEE PAGE 112 FOR BOARD AND COMMITTEE MEETING ATTENDANCE

By invitation of the Committee Chair, others such as the Managing Directors of Water and Wastewater, Director of Water, Head of Quality Policy and Compliance, the Director of Environment, the Health and Safety Director, and the Chief Financial Officer and the Legal and Compliance Director, may be invited to attend for all or part of any meeting. The Assistant Company Secretary acts as Secretary to the Committee.

### PRINCIPAL RESPONSIBILITIES

On behalf of the Board the Committee monitors the operational performance of the Company on a quarterly basis and provides oversight of the management and mitigation of risks to the business arising from operational, environmental and health and safety-related issues.

The Committee also:

- reviews Dŵr Cymru's water and wastewater operational performance and assesses the appropriateness of improvement strategies;
- assesses annual reports, including but not limited to, the Annual Dam Safety Report and the Annual Health and Safety Report, and recommends these to the Board for approval;
- reviews and influences the health and safety management plan and monitors its delivery;
- ensures that Welsh Water fulfils its public health responsibilities and that the provision of safe, clean drinking water and wastewater sanitation is in line with all relevant standards;
- ensures the Company has adequate emergency and security arrangements in place in line with relevant statutory guidance such as Critical National Infrastructure (CNI), Protective Security Strategy and Security and Emergency Measures Directive (SEMD) requirements;
- reviews and agrees the Company's operational systems and quality assurance audit programme and receives the findings of audit reports relating to water and wastewater service provision;
- reviews the findings of investigations into any water quality, environmental, safety or customer service failure. Serious Incident Reviews are led by the Chief Executive Officer of Welsh Water, who meets with the relevant Managing Director of Water/Wastewater or the Director of Capital Delivery, as appropriate, to conduct the review and then provides detailed reports on the identified root cause(s), any wider implications of the incident and the action plans to address any ongoing issues; and
- constructively challenges the Executive team to ensure continuous improvement in operational performance.

### ACTIVITIES DURING THE YEAR

During 2020-21 the Committee's activities have included reviewing:

- quarterly and Annual Health and Safety reports;
- performance reports for Water and Wastewater Services, with reports submitted on quality standard failures, and compliance with internal processes, together with improvement plans for these areas;
- relevant strategic risk reports and mitigation plans;
- strategies for key areas of business focus such as the Lead Pipe Replacement programme, Pollution Prevention Strategy, Customer Acceptability of Water Strategy (to reduce odour and discolouration issues), and Cryptosporidium Prevention Strategy;
- the Annual Dam Safety Report and review of Portfolio Risk Assessment outcomes for reservoir dams and ongoing maintenance work being undertaken by the Capital Projects team;

- updates on the work of the Company's Independent Environmental Advisory Panel; and
- its terms of reference and effectiveness as part of the internal board evaluation conducted during the year. That review concluded that the Committee was working well and continued to perform effectively.

Priorities	Activity of Committee	Outcome of Committee Activity
<b>Closely monitoring Health and Safety, especially with the impact of the pandemic and changes to our work practices.</b>	<p>Annual and quarterly Health and Safety Reports presented by the Director of Health and Safety.</p> <p>Review any serious Health and Safety incidents, near miss or potential risks. The following near misses were reviewed during the year:</p> <ul style="list-style-type: none"> <li>• Trunk main burst while adding new section of main, causing flooding which could have resulted in loss of supply.</li> <li>• Transformer fire at a treatment works.</li> </ul>	<p>Reviewed and constructively challenged the reports, including actions taken to ensure continued safety of the workforce during the pandemic restrictions.</p> <p>A range of improvement actions have been identified that can be applied to other schemes.</p> <p>Review of other sites found these transformers were not present elsewhere. Actions put in place at the one site.</p>
<b>Hearing directly from our key regulators on their priority areas for the Company.</b>	Received presentations on our performance from the Chief Inspector of the DWI and Directors from NRW.	These are positive opportunities to engage with key regulators. We received feedback on our performance and areas for improvement.
<b>Reviewing in detail the Company's response to severe weather events.</b>	The Committee reviewed root causes of the flooding to customer properties which occurred during a storm event in Newport in December 2020, and considered the appropriateness of the short-term mitigation plan.	Mitigation plans were agreed by the Committee.
<b>Monitoring operational performance against key performance indicators for drinking water and environmental standards.</b>	<p>At every meeting the Committee receives management reports from the:</p> <ul style="list-style-type: none"> <li>• Managing Director of Water Services, Asset Planning and Capital Delivery;</li> <li>• Managing Director of Wastewater Services, Business Customers and Energy;</li> <li>• Director of Water Services; and</li> <li>• Regulatory correspondence updates from the Head of Quality Policy &amp; Compliance.</li> </ul>	Reviewed and constructively challenged the reports. Agreed KPI reporting dashboards for areas of improvement identified by the Committee.
<b>Continued oversight of the "pipes in dams" capital projects at a number of our reservoir locations.</b>	Annual report for Dam Safety, including a review of the "pipes in dams" project.	The 'pipes in dams' project is progressing well. The Committee recommended the annual report for Dam Safety to the Board for approval, which was subsequently approved.



**Graham Edwards**  
Chair of the Quality and Environment Committee

3 June 2021

# CORPORATE GOVERNANCE REPORT



## AUDIT, RISK AND INTERNAL CONTROL

### TECHNOLOGY COMMITTEE



#### TOM CRICK

CHAIR OF THE TECHNOLOGY COMMITTEE

#### OTHER MEMBERS

- Joanne Kenrick
- Alastair Lyons
- Rob Norris, Chief Technology Officer (CTO)
- Peter Perry
- John Warren

The Managing Director of Water, Asset Planning and Capital Delivery attends all meetings of the Committee. The Deputy Company Secretary acts as Secretary to the Committee.

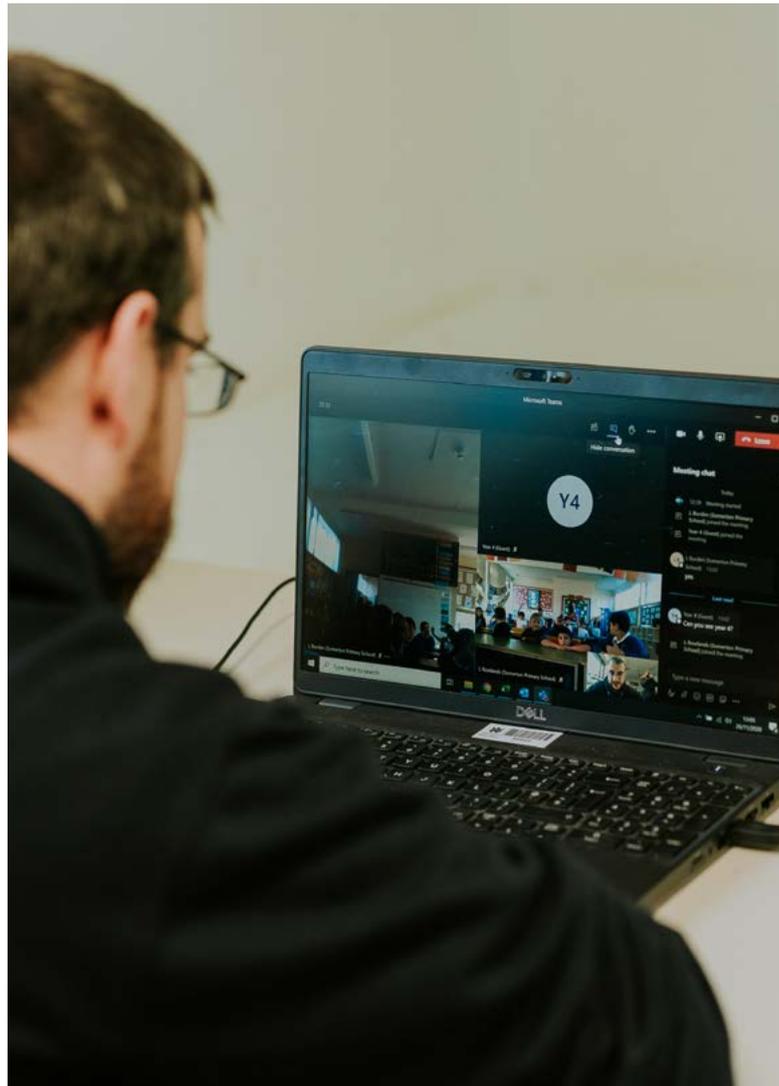
Other attendees: The other Managing Directors of the business, the Head of Data, the Head of Information Security or other senior managers and advisors to the Committee may attend all or part of any meeting by invitation of the Committee Chair.

Meetings held: 4

> SEE PAGE 112 FOR BOARD AND COMMITTEE MEETING ATTENDANCE

### PRINCIPAL RESPONSIBILITIES

To ensure that the Group's information technology (IT), operational technology (OT) and information security provision is subject to appropriate scrutiny and oversight. This supports the achievement of the Group's medium-term business objectives in the most efficient manner and in accordance with the Group's identified risk appetite. This includes reviewing and tracking progress of the Group's obligations under the Network and Infrastructure Systems (NIS) Regulations 2018. In this context, technology refers to software, systems, infrastructure, processes and methodologies used to provide effective and innovative digital and data-driven solutions across the Group, whilst security refers to the security infrastructure process and procedures used to provide protection to Glas Cymru's IT and OT assets.



Priorities	Activity of Committee	Outcome of Committee Activity
<b>IT Strategy</b>	<p>The Committee received the findings of the new CTO's review of the Group's technology strategy and 2020-21 business plan.</p> <p>Strategic updates which focused on:</p> <ul style="list-style-type: none"> <li>the AMP7 Plan and the alignment to the technology strategy and IT investment plan</li> <li>proposed new delivery model, including the roles of our key partners and in-house team</li> <li>the Company's journey to the Cloud.</li> </ul>	<p>The Committee considered the CTO's initial review of current strategy, the technology landscape, and team/partner capability, set against the AMP7 delivery plan, and subsequent recommendations, as supported by the Executive team, to ensure that technology enables key business objectives for the AMP7 investment period and beyond.</p>
<b>Information and Cyber Security</b>	<p>Further to the CTO's initial review of information security risks, the Committee received:</p> <ul style="list-style-type: none"> <li>the outputs of the review, together with remediation plans, recommended revised Security Target Operating Model and revised funding to support our information security programme</li> <li>updates on key information security risks, including a KPI dashboard and risk appetite proposal for discussion at Board.</li> </ul>	<p>The Committee reviewed and approved the recommendations to progress the AMP7 Information Security plan, including:</p> <p>Security Target Operating Model – together with additional resources needed, to deliver a more secure service.</p> <p>Security Governance – by establishing a new group to review all security projects at a working level. Any issues or concerns from this review will then be brought to the existing Information Security Steering Group's (ISSG) attention, with ISSG being chaired by the Chief Information Security Officer (CISO) who would be responsible for all information security across Welsh Water. Revised ISSG terms of reference and information security risk management process which had been approved by the Executive team.</p>
<b>Operational Technology (OT)</b>	<p>The Committee received a review of OT security measures and, subsequently, in light of the information concerning security issues affecting third parties and the wider sector. It received a progress update on our compliance with the Drinking Water Inspectorate's (DWI) Network and Information Systems (NIS) Regulations 2018, following the DWI's assessment of the submission of our Cyber Assessment Framework (CAF) response in September 2020.</p>	<p>Security Culture – recognising that cyber security risk is not just an Executive or Board-level concern or just the responsibility of the Infosec team, but that every employee should have an awareness of Security risk and how this may impact their role. Over the AMP7 period this would include raising the profile of the Cyber Security threat right across the business, in the same way employees are aware of Health &amp; Safety concerns. It was recommended that a "Secure Thinking" programme is put in place across the organisation supported by both the HR and Communication teams.</p> <p>The Committee noted that the DWI assessment had concluded that we were making good progress under the NIS Regulations and that further updates would be brought back to the Committee.</p>
<b>Governance</b>	<p>The Committee reviewed, with input from the CTO and Chief Information Security Officer (CISO):</p> <ul style="list-style-type: none"> <li>terms of reference</li> <li>forward schedule of agenda items for 2020-21</li> </ul> <p>The Committee also reviewed its effectiveness as part of the detailed external Board evaluation conducted during the year.</p>	<p>The Committee's terms of reference were updated to reflect oversight of the Company's OT, cyber and Cloud provision.</p> <p>The 2020-21 Forward Schedule was approved by the Committee.</p> <p>The Committee's review of its performance concluded that the Committee's remit, since it was first established in 2018-19 to oversee the Company's digital strategy, had evolved to ensure appropriate and effective oversight of the Group's IT, OT and information security provision, and that it had made good progress during the 2020-21 year.</p>

The Committee noted excellent progress and acknowledged the impact of the CTO, who joined during 2020, in helping to identify and address the key challenges facing the successful implementation of the Company's Digital Strategy. We also reiterated a clear focus on the importance of cyber resilience for the Company and sector as a whole.



**Tom Crick**  
Chair of the Technology Committee

3 June 2021

# DIRECTORS' REMUNERATION REPORT



## REMUNERATION

### INTRODUCTION



#### JOANNE KENRICK

CHAIR OF THE REMUNERATION COMMITTEE

#### OTHER MEMBERS

- Anna Walker (Chair and member of the Committee to 3 July 2020)
- Debra Bowen Rees (from September 2020)
- Alastair Lyons
- John Warren

By invitation of the Committee Chair, other individuals such as the Chief Executive Officer, the People Director, and other senior managers or external advisers may attend for all or part of any meeting, as and when appropriate.

The Company Secretary acts as Secretary of the Committee.

The Committee Chair had been a member of the Committee for nine months prior to being appointed Committee Chair and has relevant experience as Chair of a Remuneration Committee for another company since 2018.

Meetings held: 4

> **SEE PAGE 112 FOR BOARD AND COMMITTEE MEETING ATTENDANCE**

### PRINCIPAL RESPONSIBILITIES

The Committee is responsible for recommending to the Board and Glas Members for approval the Executive Directors' Remuneration Policy. The Committee also sets the remuneration for the Chair of the Board, the Executive Directors and Executive team consistent with this Policy. Although the Chair of the Board is a member of the Committee, he does not participate in any decision-making in respect of his remuneration. In exercising its responsibilities, the Remuneration Committee has oversight of workforce remuneration policy and other related policies, and of the alignment of incentives and rewards with the Company's culture and purpose, taking these points into account when setting the Executive Remuneration Policy. The Policy is put to Glas Members for approval at least every three years, or earlier if changes are proposed.

The Committee's remit is set out in detail in its terms of reference which are available at [dwcymru.com/termsreference](http://dwcymru.com/termsreference)



During 2020-21, the Committee received independent advice from Deloitte LLP who are a signatory to the Remuneration Consultants Group Code of Conduct and any advice given is governed by the Code. The Committee is satisfied that the advice received was independent and objective. The fees payable to Deloitte LLP for the period 2020-21 totalled £59,970 (plus VAT).

## SECTION 1: REMUNERATION COMMITTEE CHAIR'S STATEMENT

### Dear Glas Members

On behalf of the Board, I am pleased to present our 2020-21 Remuneration Report, my first as Chair of the Remuneration Committee. I would like to extend my thanks to Anna Walker, who stepped down following the 2020 AGM. The Company Remuneration Policy for AMP7 was developed and approved under her Chair-ship and it has created a strong foundation on which to make decisions in the coming years.

### STRUCTURE OF THIS REPORT

For this year we have refreshed our approach to remuneration disclosure to simplify the report and to further align with best practice. This includes providing more details of how the performance delivered has resulted in variable pay outcomes.

This Report is split into six sections:

- **Section 1:** Remuneration Committee Chair's statement (pages 131 to 132)
- **Section 2:** The Alignment of Pay and Performance, Remuneration Principles and Ofwat guidance (pages 133 to 135)
- **Section 3:** Summary of Directors' Remuneration Policy for AMP7 (2020-2025) which was approved by Glas Members at the 2020 AGM (pages 136 to 138)
- **Section 4:** Pay outcomes for 2020-21 (pages 139 to 143)
- **Section 5:** Pay decisions made in relation to 2021-22 (pages 144 to 146)
- **Section 6:** Other Important Information which is disclosed in line with best practice guidance (pages 146 to 148)

This structure has been adopted with the aim of making our remuneration arrangements and the decisions made by the Committee clear and understandable.

### BUSINESS AND EMPLOYEE CONTEXT

The past year has been unprecedented both for us as a business and the communities which we serve (see page 55 for more detail about the Company's response in general to the impact of Covid-19). The Committee has considered the impact of the Covid-19 pandemic on the Company's customers and communities when making decisions on executive pay. The CEO, CFO, Chair of the Board and Non-Executive Directors requested that their respective salaries and fees be reduced by 20% for May, June and July 2020, in order that the value of this reduction could be added to the Company's Community Fund which has provided immediate aid to communities via our supported charities.

The Committee has also been deeply aware of the sustained high quality of service provided to our customers despite the burden that Covid-19 has placed on many of our employees. To recognise this our Colleague Reward scheme was once again uplifted to take account of the efforts of front-line teams in dealing with the impact of Covid-19, resulting in a payment of £1,100 to over 2,200 employees.

Our people are our greatest asset and we are passionate about creating a workforce that reflects the diversity within the communities we serve. We are committed to ensuring the Company is an inclusive environment where everyone can be themselves at work, and there are no barriers to undertaking any role. For further information on our people and policies and the progress we have made during 2020-21 see pages 88 to 89. Alongside these varied initiatives, we recognise that fair workforce and Executive pay policies are an important element in promoting an engaged, diverse and inclusive workforce.

The Committee sought feedback from employees on remuneration at a dedicated employee engagement session attended by the Chair of the Committee and the Chair of the Board, which was held by video conference in October 2020.

The Committee also received feedback from Glas Members at a workshop meeting held in May 2020 and at the 2020 Annual General Meeting. The Committee was grateful for the feedback received from all stakeholders and will continue to consider these comments and views in relation to future decision-making.

# DIRECTORS' REMUNERATION REPORT



## REMUNERATION

### REMUNERATION COMMITTEE FOCUS AREAS IN 2020-21

We are not a listed company, however in line with public listed companies we put our Remuneration Policy to Glas Members for approval every three years. At the start of the year our Directors' Remuneration Policy for AMP7 was approved by Glas Members at the Annual General Meeting on 3 July 2020.

This year, the Committee has focused on implementing this Policy. This has included reviewing and updating the rules of the of the Annual Variable Pay Scheme (AVPS) and Long Term Variable Pay Scheme (LTVPS), as well as setting performance targets for AVPS awards for 2020-21 and for LTVPS awards for each year of the AMP7 period, consistent with performance commitments and target levels set by Ofwat in the Final Determination of the PR19 regulatory price review.

In line with the normal annual cycle, the Committee reviewed solary levels for the Executive Directors and the Executive team. During this review the Committee considered the proposed increases for the wider workforce, business and individual performance in 2020-21, and National Living Wage and Real Living Wage rates. The Committee decided to increase Executive Director salaries by 2% from 1 April 2021, in line with increases for the wider workforce in the AMP7 Working Together Agreement.

The Committee determined that these costs should be excluded from the performance calculation in line with previous practice of adjusting for exceptional items to ensure that performance is measured on a like-for-like basis. The AVPS outcome for the Executive Directors was 45.7%, below their target of 60% maximum. This was based on

consistent performance across our customer service, operational and strategic measures (see page 142 for details of targets set and performance achieved). The LTVPS outcome was 23.1% of maximum, below the Totex target of 50% of maximum and performance development targets being missed, primarily due to failure to meet targets for reducing Per Capita Consumption.

The Committee reviewed these outcomes in the context of the performance delivered for customers and the wider societal context, and sought advice and input from Deloitte LLP as consultants to the Committee, to ensure that the broader impact of Covid-19 across the business was taken into account and that appropriate decisions were made in that context. The Company's response to the pandemic had impacted the Totex performance under the LTVPS by incurring exceptional costs which were not anticipated when the original targets were set. The Committee determined that these costs should be excluded from the performance calculation in line with our previous practice of adjusting for exceptional items to ensure that we are measuring performance on a like-for-like basis. Other performance development targets were impacted by the pandemic, notably our Community Education and Recreational Facility visit targets, however the Committee did not make any adjustments to these measures.

The Committee also reviewed the fee for the Chair of the Board during the year. It is our approach to reflect our corporate structure by applying a 15% discount compared to shareholder-focused companies. As a result of this review, the Chair's fee has been maintained at the current level for a further year.

### REMUNERATION COMMITTEE FOCUS AREAS IN 2021-22

Looking forward, during 2021-22 the Committee will continue to implement the Policy approved by Glas Members in accordance with our agreed Remuneration Principles.

As part of this the Committee will monitor wider remuneration trends and best practice developments, including guidance from the Financial Reporting Council on the requirements of the UK Corporate Governance Code and from Ofwat on Board Leadership, Transparency and Governance.

We are also aware of the Company's increased focus on diversity and inclusivity (see page 88 for more details) and recognise the relevance of setting and implementing appropriate remuneration policies in attracting and retaining a diverse and engaged workforce. The Committee understands the role that ethnicity pay reporting can play as part of this and will continue to look at this in the context of the business developing relevant records and metrics.

Given the continued impact of the pandemic on our operations and our customers, we will ensure that pay outcomes for 2021-22 are appropriate.

Finally, the Committee values the inputs and feedback received from both employees and Glas members and will continue to engage with them to ensure their views on the implementation of our Policy are taken into account in our decision-making process.

**Joanne Kenrick**  
Chair of the Remuneration Committee

3 June 2021

## SECTION 2: THE ALIGNMENT OF PAY AND PERFORMANCE, REMUNERATION PRINCIPLES AND OFWAT GUIDANCE

In December 2019, Glas Members approved an amendment to our Articles of Association to set out clearly our purpose, which we have been committed to delivering since 2001 when Glas Cymru acquired the business of Welsh Water. Our purpose, which is set out on page 6, has informed the development of our Remuneration Principles, as set out below.

### THE REMUNERATION PRINCIPLES

The Chair of the Committee regularly discusses with Glas Members the key Principles that apply to the Committee's work. These Principles, listed below, were last shared with Members at the 2020 AGM, and are unchanged since then.

1	2	3	4
Remuneration should reward/incentivise the long-term interests of the business, promote its long-term sustainable success and reflect its agreed future strategic approach.	Remuneration should help align the interests of Directors and employees with the business' customers, and reflect the Company's purpose and values.	Remuneration should be focused on the issues of key concern to the business – water and environmental quality, customer service and financial performance.	Remuneration should reflect Welsh Water's aim to be one of the best performing companies in the sector.
5	6	7	8
Remuneration targets should be stretching both in relation to past performance and in comparison, with other companies in the sector. Where possible, they should be hard numbers which can be audited.	Remuneration is intended to incentivise management in the absence of shareholders and share options.	Remuneration should be fair and competitive both in relation to the sector and internally so as to help attract and retain high-calibre individuals.	An appropriate proportion of remuneration for the Executive Directors should be variable so as to achieve the right balance in relation to risk-taking.
9	10	11	12
The remuneration structure should be sufficiently clear so that those affected by it understand what it is aiming to achieve.	Remuneration will be transparent to Glas Members and subject to their regular approval.	Remuneration should take account of the Company's not-for-shareholder corporate structure, the views of members and other stakeholders.	Decisions made by the Committee should take account of workforce remuneration and related policies, and the alignment of incentives and reward with culture.

# DIRECTORS' REMUNERATION REPORT



## REMUNERATION

When developing the Remuneration Policy and considering its implementation for 2021, the Committee was mindful of the objectives of Ofwat's Guidance on Board Leadership, Transparency and Governance and the UK Corporate Governance Code. The Committee considers that the executive remuneration framework appropriately addresses the following factors:

<b>Clarity</b>	The Committee is committed to being open and transparent with pay and we seek to do this through our high level of disclosure and clear reporting. In taking its decisions, the Committee follows the Objectives of Ofwat's Guidance on Board Leadership, Transparency and Governance, and the requirements of the FRC's UK Corporate Governance Code (the Code).
<b>Simplicity</b>	We aim to make our remuneration structure clear to all participants so that all those affected by it understand it and its purpose. Where possible, our remuneration arrangements are in line with UK best practice and are well understood by participants.
<b>Risk</b>	The Committee has discretion to adjust AVPS and LTVPS outcomes if it considers these inconsistent with overall Company performance, taking into account any relevant factors. Malus and clawback provisions apply for both the AVPS and LTVPS.
<b>Predictability</b>	Maximum opportunities for AVPS and LTVPS are set out in the policy, with actual outcomes depending on the level of performance achieved against specific measures. Actual incentive outcomes are set out in the Remuneration Report each year.
<b>Proportionality</b>	Our policy has been designed to strike a balance between long-term and short-term measures, linked to the Company's strategic plan. A significant proportion of our remuneration arrangements for executive directors is tied to the achievement of stretching performance conditions to ensure individuals are rewarded fairly for success.  When benchmarking Director pay we choose to apply a 15% discount to remuneration in order to reflect our not-for-shareholder structure.
<b>Alignment to culture</b>	The use of the same key measures for all variable pay schemes ensures transparency and a sense of shared ownership of the targets – the annual award of every colleague is affected/impacted by the same key targets, to a greater or lesser degree.

This report includes 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.

## STRATEGIC ALIGNMENT OF PAY

In setting Remuneration policies, the Committee is focused on the need to attract and retain individuals who can meet the short and long-term challenges that the Group faces.

Pay must be sustainable and must encourage a focus on achieving the longer-term strategy of the Company. It must also be fair to individuals and the wider workforce. The Committee is mindful of the impact of our not-for-shareholder dividend corporate structure and our geographical location on levels of pay.

The Committee is determined that remuneration should not reward poor performance and that we should be transparent about the reporting of such performance. This is closely aligned to the Group's vision To Earn the Trust of our Customers Every Day.

## LINKING PAY TO PERFORMANCE AND THE CUSTOMER

In addition to linking pay to the short and long term challenges the business faces and taking into account our corporate structure, our Remuneration Policy also ensures any performance-related element of executive pay is linked to the underlying performance of the Company and delivery for customers.

For AMP7, the AVPS was amended to focus on the key performance objectives of the business plan whilst LTVPS objectives are linked to a range of performance measures which are relevant to achieving the Company's long-term goals as set out in Welsh Water 2050 (for more details about these goals, please see page 25).

Delivery for customer metrics is a key part of our incentives and the policy for short and long-term performance pay is linked to stretching performance delivery for customers, including through C-MeX and D-MeX metrics (Ofwat's customer measures of experience and satisfaction - see Performance Commitment Definitions page 209).

Our policy seeks to ensure that Executive Directors are fairly rewarded, and the Committee will also assess outcomes to ensure that pay is aligned to performance. Where necessary, the Committee will make amendments through the discretion available under our schemes.

## ROLE OF GLAS MEMBERS

Glas Members perform an essential governance function for the Group in the approval of remuneration policies. The 2020–21 Annual Report on Remuneration will be subject to an advisory vote by Members at the forthcoming 2021 AGM. The vote is "advisory" because it does not change the decisions already taken, but the Committee will take it into account in its future decision-making.

Members also approve the Remuneration Policy of the Board by binding vote at least every three years (or where any significant change is proposed). This is in accordance with the remuneration reporting requirements for UK listed companies.

Members approved the remuneration report and the Remuneration Policy for AMP7 at the 2020 AGM, with the votes as follows:

	2019 AGM	2020 AGM
Members (present in person or by proxy) who voted in favour of the Annual Report on Remuneration	92%	<b>97%</b>
Members (present in person or by proxy) who approved the Directors' Remuneration Policy (2019: minor changes approved; 2020: new policy approved for 2020-2025)	82%	<b>90%</b>

## ENGAGEMENT WITH EMPLOYEES AND OTHER STAKEHOLDERS

Colleagues from across the business are regularly invited to attend informal meetings with the Chair and Non-Executive Directors to talk about issues affecting the business, the workforce, customers and other stakeholders. During 2020-21, this engagement was inevitably curtailed by the pandemic although we have sought to switch as much as possible into virtual form. One of these sessions, held in October 2020, included a discussion on the role of the Remuneration Committee, the link between performance and remuneration, and remuneration policies for the Executive Directors and the wider business. The outputs from this discussion were subsequently reviewed at a meeting of the Glas Board. Employee engagement surveys have also been used in the past to seek the views of the wider workforce in relation to remuneration policy. However, in 2020-21 this annual survey was replaced with regular shorter surveys focused on health and wellbeing issues.

See page 39 for other examples of Board engagement. Site visits are detailed on page 108.

The Remuneration Committee is conscious of the Company's position as one of the largest companies in Wales and of the geographic and socio-economic context in which the Company operates, and in which decisions concerning remuneration are made by the Committee.

The Board as a whole is also conscious of the need to balance societal concern around the quantum of executive remuneration with the need to attract and retain key individuals with the relevant experience and capabilities. Engagement with other relevant stakeholders includes the Customer Challenge Group, Ofwat and other regulators, DEFRA and Welsh Government and the Consumer Council for Water, and we take account of the views of these bodies where relevant.

# DIRECTORS' REMUNERATION REPORT



## REMUNERATION

### SECTION 3: SUMMARY OF DIRECTORS' REMUNERATION POLICY FOR AMP7 (2020-2025)

The AMP7 Remuneration Policy was approved by the Glas Members at the 2020 AGM, and the key elements are set out in the table below.

	PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY	PERFORMANCE METRICS
<b>BASE SALARY</b>	To help attract, retain and motivate high-calibre employees.	<p>Normally reviewed annually and any increases applied with effect from 1 April. Review reflects:</p> <ul style="list-style-type: none"> <li>• Role, experience and performance</li> <li>• Wider economic conditions</li> <li>• Increases awarded throughout the rest of the workforce</li> <li>• Periodic reviews of remuneration within the water sector.</li> </ul>	Annual inflationary increases generally linked to those of the wider workforce though the Remuneration Committee retain discretion to award increases to individuals above or below this level where appropriate.	Annual Performance Reviews.
<b>BENEFITS</b>	To provide a market-competitive benefits package to help attract and retain employees. Healthcare benefits also promote business continuity.	<p>Directors are eligible for private health cover.</p> <p>The Chief Executive has a historic entitlement to permanent health insurance.</p> <p>Other benefits such as relocation expenses or travel/accommodation allowances may be offered as appropriate.</p>	Value of benefits is based on the cost to the Company and is not predetermined.	None
<b>PENSION</b>	To help attract and retain high-calibre employees.	<p>From 1 April 2020, all employees, including Executive Directors, will be entitled to a maximum employer pension contribution of 11%. Eligible employees have the opportunity to opt out and receive a cash allowance of 9.7%.</p> <p>Pension benefits for all employees who participated in the DCWW Pension Scheme continue to increase in line with increases in their base salary. These increases are also provided for in the Employer Funded Retirement Benefits Scheme which Peter Perry participates in.</p> <p>Life assurance at 4x base salary is provided for Executive Directors and all employees who participate in the DCWW Group Personal Pension Plan or Pension Cash Alternative Plan.</p>	The cash allowance is equivalent to the employer contribution of 11% less employer NI contribution.	None

	PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY	PERFORMANCE METRICS
AVPS	To incentivise the annual delivery of stretching targets and delivery of strategic goals.	<p>AVPS targets reviewed annually by the Committee.</p> <p>Performance is measured against threshold, target and maximum levels.</p> <p>Outturn against targets is determined by the Remuneration Committee after the year end based on performance against targets.</p> <ul style="list-style-type: none"> <li>• Paid as cash</li> <li>• Not pensionable</li> <li>• Clawback provisions apply in the following circumstances: <ul style="list-style-type: none"> <li>- Material misstatement or a calculation error in assessing any Group member company's financial results</li> <li>- Material failure of risk management in any Group member company or a relevant business unit</li> <li>- Gross misconduct or reputational damage caused to the Company or Group member company</li> <li>- Material corporate failure in any Group member company or a relevant business unit</li> </ul> </li> </ul> <p>AVPS awards may be varied (either increased or decreased) at the discretion of the Committee or clawed back either prior to the payment of the award for a particular performance year or in the following performance year.</p>	Maximum AVPS potential of 100% of salary, for the achievement of stretching performance targets.	Measures aligned to the Business Plan and based on overall reward/penalty outcomes – 40% based on Customer Service, 40% based on Operational Performance and 20% based on a suite of Strategic Goals, which are selected by the Committee each year.
LTVPS	<p>To align the long-term focus of the Executive Directors with those of Welsh Water's customers and stakeholders.</p> <p>To incentivise achievement of the company's long-term strategy.</p>	<p>Cash awards based on stretching performance targets.</p> <p>Performance is measured against threshold, target and maximum levels.</p> <p>Performance against the measures is assessed over the five-year period of AMP7. Interim payments are made on an annual basis.</p> <p>LTVPS awards may be varied (either increased or decreased) at the discretion of the Committee or clawed back either prior to the payment of the award for a particular performance year or until the accounts for the year to 31 March 2028 have been audited.</p>	<p>The maximum potential award for the Chief Executive is 500% of salary over the five-year regulatory period (to a maximum potential award of 100% per annum).</p> <p>For the Chief Financial Officer, the maximum potential award is 300% of salary over the five-year regulatory period to 31 March 2020 (to a maximum potential award of 60% per annum).</p>	50% based on Totex performance and 50% based on overall reward/penalty outcomes for a range of performance development measures relevant to achieving the Company's long-term goals as set out in Welsh Water 2050.

# DIRECTORS' REMUNERATION REPORT



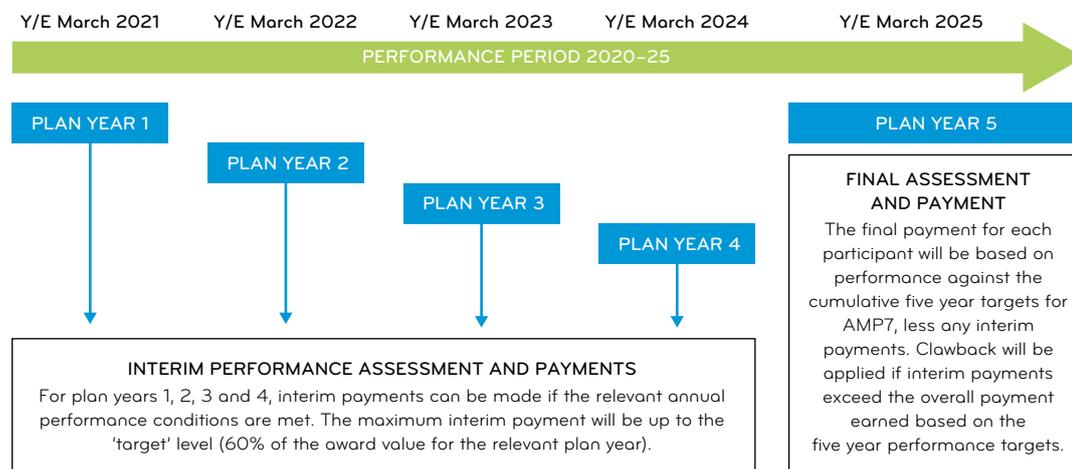
## REMUNERATION

	PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY	PERFORMANCE METRICS
<b>NON-EXECUTIVE DIRECTORS</b>	Provides an appropriate level of fixed fee to attract and retain individuals with a broad range of experience and skill to support the Board in the delivery of its duties.	The Remuneration Committee determines the fee payable to the Chair of the Board and, separately, the Executive Directors and the Chair approve the fee payable to the Non-Executive Directors.  All Directors may be paid for additional expenses incurred in connection with their role on the Board and are responsible for any taxable benefit implications that may result.	Non-Executive Directors do not receive any additional fees for chairing committees.	Annual Review

The elements of the Remuneration Policy which address Executive Directors joining and leaving the Board are set out in the 2020 Annual Report which is available at [dwrwymru.com/glasgymrereports](http://dwrwymru.com/glasgymrereports).

### LONG-TERM INCENTIVE – LTVPS

The below illustrates how and when performance is assessed and payments are made.



## SECTION 4: PAY LAST YEAR – 2020-21

### WIDER WORKFORCE PAY

The Remuneration Committee is responsible for setting the remuneration policy for the Executive Directors and Executive team and maintains oversight of pay policy across the Group. Workforce pay policy is agreed with our recognised Trade Unions and follows the terms of our Working Together and Household Customer Services Partnership Agreements. The Remuneration Committee closely followed the negotiations of these Agreements during 2019–20 led by Peter Perry in his former role of Managing Director (Regulated Business), the then People and Change Director, and the Managing Directors of Water Services, Wastewater Services and Household Customer Services.

### FIXED PAY

The Annual General Salary Award is agreed with our recognised Trade Unions and salaries are uplifted consistently across the workforce. Effective 1 April 2020, the Committee approved a 2%

inflationary uplift for the Executive Directors and Executive team, consistent with the award across the wider workforce.

Pension benefits are aligned across the Company with all Group Personal Pension Plan members receiving the same employer contribution as a percentage of salary, in line with best practice.

### VARIABLE PAY

The Annual Variable Pay Scheme (for colleagues below Executive Director level) and the Colleague Reward Scheme utilise a number of the same key measures – those linked to Customer, Performance and Expenditure. The use of the same key measures for all variable pay schemes ensures transparency and a sense of shared ownership of the targets – the annual award of every colleague is affected/impacted by the same key targets, to a greater or lesser degree.

The Annual Variable Pay scheme for colleagues in more senior roles includes an element of opportunity

based on achievement of personal objectives, as well as on Company performance. Maximum opportunity ranges from 10% to 100% of base salary.

The Colleague Reward scheme, which applies to all other employees, does not include a personal element and award payment is based entirely on Company performance against the identified key measures.

- Maximum opportunity: £1,500
- Actual pay-out 2020-21: £1,100
- Actual Pay-out 2019-20: £1,500
- Actual Pay-out 2018-19: £1,000.

The payouts for the Colleague Reward Scheme in 2019–20 and in 2020-21 took account of the efforts of front-line teams in dealing with extreme weather events and Covid-19 impact.

## PAY FOR EXECUTIVE DIRECTORS

### HOW MUCH EXECUTIVE DIRECTORS WERE PAID FOR 2020-21 (AUDITED)

	Peter Perry		Mike Davis <sup>4</sup>		Chris Jones <sup>5</sup>		
	2021 £'000s	2020 £'000s	2021 £'000s	2020 £'000s	2021 £'000s	2020 £'000s	
<b>Fixed Pay</b>	Salary <sup>1</sup>	309	294	245	63	38	319
	Benefits <sup>2</sup>	1	1	1	1	-	1
	Other <sup>3</sup>	5	5	-	-	-	40
	Pension and pension accrual	337	37	25	10	(50)	74
	<b>Total Fixed Pay</b>	<b>652</b>	<b>337</b>	<b>271</b>	<b>74</b>	<b>(12)</b>	<b>434</b>
<b>Variable Pay</b>	Annual variable pay – AVPS	149	176	118	38	-	191
	Long-term incentive – LTVPS	75	33	36	-	-	60
	<b>Total Variable Pay</b>	<b>224</b>	<b>209</b>	<b>154</b>	<b>38</b>	<b>-</b>	<b>251</b>
<b>Total Single Figure of Remuneration<sup>6</sup></b>	<b>876</b>	<b>546</b>	<b>425</b>	<b>112</b>	<b>(12)</b>	<b>685</b>	

1. Peter Perry and Mike Davis requested that their salaries should be reduced by 20% for May, June and July. The figures shown reflect these reductions.
2. Taxable benefits relate to private health cover.
3. For Peter Perry this represents a £5,000 per annum car allowance. For Chris Jones the 2020 figure represents payment for annual leave accrued but not taken as at 31 March 2020.
4. Mike Davis was appointed to the Board in the role of Chief Financial Officer on 1 January 2020.
5. Chris Jones stepped down from the Chief Executive position on 31 March 2020 but continued as a member of the Board of Directors for a temporary period from 1 April until 15 May 2020, on a lower annual salary of £300,346. Changes in pensions arrangements account for the overall negative total remuneration figure for this period.
6. Total Remuneration for Peter Perry includes one-off pensions accrual figure as set out above, reflective of increase in his salary on appointment as CEO.

# DIRECTORS' REMUNERATION REPORT



## REMUNERATION

### SALARY IN THE YEAR

Executive Director	Role	Salary from 1 April 2020 <sup>1</sup>
Peter Perry	Chief Executive Officer	£325,115
Mike Davis	Chief Financial Officer	£257,675
Chris Jones	Executive Director <sup>2</sup>	£300,346

1. Peter Perry and Mike Davis requested that their salaries should be reduced by 20% for May, June and July 2020 and the value of this reduction was added to the Company's Community Fund. This reduction did not impact their other elements of remuneration.
2. To 15 May 2020

### PENSIONS (AUDITED)

Pension benefits for all employees who participated in the DCWW Pension Scheme continue to increase in line with increases in their base salary. These increases are also provided for in the Employer Funded Retirement Benefits Scheme in which Peter Perry participates. The pension earned by Peter Perry and Chris Jones during the year are shown below.

	Normal retirement age	Accrued pension at 31 March 2020	Capitalised value of accrued pension at 31 March 2020	Revalued capitalised value of accrued pension at 31 March 2020	Accrued pension at 31 March 2021	Capitalised value of accrued pension at 31 March 2021	Member contributions paid during the year 2021	Pension Input Amount (net of member contributions 2021)
Peter Perry	60	175,303	3,506,060	3,565,663	193,555	3,871,100	0	305,437
Chris Jones <sup>1</sup>	60	156,471	3,129,420	3,182,620	156,471	3,129,420	0	(53,200)

1. To 15 May 2020

From 1 April 2020 Peter Perry and Mike Davis have been eligible to receive a maximum employer pension contribution of 11% of salary. Eligible employees can opt out and receive a cash allowance of 9.7%. Both Peter Perry and Mike Davis have elected to receive their pension allowance as a cash allowance.

### ANNUAL VARIABLE PAY (AVPS) – OUTCOME FOR 2020-21

The table overleaf shows the breakdown of performance against the targets for AVPS for 2020-21. Where the final outcome for a particular target is not available as at the date of this report, the award reported is based on a current best estimate. Payments will not be made until final performance data is available.

## ANNUAL VARIABLE PAY (AVPS) – OUTCOME FOR 2020-21

Up to 100% of salary can be earned in any year. Performance achieved for each target is shown below:

Element	Weighting	Metric	Threshold performance (10% achievement)	Target performance (60% achievement)	Maximum performance (100% achievement)	Performance achieved	Outcome Delivery Incentive (ODI) £m
Customer service	40%	C-Mex (% ODI)	3	4.4	6	4.4	2.0
		D-Mex (% ODI)	0	0	3	-2	(0.5)
		Business Customer Satisfaction (score)	4.4	4.4	4.5	4.4	(0.1)
<b>Total Company ODI £m</b>			<b>1.2</b>	<b>1.8</b>	<b>3.3</b>		<b>1.4</b>
<b>Total % of Salary for this Element</b>			<b>4</b>	<b>24</b>	<b>40</b>		<b>11.1</b>
Operational performance	40%	Top water quality (score)	2.85	2.6	2.0	4.17	(1.1)
		Reliability of supply (mm:ss)	17:46	11:12	6:30	11:05	(2.8)
		Treatment works compliance (Percent)	98.35	98.70	99.00	99.66	-
		Pollution incidents (Incidents per 10,000 km of sewers)	25.7	25.0	24.5	21.5	0.5
		Bioresources disposal (Percent)	100	100	100	100	-
		Bioresources product quality (Percent)	95	95	95	96.1	0.5
		Sewer flooding to customer properties internal (Properties per 10,000 connections)	1.75	1.69	1.68	2.05	(1.6)
		Sewer flooding to customer properties external (Properties per 10,000 connections)	30.9	27.5	26.7	25.82	0.7
		Total Complaints (Complaints per 10,000 customers)	161	142	85	122	(0.1)
		Unbilled properties (Percent)	4.2	3.9	3.8	4.0	(0.3)
		Water process unplanned outages (Percent)	2.0	2.0	1.9	0.7	-
<b>Total Company ODI £m</b>			<b>(12.8)</b>	<b>(4.3)</b>	<b>0.3</b>		<b>(4.2)</b>
<b>Total % of Salary for this Element</b>			<b>4</b>	<b>24</b>	<b>40</b>		<b>24.3</b>
Strategic Goals	20%	Employee engagement (Percent)	75	80	85	85	5.0%
		Customer trust (Ranking)	Upper Quartile	Top	Top + Score ≥8.2	8th Place	0.0%
		Top water quality (Ranking)	Average	Upper quartile	Top	Upper Quartile	2.0%
		Priority services for customers in vulnerable circumstances (Percent)	4	4.3	5	5.5	3.3%
		Company level of bad debt (Percent)	2.6	2.3	2	4.2	0%
<b>Total % of Salary for this Element</b>			<b>2</b>	<b>12</b>	<b>20</b>		<b>10.3</b>
<b>Total % Award Achieved</b>							<b>45.7</b>

- Customer service – outcome based on regulatory outperformance/underperformance payment achieved against Ofwat's Outcome Delivery Incentives for these measures over the year.
- Operational performance – Outcome based on total financial outperformance/underperformance payments achieved against Ofwat's Outcome Delivery Incentives for these measures over the year. Overall, the scorecard outcome was 45.7% of maximum. The Committee considered whether to make adjustments for performance targets which had been significantly affected by Covid-19 but decided not to make any adjustment and to let the original targets stand. The level of performance resulted in total awards to Executive Directors of: Peter Perry: £148,578 (45.7% of salary) and Mike Davis: £117,758 (45.7% of salary)
- For reference, Peter Perry had a target opportunity £195,069 (60% of salary) and a maximum opportunity of £325,115 (100% of salary). Mike Davis had a target opportunity £154,605 (60% of salary) and a maximum opportunity of £257,675 (100% of salary).

# DIRECTORS' REMUNERATION REPORT



## REMUNERATION

### LONG TERM PLAN (LTVPS) OUTCOME FOR 2020-21

Under the LTVPS for the period 2020 to 2025, performance is assessed annually against interim goals and interim payments are made up to 60% of maximum, with overall performance over the five-year period resulting in a final payment or recovery of any overpaid amounts (see illustration on page 138).

For 2020-21, the performance achieved for each target has been as follows:

Element	Weighting	Threshold level of performance (10% achievement)	Target level of performance (60% achievement)	Maximum level of performance (100% achievement)	Performance achieved	% of element earned
Totex Performance	50%	£684m	£649m	£633m	£659m	46.2%
Overall ODI outcomes for performance development measures	50%	-£1.7m	-£1.3m	£0m	-£3.1m	0%
<b>Total (as % of salary)</b>						<b>23.1%</b>

Totex performance has been adjusted by the Committee exceptional costs related to the Covid-19 pandemic which were not anticipated when the original targets were set. The Committee considered whether to make adjustments for other performance targets which had been significantly affected by Covid-19 but decided not to make any adjustment and to let the original targets stand.

Details of the performance achieved for each of the performance development measures which contributed to the overall LTVPS assessment for 2020-21 were as follows:

Measure	Units	Threshold level of performance	Target level of performance	Maximum level of performance	Performance achieved	Outcome Delivery Incentive (ODI) £m
<b>Continuous service measures</b>						
Acceptability of drinking water	Contacts per 1,000 pop.	2.80	2.72	2.24	2.70	-£1.1m
Mains repairs	# per 1,000km of Mains	138.8	133.0	138.9	140.2	-£0.1m
Leakage	%	(0.2)	1.8	1.8	2.2	£0.1m
Sewer collapses	# per 1,000km of Sewer	7.2	7.2	7.2	7.3	-£0.1m
Community education	Nr	68,100	70,000	70,000	5,834	-£0.1m
Visitors to recreational facilities	Nr	654,929	560,000	560,000	294,736	-£0.5m
Per capita consumption	%	1.0	0.7	1.0	-5.2	-£1.3m
<b>Investment programme measures</b>						
Lead pipes replaced	Nr	1,400	1,400	1,400	1,097	-
Km of river improved	Km	-	-	-	5	0.1
Surface water removed from sewers	m <sup>3</sup>	141,900	141,900	141,900	38,473	-£0.1m
Combined sewer overflow storage systems	m <sup>3</sup>	0	0	0	0	-
Delivery of reservoir enhancement programme	Sites	0	0	0	2	-

Measure	Units	Threshold level of performance	Target level of performance	Maximum level of performance	Performance achieved	Outcome Delivery Incentive (ODI) £m
Delivery of zonal studies programme	zones	0	0	0	0	-
Direct procurement for customers: Cwm Taf Water supply strategy scheme (underperformance)	Date	n/a	n/a	n/a	n/a	-
Direct procurement for customers: Cwm Taf Water supply strategy scheme (outperformance)	Date	n/a	n/a	n/a	n/a	-
Delivery of a new visitor centre	Delivered	n/a	n/a	n/a	n/a	-
Delivery of the Company's South Wales Grid water supply resilience scheme	% complete	0	0	0	0	-
<b>Total</b>						<b>-£3.1m</b>

The measures in the table above with no performance in the year reflect commitments to ensure we deliver our capital programmes on time, where there were no outputs scheduled for 2020-21. The overall performance achieved for 2020-21 was 23.1% of maximum, below the target level of 60% of maximum. This performance resulted in a total LTVPS awards to Executive Directors of:

- Peter Perry: 23.1% of salary (£75,102) – to be paid in July 2021 and will be subject to final performance to 31 March 2025.
- Mike Davis: 13.8% of salary (£35,559) – to be paid in July 2021 and will be subject to final performance to 31 March 2025.

For 2020-21 performance, Peter Perry had a target opportunity of £195,069 (60% of salary) and a maximum opportunity of £325,115 (100% of salary). Mike Davies had a target opportunity £92,763 (36% of salary) and a maximum opportunity of £154,605 (60% of salary). The temporary reduction in salary that Peter Perry and Mike Davis took will not affect their variable pay payments and these will be calculated on their basic salaries.

## FEES FOR CHAIR AND NON-EXECUTIVE DIRECTORS (AUDITED)

How the Chair of the Board and Non-Executive Directors were paid last year

	Fees <sup>1</sup>		Benefits		Total remuneration	
	£000	£000	£000	£000	£000	£000
Non-executive directors	2021	2020	2021	2020	2021	2020
Alastair Lyons	211	222	-	-	211	222
Graham Edwards <sup>2</sup>	67	62	-	-	67	62
Joanne Kenrick	59	62	-	-	59	62
John Warren	59	62	-	-	59	62
Debra Bowen Rees	59	15	-	-	59	15
Tom Crick	59	62	-	-	59	62
Jane Hanson	16	-	-	-	16	-
Menna Richards <sup>3</sup>	21	73	-	-	21	73
Anna Walker <sup>3</sup>	18	62	-	-	18	62

1. Represents reduced fees in the year after the Chair of the Board and the Non-Executive Directors requested their fees for May, June and July were reduced by 20% with the exception of Jane Hanson who joined the Board in January 2021. Due to an administrative error, Tom Crick's fee reduction will take place retrospectively from June 2021.
2. Graham Edwards is Senior Independent Director and receives an additional fee of £10,000 per annum.
3. Stepped down from the Board on 3 July 2020.

# DIRECTORS' REMUNERATION REPORT



## REMUNERATION

### SECTION 5: PAY DECISIONS FOR NEXT YEAR – 2021-22

#### PAY FOR EXECUTIVE DIRECTORS

	Base salary
Peter Perry	£331,617
Mike Davis	£262,830

#### BASE SALARY

When reviewing Executive salaries the Committee considered the proposed increases for the wider workforce, business and individual performance in 2020-21, and National Living Wage and Real Living Wage rates. The Committee decided it would be most appropriate to align Executive Director salary increase with those for the wider workforce in the AMP7 Working Together Agreement. This resulted in a 2% increase from 1 April 2021.

#### BENEFITS AND PENSION

Benefits and pension arrangements will not change for 2021-22. All employees, including Executive Directors, are entitled to a maximum pension contribution of 11%. Eligible employees have the opportunity to opt out and receive a cash allowance equivalent to 9.7%. Benefits in the year will include private health insurance and car allowances.

For 2021-22 annual variable pay of up to 100% of salary will be able to be earned, based on performance achieved. The performance measures used are set out below and have been set with reference to the aims under the 2020-25 business plan. For 2021-22 the overall framework remains unchanged. The strategic goals have been updated to focus on reputational

priorities for 2021-22 by adding metrics based on Employee Training and Expertise and Risk of sewer flooding in a storm. The measure used previously based on priority service for customers in vulnerable circumstances has been removed as performance has been strong, with planned performance for 2021-22 exceeding the target for 2024-25 in the Final Determination. This remains a priority but given the strong track record in this area, there is now an opportunity to incentivise improvement to a similar level in other strategic areas

#### ANNUAL VARIABLE PAY

	Customer Service	Operational Performance	Strategic Goals
<b>Measures</b>	<ul style="list-style-type: none"> <li>C-MeX and</li> <li>D-MeX (Ofwat's measures of customer service for household and developer customers); and</li> <li>Business Customer Satisfaction.</li> </ul> <p>Outcome based on total financial rewards/penalties achieved against Ofwat's Outcome Delivery Incentives for these measures over the year.</p>	<p>Outcome based on regulatory reward/penalties achieved against Ofwat's Outcome Delivery incentives for 11 measures of in-year performance.</p> <ul style="list-style-type: none"> <li>Tap water quality</li> <li>Reliability of supply</li> <li>Treatment works compliance</li> <li>Pollution incidents</li> <li>Bioresources disposal</li> <li>Bioresources product quality</li> <li>Sewer flooding to customer properties (internal)</li> <li>Sewer flooding to customer properties (external)</li> <li>Total Complaints</li> <li>Unbilled properties</li> <li>Water process unplanned outages</li> </ul>	<p>Performance against performance commitments from the final determination. For 2021-22 these will be:</p> <ul style="list-style-type: none"> <li>Customer Trust</li> <li>Employee Engagement</li> <li>Employee Training and Expertise</li> <li>Tap water quality</li> <li>Company level of bad debt</li> <li>Risk of sewer flooding in a storm</li> </ul>
<b>How much of the scheme?</b>	40%	40%	20%

### LONG TERM PLAN

The long-term plan will continue to operate in line with the Policy. As summarised above, performance will be measured under the current five year plan and be based on:

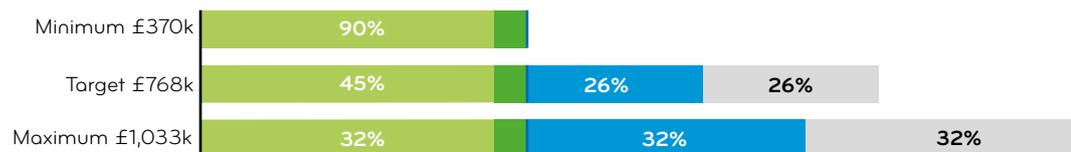
- Totex (total expenditure - operating costs and investments): (50%)
- Overall rewards/penalties for performance development measures: (50%)

### HOW MUCH COULD OUR EXECUTIVE DIRECTORS EARN NEXT YEAR?

THE GRAPHS BELOW SHOW THE OPPORTUNITIES FOR EACH EXECUTIVE DIRECTOR FOR 2021-22:

- The minimum level of remuneration payable. This comprises basic salary, any travel and car allowances, health insurance benefits and pension;
- On-target level of remuneration which represents 60% of the maximum payout for the annual variable pay and the long-term incentive; and
- The maximum level of remuneration, if all annual variable pay and long-term incentive performance targets were fully achieved.

#### Chief Executive Officer



#### Chief Financial Officer



● Salary ● Pension ● Benefits ● AVPS ● LTVPS

Over the last 10 years, the average outcome for variable pay elements has been 66% of maximum for the AVPS, and 49% of maximum for the LTVPS. The maximum award has not been achieved under either plan during that time.

# DIRECTORS' REMUNERATION REPORT



## REMUNERATION

### FEES FOR CHAIR AND NON-EXECUTIVE DIRECTORS

The fees payable to the Chair of the Board were reviewed in March 2021 and the Committee resolved that the Chair of the Board's fee should be maintained at the current rate to next be reviewed in spring 2022.

In March 2021, the Chair of the Board and Executive Directors resolved that the fees for Non-Executive Directors should also be maintained at the current rate for a further year, to next be reviewed in spring 2022.

Fees for 2021-22 will be as follows:

Role	Fee
Chair	£221,900
Senior Independent Director	£72,000
Non-Executive Director	£62,000

### SECTION 6: OTHER IMPORTANT INFORMATION

#### WORKFORCE PAY ACROSS DŴR CYMRU

##### CEO PAY RATIO

This is the second year that we have applied the CEO Pay Ratio Reporting requirements for UK listed companies which compares the CEO's pay to the 25th percentile, median and 75th percentile employees. In order to calculate the ratio we have applied methodology A from the UK Government guidance.

Year	Methodology	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020-21	A	28:1	23:1	18:1
2019-20	A	22:1	18:1	14:1

The median ratio this year represents an increase from last year. This is due to an increase in pension accrual reported for the CEO, which is a one-off adjustment to accruals relating to the increase in his salary on promotion to CEO; this is reflected in the Single Total Figure of Remuneration in the Table on page 139.

The 25th percentile, median and 75th percentile employees were determined on 10 May 2021 using total pay for the year ended 31 March 2021 for all employees as at 31 March 2021. Pay details for the individuals on a full time equivalent basis are set out below:

Year 2020-21	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
Salary	28,000	29,389	38,562
Total pay	30,739	38,715	49,656

##### METHODOLOGY NOTES

- The pay ratios reflect our remuneration principles and our approved Remuneration Policy. Total remuneration is considered to be fair and competitive and to reflect wider economic conditions, enabling us to attract and retain skills and talent.
- Other than for the Executive Directors, the variable pay elements have been estimated for the wider workforce, as individual payments are not finalised until July 2021.
- Other than for the Executive Directors, pension accrual has been excluded as the figures for the wider workforce were not available at the time of reporting.
- Total payments and benefits have been included on a full-time equivalent annualised basis for new hires, part-time employees, unpaid leave relating to long-term sickness and maternity.

## GENDER PAY GAP

The gender pay gap is defined as the overall median and mean gender pay and bonus gap (based on hourly rate of pay at the snapshot date of 5 April 2020 and bonuses paid in the year to 5 April 2020) regardless of role or seniority. We have seen a decrease in both our median and mean Gender Pay Gaps over the year to March 2020, continuing the downward trend from last year. It is encouraging that our gender pay gap remains significantly lower than the national average. We also acknowledge that the methodology for calculating the Gender Pay Gap on an annual basis means that the outcome for 2022 is likely to be impacted by having fewer women proportionately in our Executive team. Our Gender Pay Gap report (link below) highlights what we are doing to promote diversity and inclusivity at Welsh Water.

We are continuing to promote the progression of women through the Company – for further details of some of the actions we are taking to support gender and other forms of diversity throughout our organisation, please see page 88 within our Responsibility section.

Full details of our gender pay reporting are available on our website at [dwrcymru.com/genderreport](http://dwrcymru.com/genderreport)

### DEFINITIONS

Median – The difference between the midpoints in the ranges of men's and women's pay

Mean – The difference between the average of men's and women's pay

MEDIAN GAP - WELSH WATER	MEDIAN BONUS GAP	MEAN GAP - WELSH WATER	MEAN BONUS GAP
2020   7.1%	2020   0%	2020   7.2%	2020   14.5%
2019   10%	2019   0%	2019   9.8%	2019   14.9%
2018   12.1%	2018   0%	2018   11%	2018   21%

Both the Median and the Mean Pay Gap have reduced this year, which reflects a greater proportion of women appointed to the Executive team (five out of 14 or 36%) (2019: three out of nine or 33%) and other promotions of women across the business.

We apply a bonus policy equally for all our workforce – with no discrepancy based on gender or any other background characteristics. The majority of our employees receive the fixed amount Colleague Bonus payment. The midpoint for each gender falls within the numbers of colleagues who receive the Colleague Reward payment for men or women as this is a fixed payment, meaning there is no percentage difference between the two, when calculated on a median basis. As a result, as in previous years, there continues to be no median bonus gap. However, we have a mean bonus gap which reflects the higher proportion of men occupying the most senior positions in the Company where variable pay opportunities are higher.

## ETHNICITY PAY GAP

During the year, the Committee explored the possibility of including our ethnicity pay gap within this year's annual report in light of developing good practice and as part of our actions to support diversity throughout our organisation.

However, when looking at the data it became apparent that we do not currently have sufficient information available under the necessary metrics to produce meaningful information at this time. The Company launched a campaign during 2020-21 to encourage colleagues to update their diversity data within our HR system. The Committee will continue to monitor this going forward, and to encourage the collation of data across the organisation which will make this reporting possible.

## ANNUAL CHANGE IN PAY FOR DIRECTORS AND ALL EMPLOYEES

The following table sets out the change in the remuneration paid to Board Directors from FY20 to FY21 compared with the average percentage change for Dŵr Cymru employees:

	% change in salary/fees	% change in benefits	% change in AVP
<b>Directors</b>			
Peter Perry	2	(2.3)	(15.8)
Mike Davis	2	22	(36.5)

# DIRECTORS' REMUNERATION REPORT



## REMUNERATION

### ANNUAL CHANGE IN PAY FOR DIRECTORS AND ALL EMPLOYEES

	% change in salary/fees	% change in benefits	% change in AVP
<b>Non-executive directors</b>			
Alastair Lyons	-	-	-
Graham Edwards	-	-	-
Joanne Kenrick	-	-	-
John Warren	-	-	-
Debra Bowen Rees	-	-	-
Tom Crick	-	-	-
Jane Hanson	-	-	-
<b>Average Dŵr Cymru Employee</b>	4.5	0	4.1

### HOW DOES THE CHIEF EXECUTIVE'S PAY COMPARE TO PREVIOUS YEARS?

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total remuneration for Managing Director/Chief Executive (£'000)	678	590	742	974	746	629	679	607	685	876
Total remuneration net of pension accrual (£'000)	547	590	520	690	604	629	601	624	678	571
Annual variable pay outcome	78%	61%	51%	79%	70%	75%	65%	67%	60%	45.7%
Long term plan outcome	40%	50%	78%	91%	65%	65%	27%	25%	19%	23.1%

### HOW DOES THE TOTAL SPEND ON EXECUTIVE PAY AND TOTAL STAFF PAY COMPARE TO OTHER EXPENDITURE?

	2020	2021	Change	
			£m	%
Total expenditure	1036.2	828.5	(207.7)	(20)
Employee remuneration costs	162.1	153	(9.1)	(5.6)
Customer return of value	47	11	(36)	(76.6)
Executive Director remuneration costs	1.7	1.3	(0.4)	(23.5)

### DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Dates of the service contracts of the Executive Directors and letters of appointment of the Non-Executive Directors in place at 31 March 2021 are as follows:

<b>Alastair Lyons</b> 12 April 2016	<b>Graham Edwards</b> 1 October 2013	<b>John Warren</b> 3 May 2012	<b>Debra Bowen Rees</b> 5 December 2019	<b>Tom Crick</b> 1 October 2017
<b>Jane Hanson</b> 3 December 2020	<b>Peter Perry</b> 3 June 2020	<b>Joanne Kenrick</b> 1 November 2015	<b>Mike Davis</b> 3 June 2020	

Enquiries for the inspection by Members of the above service contracts and letters of appointment during the Covid-19 pandemic should be made via email to the Company Secretary at [company.secretary@dwrcymru.com](mailto:company.secretary@dwrcymru.com)

# DIRECTORS' REPORT

The Directors present their report together with the Group's audited Financial Statements for the financial year ended 31 March 2021. The performance review of the Company can be found within the Strategic Report on pages 11 to 93. This provides detailed information relating to the Group, its business model and strategy, the operation of its businesses, future developments and the results and financial position for the year ended 31 March 2021. The Corporate Governance Report set out on pages 95 to 151 is incorporated by reference to this report and, accordingly, should be read as part of this report.

Details of the Group's policy on addressing the principal risks and uncertainties facing the Group are set out in the Risk Management section from pages 66 to 73.

## FINANCIAL PERFORMANCE

The Group is in a strong financial position as at 31 March 2021; gearing remains on track at 60% (2019–20: 58%) and we have retained our strong credit ratings. Read more about our financial performance, Taxation, Return of Value to our Customers, Capital Investments, Credit Rating and Interest Management, Gearing Policy and our Liquidity and Financial Reserves within the Financial Review section from pages 62 to 65.

## DIVIDEND POLICY (DŴR CYMRU CYF.)

In March 2016 the Glas Board approved a Dividend Policy to permit up to £100 million of funds to be paid intra-Group, outside the regulatory ringfence, in order to enable the funding of commercial projects. No dividends were declared or paid during the year ended 31 March 2021 (2020: None).

## DIRECTORS

The Directors of the Company who were in office during the year, and up to the date of the signing of the financial statements, are set out on pages 102 to 104. Each Director served throughout the financial year ended 31 March 2021, save for Jane Hanson who was appointed to the Board with effect from 1 January 2021.

## DIRECTORS' INDEMNITY

The Company has in place Directors' and Officers' insurance giving cover against legal action brought against the Directors and an indemnity in circumstances where a director has not acted fraudulently or dishonestly. The indemnity is a qualifying indemnity for the purpose of the Companies Act and is for the benefit of all Directors. No claims have been made against this policy since the date of the last report.

## EMPLOYEES

The Board recognises the importance of attracting, developing and retaining the right people. In accordance with best practice, we have employment policies in place which provide equal opportunities for all employees, irrespective of sex, race, colour, disability, sexual orientation, religious beliefs or marital status. Further information on the Board's methods for engaging with the workforce are on pages 40, 45 and 88.

## ENGAGEMENT WITH STAKEHOLDERS

Details of how the Directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company during the financial year, are set out in the Strategic Report on pages 39 to 46, and on page 55, respectively.

## CORPORATE GOVERNANCE

During the year ended 31 March 2021 we have applied the principles and complied with the provisions of the 2018 UK Corporate Governance Code and Ofwat's Guidance on Board Leadership, Transparency and Governance, as updated in 2019 and as required by our Licence conditions. Further details can be found in the Governance section on pages 106 to 109.

## AMENDMENT OF ARTICLES OF ASSOCIATION

Unless expressly specified to the contrary in the Articles of Association of the Company, the Company's Articles of Association may be amended by a special resolution of the Company's members.

## POLITICAL DONATIONS

It is Board policy not to make donations to political parties or to incur political expenditure. During the year we agreed to make payments of £22,500 to Citizens Advice to fund a debt adviser providing advice to our customers in Rhondda Cynon Taff, and £25,579 to Step Change to support the work the charity does in providing debt advice to our customers. We are disclosing these payments as both organisations also campaign for government policy change, including on debt issues. However, none of the

# DIRECTORS' REPORT

funding provided would have been used directly to support campaign work. Other than this, no donations or payments were made which would require to be disclosed under section 366 of the Companies Act 2006.

## WATERAID AND THE PRINCE'S TRUST

As appropriate for a Company with our corporate structure, we do not engage in corporate sponsorship. However, we continue to support WaterAid and The Prince's Trust.

## PERSONS OF SIGNIFICANT CONTROL

We maintain a Register of People with Significant Control to comply with the requirements of the Small Business, Enterprise and Employment Act 2015 (2015 Act). The Company has identified registrable relevant legal entities (RRLs) within our Group structure.

## GREENHOUSE GAS EMISSIONS

Due to our commitment to transparent and best practice reporting, we have included our streamlined energy and carbon reporting (SECR) disclosures on pages 90 to 93 of the Responsibility section of this report alongside our annual GHG (greenhouse gas) emissions footprint and an intensity ratio appropriate for our business, which fulfil the requirements of the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013.

## AUDITOR

KPMG LLP act as Auditors to Glas Cymru for the accounts for the year ended 31 March 2021. As part of the audit process we have confirmed that, as far as each Director is aware, there is no relevant audit information of which the Auditors are unaware, that they

have taken any necessary steps to be made aware of any such information and to establish that the Group's Auditors are aware of that information. We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the Group's performance;
- the Strategic Report includes a fair review of the performance of the business, its risks and strategy for the future; and
- the Directors consider the Annual Report to be fair, balanced and understandable.

In considering the development of the system of controls, the management team reviews the materiality and the relative cost benefit associated with each identified significant risk. The internal control systems are designed to provide reasonable assurance against misstatements, loss or failure. The process to review the effectiveness of internal control includes discussion with management on significant risk issues and a review of plans for, and results from, internal and external audit.

The Audit Committee reports the results of its review to the Board, which then draws its collective conclusion on the effectiveness of the system of internal controls. In fulfilling this responsibility, the Board considers regular reports from the Audit Committee, the Quality and Environment Committee and from management, and relies on its routine monitoring of key performance indicators and monthly reports of financial and operational performance.

Taken as a whole, these processes enable the Board to review the effectiveness of the internal control system during the course of the year.

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

## OTHER INFORMATION

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Financial Review on pages 62 to 65.

## ANNUAL GENERAL MEETING (AGM)

The Glas Cymru AGM will be held using video conference on 2 July 2021. The Notice of Meeting together with explanatory notes is contained in the circular to our Members that accompanies the report and accounts.

## GOING CONCERN

The Directors' statement on going concern is on page 168. The financial statements for the year ended 31 March 2021 have been prepared on the going concern basis.

By order of the Board



**Nicola Williams**  
Company Secretary

3 June 2021