

"WE WILL EARN
THE TRUST OF
OUR CUSTOMERS
EVERY DAY"





GOVERNANCE REPORT

THIS SECTION SETS OUT OUR
CORPORATE GOVERNANCE
ARRANGEMENTS AND THE
WORK OF THE BOARD AND ITS
COMMITTEES DURING THE YEAR
2021-22

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“ OUR CULTURE OF ‘DOING THE RIGHT THING’ FOR OUR CUSTOMERS WILL ALWAYS PREVAIL. ”

CHAIR'S INTRODUCTION TO GOVERNANCE

KEY FOCUS AREAS IN 2021-22:

- Overseeing the Group's response to the ongoing Covid-19 pandemic and the consequent changes to working practices.
- Considering the issues highlighted through ongoing monitoring of operational performance and considering the appropriateness of resulting action plans.
- Reviewing the Company's strategy to improve the quality of river water, including considering proposals for additional investment to support wastewater services, and the proposals for a Wales CSO taskforce.
- Overseeing the Company's response to regulatory requests for information in relation to Pass Forward Flow compliance at Wastewater Treatment Works.
- Considering proposals to revise and enhance the Group's Enterprise Risk Management Framework and the approach to setting risk appetite.
- Preparing for PR24 and receiving updates from the Asset Planning team on the progress of investment cases for the Company's PR24 business plan.
- Overseeing the progress of the project to construct Cwm Taf, a substantial new water treatment works, and considering the requirements for Board approvals to provide assurances to Ofwat that the scheme meets the requirements of Ofwat's Direct Procurement for Customers (DPC) delivery model.
- Considering the Company's proposals to increase customer bills for 2022-23 in the light of the Company's strategy for vulnerable customers and the emerging cost of living crisis.
- Reviewing the Company's strategies on Leakage and Reduction of Per Capita Consumption.
- Monitoring supply chain risk in light of geo-political developments following EU Exit and recently with the war in Ukraine, including the potential for the latter to increase cyber risk.

FOCUS OF THE BOARD IN THE LAST 12 MONTHS

It won't be a surprise that the impact of the pandemic has been one of the key underlying themes of the discussions at the Board throughout 2021-22. However, whilst Covid-19 has had, and will likely continue to have, a significant impact, the Board has spent as much of 2021-22 focusing on the future, to ensure that Welsh Water can continue to deliver for its customers, local communities and the environment over both the current five-year business plan period and beyond. Our culture of 'doing the right thing' for our customers will always prevail.

The Board's strategy day was held in November 2021, enabling the Board to spend time debating a number of strategic and long-term business priorities, including reviewing our vision for Welsh Water 2050,

published in 2018 - an update on this document has been published in spring 2022.

A particular focus for the day was our preparations for the next five-year price review, PR24, understanding the challenges and opportunities for Welsh Water, together with an update on achieving a more collaborative approach to PR24 in Wales through the PR24 Forum, which will bring us together with Welsh Government, Ofwat and other key stakeholders to agree the right plans for the future.

We recognise the crucial importance of working in partnership with our key stakeholders which plays a vital role in our decision-making. Examples of the decisions taken in relation to our stakeholders together with details of engagement with them are set out in the Board's S172 Statement on page 54.

GOVERNANCE CHANGES

During the year the Board has approved the implementation of the following enhancements to processes:

- Risk management – The Board approved an updated Enterprise Risk Management (ERM) Framework which describes how risks are identified, evaluated, treated, monitored and governed across Welsh Water. In addition, there has been an increased focus on the risks and opportunities emerging from the impacts of climate change and in relation to cyber threat (see further page 70).
- Task Force on Climate-related Financial Disclosures (TCFD) Recommendations – we have worked with Jacobs consultancy during 2021-22 to benchmark our reporting against TCFD requirements and we have used our work on reviewing our governance and analysis of climate-related risks and opportunities to ensure that our long-term planning properly takes into account these issues (see page 100 for more information). This activity is overseen by the Board's Environment, Social and Governance Committee, established in June 2021.
- A Committee of the Board, the Cwm Taf Project Committee, was established in December 2021 to monitor the progress of a major long-term project to construct a new Water Treatment Works at Merthyr Tydfil, to replace three smaller water treatment works and thereby build greater resilience for current and future supplies. The Committee will remain in place for the duration of the Project and will provide the necessary approvals and Board assurance required under Ofwat's Direct Procurement for Customers delivery methodology, involving competitively tendered services. For more information on this project, see page 45.

CHAIR'S INTRODUCTION TO GOVERNANCE

PEOPLE

As a Board, we consider it very important to have direct engagement with our colleagues at Welsh Water; even more so during the pandemic to get an understanding of the day-to-day challenges they faced, both from an operational and office-based perspective. The feedback during the past year has primarily focused on the different ways of working since the start of the pandemic and how colleagues are feeling, more generally, about moving to 'hybrid' working as the Covid restrictions are lifted, 'hybrid' here meaning two days working in the office per week for those full-time colleagues who are office-based, with the remaining three days working from home. For our operational colleagues who have continued working on site or in our communities while observing the pandemic restrictions, they have masterfully dealt with changes to their working practices, in particular, to maintain social distancing. As Non-Executive Directors we have undertaken some operational site visits which have enabled face-to-face meetings with colleagues which has provided us with the opportunity to discuss and appreciate some of the issues first hand. It has also allowed us to see the great work being done on the ground by our operational colleagues as well as those who are office-based.

We are pleased to oversee the progress that has been made in the area of diversity and inclusion across the business during the past year, and the introduction of a Culture Survey, in addition to the customary colleague Engagement Survey, as we welcomed our new People Director, Martin Driscoll, to the business during 2021. Members of the Board met with representatives of the Re:Think ED&I Group in July 2021, to hear about the progress that is being made in recruiting and retaining a diverse workforce and in encouraging specific initiatives such as the Company's schools outreach programme and our work with community groups.

MEMBERS

The Company's Annual General Meeting, held in July each year, which welcomes a large number of our Members, was again held virtually in 2021. Other engagement with our Members during the past 12 months has included a Welsh Water 2050 Workshop and visit to Plas Uchaf reservoir to understand the work involved in the spillway refurbishment, and to the Dinas depot in north Wales. We appreciate the valuable role our Members perform in relation to our not-for-shareholder governance model. Further detail on our engagement with Glas Cymru Members is on page 122.

BOARD EVALUATION AND SUCCESSION

Details of the internally facilitated evaluation of the Board's performance, which was led by myself with support from the Company Secretarial team, are set out on page 127 of this report. I am pleased to confirm that the output from that evaluation showed that the Board continues to operate effectively.

While there have been no new appointments to the Board since Jane Hanson's appointment in January 2021, this year being Jane's first year as Audit Chair, recruitment is underway to appoint a new Non-Executive Director to succeed Graham Edwards, Senior Independent Director and Chair of the Quality and Environment Committee, when he retires at the AGM in July 2023.

CONCLUSION

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



GOVERNANCE FRAMEWORK

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 systems of internal control and risk management and related 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.

TECHNOLOGY COMMITTEE

Reviews the development and implementation of the Group's digital strategy. Maintains 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.

FINANCE COMMITTEE

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

QUALITY AND ENVIRONMENT COMMITTEE

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

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.

ENVIRONMENT, SOCIAL AND GOVERNANCE COMMITTEE

Develops and oversees the Group's ESG Strategy. Monitors performance against the Company's ESG targets and key performance indicators. Approves how the ESG Strategy is communicated internally and externally. Considers how all elements of the ESG Strategy are reported, in particular which measures are adopted by the Company. Ensures that the Company maintains appropriate policies to effectively support its ESG Strategy, in particular its environmental impact.

CWM TAF PROJECT COMMITTEE

Oversees the progress of the Cwm Taf Project (see page 45) and makes recommendations to the Board in relation to the necessary approvals and Board assurances that are required under Ofwat's Direct Procurement delivery model.

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.

KEY EXECUTIVE LEVEL FORUMS WHICH SUPPORT THE EXECUTIVE COMMITTEE

INFORMATION SECURITY STEERING GROUP

Ensures that the Group's information is protected and risks are mitigated
The ISSG is supported by a Data and Analytics Steering Group

CAPITAL PROGRAMME GROUP

Ensures the effective delivery of the Group's capital programme

POLICY APPROVAL COMMITTEE

Supports the review, approval, and communication of Group policies

WELSH WATER HOLDINGS BOARD

Oversees the Group's commercial entities which sit outside of the regulated business

REGULATION STEERING GROUP(S)

The Triage team meet fortnightly to discuss developments in the industry and agree forward plans to address regulatory requirements. In addition, we have a specific steering group for Charges and one focused on PR24.

PERFORMANCE AND PROJECT GROUPS

Focused on customer strategy and service, business change, efficiency and delivery, and smarter ways of working.

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. The Board monitors the performance of our operations, our internal governance structure, and the management of risk and related controls, while maintaining oversight over the way the business is operated by the Executive team and its constituent management committees. The Executive team is responsible for implementing the strategy agreed by the Board to achieve the Company's medium and long-term objectives and to 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 the Chief Executive Officer comprises 17 individuals representing all the

key functions of the business, and is closely supported by our risk management and internal audit 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 Delegations of Authority. This is structured to ensure that day-to-day operational decisions can be taken efficiently, while ensuring higher-risk and high-value commitments go through the appropriate channels for approval.

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 other stakeholders; 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.

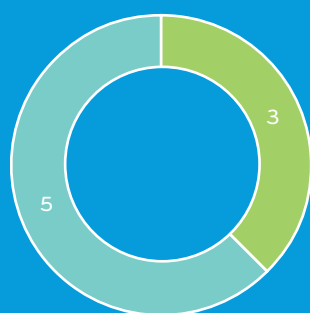
Details of how we engage with our key stakeholders and examples of how the Board has taken their interests into consideration during the year are described in the Section 172 Statement on pages 54 to 57.



GOVERNANCE AT A GLANCE

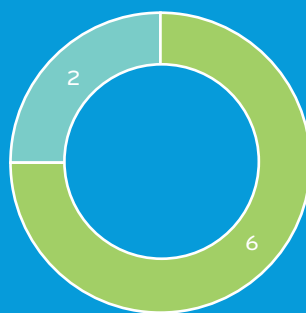
BOARD COMPOSITION STATISTICS

GENDER DIVERSITY



● Female
● Male

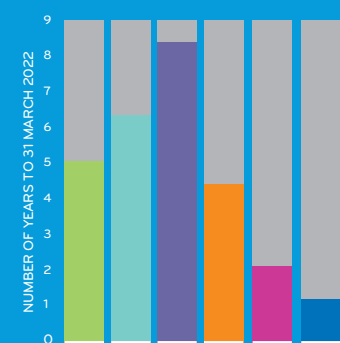
INDEPENDENCE



● Non-Executive
● Executive Directors

BOARD TENURE OF NON-EXECUTIVE DIRECTORS

shown in years and months since date of appointment to 31 March 2022



● A Lyons
● J Kenrick
● G Edwards
● T Crick
● D Bowen Rees
● J Hanson

SKILLS AND EXPERIENCE OF NON-EXECUTIVE DIRECTORS

Skills and Experience matrix	Alastair Lyons	Graham Edwards	Joanne Kenrick	Tom Crick	Debra Bowen Rees	Jane Hanson
Financial reporting	♦♦	♦	♦			♦♦
Risk	♦♦	♦♦	♦	♦	♦	♦♦
Technology	♦	♦	♦	♦♦	♦	♦
Information security	♦	♦	♦	♦♦		♦
Customer strategy	♦	♦♦	♦♦	♦	♦	♦
People management	♦	♦♦	♦♦	♦	♦	
Remuneration structuring and workforce engagement	♦♦	♦♦	♦♦	♦	♦	♦
Operational – Complex business		♦♦	♦♦		♦♦	♦♦
Operational – Utilities		♦♦				
Marketing		♦	♦♦			
Stakeholder relationships	♦♦	♦♦	♦	♦♦	♦♦	♦♦
Regulatory relationships	♦♦	♦♦	♦	♦	♦♦	♦♦
Public affairs	♦	♦	♦	♦♦	♦♦	♦
ESG reporting	♦	♦	♦	♦	♦	♦
Compliance management	♦	♦			♦	♦♦
Water sector	♦	♦		♦		
External communications	♦♦	♦	♦♦	♦	♦	♦
Audit	♦♦	♦	♦	♦		♦♦
Supplier management		♦♦	♦		♦	♦
Logistics		♦			♦	
Strategy and planning	♦♦	♦♦	♦♦	♦	♦♦	♦♦
Health and safety		♦♦		♦	♦	♦
Treasury	♦♦					♦

Key: ♦ Knowledge and experience on working basis. ♦♦ Deep knowledge and experience, key skill area.

GOVERNANCE AT A GLANCE

MEETING ATTENDANCE

Fourteen Board meetings took place during the year (comprising eleven scheduled meetings and three additional meetings which were held to discuss our responses to Ofwat on Pass Forward Flow). The table below shows the actual number of meetings attended and the maximum number of Board and Committee meetings which the Directors could have attended. Every effort is made by Board members to attend all meetings.

Director	Board	QEC	Audit	Remuneration	Nomination	Finance	Technology	ESG	Cwm Taf Project
Peter Perry	14/14	7/7	5/5	6/6	2/2	0/0	3/4	3/4	1/2
Mike Davis	13/14	–	5/5	–	–	0/0	–	3/4	2/2
Alastair Lyons	14/14	7/7	–	6/6	2/2	0/0	4/4	4/4	2/2
Graham Edwards ¹	13/14	7/7	2/3	–	2/2	–	–	–	2/2
Deb Bowen-Rees	14/14	7/7	5/5	6/6	–	–	–	4/4	–
Tom Crick ²	14/14	7/7	–	3/3	–	–	4/4	–	–
Jane Hanson ³	13/14	7/7	5/5	–	–	–	4/4	4/4	2/2
Joanne Kenrick	14/14	–	5/5	6/6	2/2	–	3/4	–	–
John Warren ⁴	3/3	–	2/2	2/2	–	–	0/1	–	–

¹ Stepped down from Audit Committee in October 2021

² Joined Remuneration Committee in November 2021

³ Attends Technology Committee at the invitation of the Chair

⁴ Retired at AGM July 2021

BOARD ACTIVITY HIGHLIGHTS

BOARD COMPOSITION AND SUCCESSION

PROGRESS MADE

The Board reviewed Board and Committee size and memberships following the retirement/appointment of Non-Executive Directors in 2021 and the establishment of the ESG Committee and new Cwm Taf Project Committee (see below).

ACTION TAKEN

See page 128 (Nomination Committee Report) for changes made to Committee memberships and decision to recruit a new Non-Executive Director.

ENVIRONMENT, SOCIAL AND GOVERNANCE (ESG)

PROGRESS MADE

The Committee, established in June 2021, agreed the ESG Strategy and KPIs, and approved the approach to TCFD disclosures for the year.

ACTION TAKEN

A full report of the Committee's activities is set out on page 144.

EXTERNAL AUDIT RE-TENDER

PROGRESS MADE

The Audit Committee agreed to commence the external audit re-tender process.

ACTION TAKEN

See page 137 for information on the tender which commenced in December 2021.

CWM TAF PROJECT COMMITTEE

ACTION TAKEN

The Committee is overseeing the development of the new Cwm Taf Water Treatment Works which is being undertaken under Ofwat's Direct Procurement for Customers (DPC) delivery model for competitively tendering services, to ensure best value for customers (see page 45 for more details on the project). The Committee will ensure that the Board is able to provide appropriate assurance to Ofwat that the process has been followed at various stages of the project.

BOARD DIVERSITY

PROGRESS MADE

The Nomination Committee reviewed and recommended the Board approve its Diversity Policy, including a target to appoint one Board Member from a BAME background by the end of 2025.

ACTION TAKEN

See page 128 (Nomination Committee Report) for further details.

BOARD OF DIRECTORS



ALASTAIR LYONS CBE

CHAIR OF THE BOARD

C N CHAIR
T E F R Q

Appointed: May 2016

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 and Cwm Taf Project Committee.

SKILLS AND EXPERIENCE

A chartered accountant by training, Alastair has 20 years' experience as non-executive chair 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

Chair of the Admiral Group, the direct motor insurer, from 2000 to 2017, and subsequently of AECS, Admiral's European holding company, until 2021. 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.

EXTERNAL APPOINTMENTS

Chairman of Harworth Group plc and Vitality UK.



GRAHAM EDWARDS OBE

SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

C N Q CHAIR

Appointed: October 2013

RESPONSIBILITIES

See summary on page 138. Graham was appointed Senior Independent Director in July 2020. He is also Chair of the Quality and Environment Committee.

SKILLS AND EXPERIENCE

Graham is 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 Cymru. Non-Executive Director of the Royal College of Music and Drama. Governor of the University of South Wales.

CURRENT EXTERNAL APPOINTMENTS

Board member of the Energy Networks Association.



PETER PERRY

CHIEF EXECUTIVE OFFICER

C E F N Q T

Appointed: October 2017

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 Dŵr 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.

EXTERNAL APPOINTMENTS

Chair of the Wales Leadership Board, and Member of the Community Leadership Board, of Business in the Community Cymru; Member of the Water UK Board and adviser on the UK Resilience Forum.

KEY

A Audit Committee	R Remuneration Committee
C Cwm Taf Project Committee	Q Quality and Environment Committee
E ESG Committee	T Technology Committee
F Finance Committee	CHAIR Chair of Committee
N Nominations Committee	



MIKE DAVIS

CHIEF FINANCIAL OFFICER

C E F

Appointed: January 2020

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

During 2010-2014, Mike was a Non-Executive Director at RCT Homes, a registered social landlord, chairing its Asset Management Committee and Treasury Committee. He was previously also a Director of UK Water Industry Research.

EXTERNAL APPOINTMENTS

None.



DEBRA BOWEN REES

NON-EXECUTIVE DIRECTOR

A E CHAIR Q R

Appointed: January 2020

RESPONSIBILITIES

See summary on page 144.

Debra is Chair of the Environment, Social and Governance Committee. She is also a Member, representing the Board, of 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 from the Board of Directors in September 2020.

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

Q R T CHAIR

Appointed: October 2017

RESPONSIBILITIES

See summary on page 141.

Tom also Chairs the Technology Committee.

SKILLS AND EXPERIENCE

Tom is Professor of Digital & Policy and Deputy Vice-Chancellor at Swansea University, with his academic interests sitting at the research/policy interface – from data science, cyber security, and technology regulation, 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. He sits on the Ofcom Advisory Committee for Wales and is a member of the DCMS College of Experts. 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

Commissioner of the National Infrastructure Commission for Wales. Vice-President of BCS, The Chartered Institute for IT.

EXTERNAL APPOINTMENTS

Non-Executive Director of Sector Development Wales Partnership Ltd. (a Welsh Government body known as Industry Wales) and Swansea Bay University Health Board, Member of the Ofcom Advisory Committee for Wales.

BOARD OF DIRECTORS



JANE HANSON

NON-EXECUTIVE DIRECTOR

A F CHAIR **C E Q**

Appointed: January 2021

RESPONSIBILITIES

See summary on page 132.

Jane also Chairs the Audit Committee and Finance Committee.

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.

EXTERNAL APPOINTMENTS

Chair of The Reclaim Fund Ltd and the Dormant Asset Expansion Board, Non-Executive Director of Rothesay Life plc, Non-Executive Member of the Board and Chair of the Audit Committee of the Civil Aviation Authority, Honorary Treasurer at the Disasters Emergency Committee



JOANNE KENRICK

NON-EXECUTIVE DIRECTOR

A N R CHAIR **Q**

Appointed: November 2015

RESPONSIBILITIES

See summary on page 146.

Joanne is also Chair of the Remuneration Committee

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. She 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 Safestore Holdings plc, Principality Building Society and BACS Payment Services Limited.

EXTERNAL APPOINTMENTS

Senior Independent Director, Deputy Chair and Chair of the Remuneration Committee at Coventry Building Society, a Non-Executive Director of Sirius Real Estate, Independent Chair of the Current Account Switch, Cash ISA Switch, and PayM Mobile Payments Services for Pay.UK, Chair of Trustees of the children's charity, Make Some Noise.

KEY

- A** Audit Committee
- C** Cwm Taf Project Committee
- E** ESG Committee
- F** Finance Committee
- N** Nominations Committee
- R** Remuneration Committee
- Q** Quality and Environment Committee
- T** Technology Committee
- CHAIR** Chair of Committee

CORPORATE GOVERNANCE REPORT

Sound corporate governance is an essential feature of the decisions we make to generate value for our stakeholders and support our delivery of 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.

The Ofwat Board Leadership, Transparency and Governance Principles include many of the principles and provisions of the Financial Reporting Council's (FRC) UK Corporate Governance Code to which we are committed to adhere. We, therefore, apply both the Ofwat Principles and the principles and provisions of the UK Corporate Governance Code and can confirm that they have been so applied during the financial year.

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

GUIDANCE PROVISIONS	HOW WE HAVE COMPLIED WITH THE PROVISIONS	FURTHER INFORMATION
Purpose, Values and Culture	<p>The Board of the Appointee (or otherwise referred to as Dŵr 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>During 2021-22 we considered the continued appropriateness of our purpose as part of preliminary customer engagement for PR24, and with our Customer Challenge Group and Glas Members as part of our review of Welsh Water 2050.</p> <p>We carried out a Culture Survey to consider how we can strengthen our company culture and embed our values further across the organisation.</p>	<p>See pages 2 to 7.</p> <p>The Company Direction and Performance Statement can be found in our Annual Performance Report which is available from mid-July 2022 on our website dwrcymru.com/annualperformancereport</p>
Standalone Regulated Company	<p>Dŵr 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, ('the Board') as our sole focus is on providing essential services to our customers at the lowest possible costs. 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 118 to 126.</p> <p>Despite the fact we have a unified Board for the Group and Dŵr Cymru Cyf., we regularly review potential conflicts with Board members and consider any conflicts with reference to the agenda for each meeting.</p>
Board Leadership and Transparency	<p>The Board's leadership and approach to transparency and governance engenders trust in Dŵr Cymru Cyf. and ensures accountability for its actions.</p> <p>As required, information on the following is 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 dwrcymru.com/companystructure</p> <p>Dividend Policy (page 65)</p> <p>Principal Risks and Uncertainties (pages 70 to 76)</p> <p>Board and Committee membership and meeting attendance (page 112)</p> <p>Executive pay policy (pages 146 to 166)</p>
Board Structure and Effectiveness	<p>A review of the effectiveness of the Board and its Committees is undertaken each year – in every third year, this is conducted by an independent external evaluation.</p> <p>Based on this year's evaluation, 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>The balance of skills, experience and independence of the Board and its key Committees, is kept under review. There is a majority of Non-Executive Directors on the Board and on its committees.</p>	<p>See pages 126 for the conclusions of our 2021-22 internally facilitated Board Effectiveness review.</p> <p>Biographical details of our Board members, including Committee memberships (pages 114 to 116)</p> <p>Skills and experience of the Board (page 111). Information about the independence and objectiveness of our Directors (page 118).</p>

CORPORATE GOVERNANCE REPORT

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

HOW WE MEET THE PROVISIONS OF THE UK CORPORATE GOVERNANCE CODE

SECTION OF THE CODE

Reporting on the application of principles against the provisions of the 2018 UK Corporate Governance Code

1 Board leadership and company purpose

> Read more on pages 118 to 122

2 Division of responsibilities

> Read more on pages 123 to 126

3 Composition, succession and evaluation

> Read more on pages 127 to 131

4 Audit, risk and internal control

> Read more on pages 132 to 145

5 Remuneration

> Read more on pages 146 to 166

1

BOARD LEADERSHIP AND COMPANY PURPOSE

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 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.

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. In November 2021, the Board reviewed and subsequently published an update to Welsh Water 2050, developed over the last 18 months, focusing on what has changed since 2017.

Details of the review of Welsh Water 2050 and a link to Welsh Water 2050 strategy and the Review document, as published, are set out in the Strategic Report on page 34.

In June 2021, the Company announced its plans to achieve net zero carbon emissions by 2040. The Company plans to be 35% energy self-sufficient by 2025 and will invest a further £21 million to achieve this over the current regulatory investment period to 2025, ultimately becoming 100% energy self-sufficient – through a mix of self-generated energy and private wire arrangements – by 2050. As well as committing to becoming carbon neutral by 2040, the Company aims to reduce total carbon emissions by 90% by 2030. For more information, see page 86 or visit our website dwrcymru.com/netzero

TOPIC	KEY ACTIVITIES AND DISCUSSIONS IN 2021-2022	KEY ACHIEVEMENT	KEY PRIORITIES FOR 2022-2023
Strategy and management	<ul style="list-style-type: none"> Approach to PR24 planning and involvement in PR24 Wales Forum 	<ul style="list-style-type: none"> Agreement to align PR24 Planning with Welsh Government priorities and objectives for water and to work collaboratively with Government and regulators within a PR24 Wales Forum 	In 2022 the Company plans to consult with stakeholders and engage with Welsh Government and regulators via the PR24 Wales Forum to develop PR24 Plans
	<ul style="list-style-type: none"> Welsh Water 2050 Review 	<ul style="list-style-type: none"> Update to Welsh Water 2050 Strategy as part of detailed PR24 planning approved and published 	Monitoring of strategic responses to Welsh Water 2050 to ensure these are addressed within PR24 planning
	<ul style="list-style-type: none"> Review of Asset Planning and decision to adopt 'multi-capitals' accounting 	<ul style="list-style-type: none"> Review of progress of the new Asset Planning team in assessing the impact of the external environment on our assets and integrating this with our ESG agenda and the use of 'multi-capitals' accounting methodology 	Monitoring of impact of climate change on our assets, adapting of processes and optimising asset investment to sustain and improve performance while minimising risk. Developing investment plans for PR24 based on a multi-capitals approach
	<ul style="list-style-type: none"> Carbon reduction strategy considered 	<ul style="list-style-type: none"> Net zero carbon strategy approved and 'Journey to zero' by 2040 launched on website and social media 	Progress of the strategy being monitored by the Environment, Social and Governance Committee
	<ul style="list-style-type: none"> Environmental performance reviewed 	<ul style="list-style-type: none"> Our River Water Quality Plan developed and the CSO Strategy and Pass Forward flow compliance reviewed 	Monitoring compliance with legal requirements, performance commitments and implementation of plans for additional investment
	<ul style="list-style-type: none"> Board established a new Committee - Cwm Taf Project Committee 	<ul style="list-style-type: none"> The Committee has overseen the governance of the project to construct a new water treatment works, and has recommended to the Board the provision of required assurances to Ofwat in respect of the project (see page 45) 	The Committee will continue to monitor the progress of the project through key procurement and funding stages and will make recommendations for approvals and for provision of required assurances to the Board
	<ul style="list-style-type: none"> Charges for 2022-23 	<ul style="list-style-type: none"> Board approved a structure of charges for 2022-23 that sought to minimise the level of charge increases resulting from the high level of general inflation. The Board also reviewed the provision of financial support for customers struggling to pay their bills 	Monitor impact on customer ability to pay following increased charges and the wider cost of living context, and focus on continuing to strike the right balance between required investment and affordability

CORPORATE GOVERNANCE REPORT

1

BOARD LEADERSHIP AND COMPANY PURPOSE

TOPIC	KEY ACTIVITIES AND DISCUSSIONS IN 2021-2022	KEY ACHIEVEMENT	KEY PRIORITIES FOR 2022-2023
Risk management and internal controls	<ul style="list-style-type: none"> Reviewed Enterprise Risk Management Framework Reviewed Strategic and Emerging risks on a six-monthly basis 	<ul style="list-style-type: none"> New Enterprise Risk Management Framework approved Board constructively challenged Executive team assessment of strategic and emerging risks 	<ul style="list-style-type: none"> Board monitoring of the implementation of the Risk Management Framework across the business, including the further development of risk appetite definition Risk reporting will be kept under review; from 1 April 2022 the new Chief Risk Officer will report to the Board on these issues
Financial reporting and controls	<ul style="list-style-type: none"> Accounting policies reviewed at the Audit Committee Systems of internal control reviewed at the Audit Committee and approved by the Board as part of our year-end reporting to Ofwat (see Annual Performance Report available from mid-July at dwrcymru.com/annualperformancereport) 	<ul style="list-style-type: none"> Accounting policies reviewed with input from the Auditors Enhancements to year-end process reviewed at the Audit Committee 	<ul style="list-style-type: none"> Accounting policies will be regularly reviewed with input from the Auditors on current issues/best practice Further enhancements to year-end processes to be implemented for the 2021-22 year-end reporting to Ofwat (Annual Performance Report)
Environmental, Social and Governance	<ul style="list-style-type: none"> Board established an Environmental, Social and Governance Committee 	<ul style="list-style-type: none"> ESG Strategy agreed and published Committee has established a Forward Schedule to ensure that key performance indicators of progress towards ESG objectives and risks and opportunities relating to ESG related matters can be regularly reviewed 	<ul style="list-style-type: none"> Agree the plans and timescales to deliver, and further define, the agreed ESG objectives
Board composition And effectiveness	<ul style="list-style-type: none"> Nomination Committee reviewed Board composition, succession planning and Committee membership Internal Board effectiveness process comprising a detailed questionnaire and interviews of Directors and Board attendees with the Chair 	<ul style="list-style-type: none"> Changes to Committee membership made, recruitment process for Non-Executive Director initiated (see page 129) Outcomes of 2022-21 Board Effectiveness review (see page 126) reviewed and action plan agreed with implementation monitored at each Board meeting 	<ul style="list-style-type: none"> Board effectiveness review will be externally facilitated process in 2022-23 Complete recruitment process for new Non-Executive director Progress actioning what was agreed in the 2021-22 internal Board effectiveness review

For details of decisions made by the Board in relation to our stakeholders, see the S172 Statement on page 54.

BOARD ENGAGEMENT WITH EMPLOYEES

EMPLOYEE ENGAGEMENT CHAMPIONS AND REPRESENTATIVES OF TEAMS ACROSS THE BUSINESS (VIA VIDEO CONFERENCING)

During 2021-22, three Employee Engagement Sessions were held with Non-Executive Directors to discuss a range of topics, including the Company's response to Covid-19; hybrid working; inclusivity and diversity; sustainability; risk management; the role of the Remuneration Committee and senior colleague pay. The Executive team also held three engagement sessions with colleagues which covered discussion on a variety of topics, with a focus on the impact of ongoing restrictions in working practices, and in some cases remote working challenges, as a result of Covid-19.

INFORMAL MEETINGS WITH MANAGERS (VIA VIDEO CONFERENCING)

During the year, five informal meetings took place by video conference of Non-Executive Directors with managers drawn from across the business to discuss a range of topics, including the Company's response to Covid-19, hybrid working and the Welsh Water 2050 strategy. The Chair and Non-Executive Directors also attended dinner with colleagues around site visits (see over).



OPERATIONAL SITE VISITS

April 2021 – Deb Bowen Rees and Jane Hanson
Usk Reservoir

Llandegfedd Reservoir
Sluvad Water Treatment Works

June 2021 – Jane Hanson

Retail Services, Linea (St Mellons)

June 2021 – Alastair Lyons, Deb Bowen Rees and Jane Hanson

Cardiff Food Recycling Plant
Cardiff East Waste Water Treatment Works (Deb Bowen Rees and Jane Hanson only)
Cog Moors Advanced Anaerobic Digestion (AAD)
Capital Project (Alastair Lyons only)
Prioress Mill Raw Water Pumping Station

August 2021 – Alastair Lyons and Tom Crick

Tŷ Tywi, New Office in Carmarthen
Pendine Water Treatment Works
Hook & Johnston Waste Water Treatment Works
Llys-y-Frân Visitor and Water Sports Centre

October 2021 – Alastair Lyons and Jane Hanson

Dinas Depot
Cwellyn Water Treatment Works
Kinmel Park Depot

February 2022 – Alastair Lyons

Monmouth Waste Water Treatment Works
Upper Carno Dam

March 2022 – Alastair Lyons and Deb Bowen Rees

Cog Moors Advanced Anaerobic Digestion (AAD) – new digester safety upgrade
Llanishen/Lisvane Reservoir – new Visitor Centre construction
Pengarnddu new service reservoir construction site

BOARD DEVELOPMENT AND EDUCATION

Despite the intermittent requirements to meet remotely as a result of the ongoing pandemic restrictions, the Board undertook several development sessions during 2021-22. These included a 'teach-in' on Ofwat's delivery model for large infrastructure projects, Direct Procurement for Customers (July 2021), a Technology dinner attended by Microsoft's Chief Security Advisor, Sarah Armstrong-Smith (November 2021), presentations from sector experts with experience of the price review process for other companies (November 2021), a presentation on innovation projects across the Company (November 2021) and consideration of a natural capital approach to building investment plans (February 2022). The Audit Committee also received 'teach-ins' including the BEIS Consultation: Restoring Trust in Audit and Corporate Governance (November 2021), and the Environment, Social and Governance Committee on TCFD reporting recommendations (February 2022).

CORPORATE GOVERNANCE REPORT

1

BOARD LEADERSHIP AND COMPANY PURPOSE

MEMBERS AND INVESTORS IN 2021-22

In the same way a listed company would have a dialogue with its shareholders, we maintain a regular dialogue with both our Members and bond Investors. We currently have 71 Members, including our eight Board Members who also serve as Glas Cymru Members. Other than those serving members of the Board, Glas Members are selected by an independent Member Selection Panel. Through an annual recruitment process, the aim of the Panel is to maintain a balanced and diverse group of individuals, that broadly reflects the range of our customers and key stakeholders' interests.

OUR MEMBER SELECTION PANEL:

Sir Paul Silk (independent Chair) is joined by Menna Richards, a former Non-Executive Director, Chris Jones, former CEO, and Debra Bowen Rees, current Non-Executive Director. The Company Secretary seeks feedback from the Panel on the format and content of Members' meetings and in relation to the Member recruitment process. The Panel recommends the final list of candidates to the Board for approval.

OUR MEMBERSHIP:

During the year, one Member retired, three Members stepped down and seven new Members were appointed following an advertised (via social media) and open recruitment process. Following appointment, new Members are invited to a full day's induction, usually held at one of our operational sites.

MEMBERS' MEETINGS HELD DURING 2021-22:

2021

- Vulnerable Customers Conference
- Combined Storm Overflow Workshop
- Annual General Meeting (July)
- Opening of Llys-y-Frân, Pembrokeshire*
- Regional meeting held at Plas Uchaf & Kinmel Park, North Wales*
- New Members' Induction
- Half-yearly Meeting (December)

2022

- Welsh Water 2050 Workshop

All meetings were held via Teams except for *

MEETINGS AND DIALOGUE WITH MEMBERS:

The AGM, half-yearly meetings and quarterly workshops are used by the Board to communicate with our Members, including updates on the Group's performance.

Debra Bowen Rees and the Company Secretary are also available to meet with any Member outside of scheduled Member Meetings.

Fortnightly press coverage is sent from the Secretariat to Members via email. Email is used to provide additional information to Members between meetings, including frequent progress updates on responses to operational events affecting the business, including extreme weather events, as they arise.

OUR INVESTORS

We are wholly debt-financed and raising debt at a low cost is a key part of our financial strategy. Our credit ratings are among the strongest in the UK water 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 commensurate with delivering our strategic objectives. Access to financial markets is key to the delivery of our strategy and we maintain close and open relationships with our bond investors.

MEETINGS AND DIALOGUE WITH BOND INVESTORS

The Treasury team ensures our investors are well informed through 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. The senior management team arranges an annual Investor Day each July and the Group Treasurer arranges to meet with Investors as required or when requested. This year's Annual Investor Day is planned to be held on 20 July 2022, and further details of this event will be sent out by email to Investors registered on the Group's stakeholder database.

During 2021-22 the topics on which the team has engaged with our Investors have included the transition to SONIA from LIBOR (the industry standard interest benchmark for sterling debt instruments and other financial products), our external audit tender plans, the project to construct a new water treatment works following Ofwat's Direct Procurement for Customers delivery model (page 45) which will require the consent of our bondholders, due diligence calls from managers of sustainable funds, and preparation for seeking an ESG rating.

Further information on how we engage with our other key stakeholders is set on pages 54 to 57 in the Strategic Report.

2

DIVISION OF RESPONSIBILITIES

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. The Committees then report back to the Board on the matters discussed, decisions taken, and, where appropriate, make recommendations to the Board on matters requiring its approval. There are regular meetings of the Audit, ESG, Nomination, Quality and Environment, Remuneration, and Technology Committees. The Finance Committee meets or conducts business via email communications or by telephone as required. A description of the work of these Committees is set out on pages 128 to 166.

Minutes of the Board and its Committees are available to all Non-Executive Directors, and the Chairs of each Committee report either in writing or verbally to the Board on their activities, subject to the relative timing of the meetings of the Committees and the Board. All Committees are chaired by an independent Non-Executive Director, and comprise a majority of independent Non-Executive Directors, except the Nomination Committee, the Project Committee for the Cwm Taf Water Treatment Works Project, and the now disbanded Project Committee supporting the decision whether to tender for Hafren Dyfrdwy's sludge processing contract, each of which was chaired by the Chair of the Board.

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. See dwrcymru.com/boardterms

THE EXECUTIVE TEAM

The Executive team is led by the Chief Executive Officer, and its members are senior managers from across the business. The Executive Team meets three times per month: it is responsible for the day-to-day running of the business and other operational matters to implement the strategies that the Board has agreed. The Governance Framework diagram on page 109 shows the Board Committees and Management Committees supporting the Executive team. The Board receives reports from the CEO, CFO and members of the Executive team at every scheduled meeting, providing an update on the business' financial and operational performance and any current or emerging issues.

BOARD EFFECTIVENESS

The performance of the Board and its Committees is reviewed annually (see page 126). The composition of the Board is reviewed, also annually, by the Nomination Committee to confirm an appropriate diversity of background, skills expertise and experience, and as part of Director succession planning (this process is set out on page 130). The composition of the Board Committees was reviewed during the year 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 Board Members can suggest items for inclusion.

CORPORATE GOVERNANCE REPORT

2

DIVISION OF RESPONSIBILITIES

DIRECTORS' APPOINTMENT, INDUCTION AND DEVELOPMENT

We follow a rigorous and transparent procedure for the appointment of new Directors to the Board (see page 130).

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. All new Non-Executive Directors join the Quality and Environment Committee for 12 months in order to build their understanding of the operations of the business and its key challenges.

As part of the ongoing development of our Directors, the Company Secretary ensures that updates to 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 also supports the Directors being kept up to date on current developments in governance.

Details of the operational site visits made by our Non-Executive Directors and educational development opportunities for the Board during the year are set out on page 121. Non-Executive Directors are invited to identify topics on which they would benefit from specific training in order to be more effective in their roles.

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, all Directors formally seek 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.

Graham Edwards, Senior Independent Non-Executive Director and Quality and Environment Committee Chair, is the next of our Non-Executive Directors to retire, in 2023, when he will have completed nine years as a Director. A recruitment plan is in place to appoint a new Non-Executive Director, to ensure an orderly handover.

No other resignations from or appointments to the Board have taken place during 2021-22.

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. Potential conflicts of interest are considered at the start of each Board and Committee meeting: Directors would recuse themselves from any matter where such a conflict was considered to exist.

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.

EXTERNAL APPOINTMENTS OF THE EXECUTIVE DIRECTORS

Peter Perry's external appointments are included in his biography on page 114. Mike Davis does not currently hold any external appointments.

MEMBERSHIP AND ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The Board is scheduled to meet 11 times a year. Additional Board meetings are held, as required, during the year. The table on page 112 shows the actual number of Board and Committee meetings held during 2021-22 and the attendance of the Directors at those meetings. Every effort is made by Board members to attend all meetings.

CONFLICTS OF INTEREST

External directorships and other outside business interests are closely monitored, along with the nature and number of external directorships held by the Directors in order to satisfy ourselves that any additional appointments will not adversely impact their time commitment to their role at Welsh Water. Before appointment of a Director, the appointee is asked to disclose any other interests that may result in a conflict of interest and all Directors are required to report to the Board any future business interests that could result in a conflict of interest. Any proposed new external appointments of an existing Director must be discussed with the Chair, in the first instance, and remitted to the Nomination Committee for approval.

CHAIR OF
THE BOARD

- is responsible for the leadership of the Board
- sets the agenda for Board Meetings
- ensures the effectiveness of the Board and its Committees and good governance

SENIOR INDEPENDENT
DIRECTOR

- meets with other Non-Executive Directors and the Executive Directors on an annual basis to review the performance of the Chair
- stands in as Chair of a meeting in the event the Chair of the Board was not able to attend
- acts as an informal sounding board for all members of the Board

NON-EXECUTIVE
DIRECTORS

- challenge the Executive Directors constructively and monitor delivery of the Board's agreed strategy within the risk and control framework approved by the Board; they are also involved in mentoring and supporting members of the Executive team and senior managers across the business
- take an active interest in operational issues affecting the business (see site visits on page 121)

CHIEF EXECUTIVE

- 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

EXECUTIVE TEAM

- has responsibility for implementing the strategy agreed by the Board and for the day-to-day management of the business

COMPANY SECRETARY

- supports the Chair of the Board in ensuring the Group demonstrates good governance
- prepares 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
- 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

MEMBERS

- 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

CORPORATE GOVERNANCE REPORT

3

COMPOSITION, SUCCESSION AND EVALUATION

BOARD EVALUATION

The Board and its Committees have the appropriate balance of skills, experience, independence, and knowledge of the Group to enable them to discharge their respective duties and responsibilities effectively. The Board regularly reviews this in discussions with the Company Secretary, Nomination Committee and through its annual effectiveness review.

During 2021-22 we conducted an internal review. In 2022-23, in accordance with the Code requirement that companies should carry out an externally facilitated evaluation of the Board at least every three years, the review will be undertaken by an independent consultant.

BOARD EVALUATION

The evaluation process involved all Board members and other regular Board and Committee attendees completing an online questionnaire. Areas considered included: diversity; behaviours; interaction with stakeholders; ensuring the right skills and expertise; decision-making; strategic approach; oversight of risk; the Board's understanding of the Company's culture; the process for Board succession; content and format of Board papers; and matters covered by the main Board and each Committee, together with feedback to the Chair and Committee Chairs.

The response to the questionnaire was discussed in one-to-one meetings with the Chair of the Board. The Board met in May 2022 to discuss the results of the review and the specific recommendations that had been proposed to enhance the Board's effectiveness, together with an assessment of progress since the previous review. The Board agreed that good progress had been made in implementing the recommendations from the 2021 evaluation, as set out in last year's Annual Report. Progress against the current year agreed action is reviewed at each Board meeting.

KEY RECOMMENDATIONS IN THE 2021-22 BOARD EVALUATION

RECOMMENDATION	AGREED ACTIONS 2022-23
Workload for Non-Executive directors has increased	Consideration to be given to appointing an additional Non-Executive Director.
Board training and development - suggestions for further opportunities to be identified	Directors discussed potential topics for in-depth teach-in sessions, and agreed to keep this under review.
Board members were keen to see more opportunities for involvement in customer engagement	Proposals for customer engagement and potential for Board participation to be discussed.
Board agendas are heavy and papers are detailed	Agendas to be reviewed in detail in advance and forward schedule to be closely managed.

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 key 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 2022. 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

3

COMPOSITION, SUCCESSION AND EVALUATION

NOMINATION COMMITTEE REPORT



ALASTAIR LYONS

CHAIR OF THE NOMINATION
COMMITTEE

OTHER MEMBERS

- Graham Edwards
- Peter Perry
- Joanne Kenrick

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 would chair the meeting. The Company Secretary acts as Secretary of the Committee.

Meetings held: 2

> SEE PAGE 112 FOR BOARD
AND COMMITTEE MEETING
ATTENDANCE

PRINCIPAL RESPONSIBILITIES

The responsibilities of the Committee are to:

- Ensure the Board has the necessary skills, background, and experience to enable the Group to meet its current and future strategic objectives;
- 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 Committees;
- Ensure that there is a formal, rigorous and transparent procedure for appointments to the Board;
- Maintain oversight over the succession plans developed by the Chief Executive for the Executive team; and

- 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, and on issues relating to gender and race pay equality.

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

FOCUS AREAS LOOKING AHEAD TO 2022-23

- Completing recruitment process for a new Non-Executive Director to succeed Graham Edwards
- Overseeing the induction process
- Reviewing the current makeup of Committees and considering succession issues
- Board succession planning



PRIORITIES	ACTIVITY OF COMMITTEE	OUTCOME OF COMMITTEE ACTIVITY
Board Composition and Balance	Ensuring a balanced range of skills, knowledge and experience on the Board	The Committee considered and commented on a 'skills matrix'.
Ensuring diversity of thinking and approach from Board members	Considering the Group's Diversity and Inclusivity objectives and agreeing proposed amendments to the Board Diversity Policy	A new Board Diversity Policy was approved and published on our corporate website, including a commitment to maintaining at least 33% female representation on the Board, in accordance with the outputs of the Hampton-Alexander Review, and having considered the conclusions of the Parker Review, to aim to appoint at least one Non-Executive Director from an ethnic minority background by the end of 2025. The Committee recognised this date is later than the recommendation of the Parker review but took into account the current Board membership and likely timing of future recruitment to the Board.
Board Committee Membership	Reviewing the current membership of Committees	<p>On joining the Board, Non-Executive Directors generally spend at least 12 months as a Member of the Quality and Environment Committee in order to ensure they have a good understanding of operational issues and challenges. The Committee made some adjustments to Committee membership in light of the retirement of John Warren from the Board and the setting up of the ESG Committee and Cwm Taf Project Committee</p> <p>Tom Crick joined the Remuneration Committee from September 2021. Members of the ESG Committee were appointed from June 2021 as follows: Debra Bowen Rees (Chair), Jane Hanson, Alastair Lyons, Peter Perry, Mike Davis. Members of the Cwm Taf Project Committee were appointed from December 2021: Alastair Lyons (Chair), Graham Edwards, Jane Hanson, Peter Perry, Mike Davis.</p>
Succession Planning	Reviewing succession plans for the Board and Dŵr Cymru Executive team	The Committee discussed succession plans for the Dŵr Cymru Executive team and for the Non-Executive Directors, and also discussed the optimum number of Non-Executive Directors for the Board: the Committee subsequently updated other Non-Executive Directors at a private dinner with the Chair. A decision was taken to recruit a Non-Executive Director to join the Board during 2022 to provide an appropriate handover period before Graham Edwards is due to step down from the Board in July 2023.
Governance and Committee Effectiveness	<p>The Committee reviewed the agreed outcomes of the 2020-21 Board Effectiveness review as pertinent to the Committee.</p> <p>The Committee conducted its annual review of:</p> <ul style="list-style-type: none"> the Committee's Terms of Reference the appropriateness of membership for the Boards of all Group companies. <p>The Committee conducted an annual review of its effectiveness against its own Terms of Reference.</p>	<p>The Committee determined that no amendments were required to its Terms of Reference.</p> <p>In line with the agreed outputs from the Board Effectiveness review for 2020-21, the Committee ensured that the role of advisers to the Quality and Environment Committee was reviewed, and following this review, new advisers were appointed from March 2022.</p> <p>An appraisal of the current skills, backgrounds and experience of Non-Executive Directors was undertaken and Director commitments were reviewed at the May and November 2021 Nomination Committee meetings.</p> <p>Having reviewed its own effectiveness against the Terms of Reference the Committee concluded that it continues to operate effectively and within its Terms of Reference.</p>

CORPORATE GOVERNANCE REPORT

3

COMPOSITION, SUCCESSION AND EVALUATION

BOARD APPOINTMENT PROCESS

The Committee leads the process for making appointments. The Committee is satisfied that the process set out below constitutes a formal, rigorous and transparent process for the appointment of new Directors to the Board which meets the Group's diversity and inclusion objectives, as well as supporting an orderly succession

STAGE 1

The Committee develops a specification identifying the required skills and experience for the role. Generally, 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 are held with the members of the Committee.

STAGE 4

After consideration by the Committee, and the opportunity for other Board members to meet the preferred candidate, a recommendation is made to the Board to appoint the preferred candidate.

SUCCESSION PLANNING

The Committee reviews and assesses Board composition on behalf of the Board and recommends the appointment of new Directors. It maintains oversight of the succession plans developed by the Chief Executive and the Board reviews the succession plans of the Dŵr Cymru Executive team, with an annual update from the Business Support and People Director.

EQUALITY, DIVERSITY AND INCLUSIVITY

As part of the annual effectiveness review of the Board and Board Committees, the Board considers the balance of skills, knowledge, experience, independence and diversity representation as reviewed by the Committee. The Board is alert to opportunities to improve the current level of diversity with regard to skills, experience, backgrounds, race, gender and personal attributes of Board Members. The Committee reports on its progress in implementing the Board Diversity policy and monitoring the diversity of the Board and on the Group's gender diversity ratios in its annual report. It also reports on its oversight of plans to promote diversity within our workforce to ensure that the individuals working for us are representative of the communities that we serve, in accordance with the Group's policies supporting the development of equality, diversity and inclusivity across the business.

In the opinion of the Committee, the Board currently benefits from an appropriately diverse range of skills, knowledge and experience although the Committee seeks to appoint a director from a BAME background at the latest by the end of 2025 or earlier if Board succession plans permit. The Directors' biographies on pages 114 to 116 set out details of their backgrounds, skills and experience, which, for the Board taken as a whole, are diverse and wide-ranging.

At the end of the financial year 2021-22, 33% of our Board (2021: 33%) and 37.5% of the Executive team (2021: 31%) identify as female, while in the wider workforce, of those senior managers reporting directly to a member of the Executive team, 23.4 % (2021: 39%) are female.

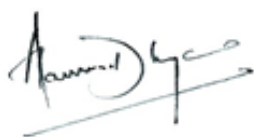
We continue to support the recommendations of the Hampton-Alexander Review which encouraged companies to increase the percentage of women on boards and in leadership teams (comprising the Executive team and direct reports of the executive team) to 33% by 2020, which we have achieved. We are encouraged that we have been able to continue to meet this target and we will continue our focus to maintain this.

We support the recommendations of the Parker Review which encourages companies to increase the ethnicity on boards and, during the year, the Committee approved the Diversity Policy including the target of appointing one Board member from a BAME background by the end of 2025.

We also note the changes to the Listing Rules for reporting periods starting on or after 1 April 2022 to meet specific diversity targets on a 'comply or explain' basis and we will address these requirements over the next year and in next year's Annual Report and Accounts. We know that we can further improve diversity and inclusion across the Company and neither the Committee nor the Board is complacent about these issues. The Group is committed to eliminating discrimination and encouraging diversity and inclusivity to enable us to recruit and retain a diverse workforce.

Our Board diversity statement can be accessed via [dwrcymru.com/boarddiversitystatement](https://www.dwrcymru.com/boarddiversitystatement) on our website.

DIVERSITY POLICY OBJECTIVES	ACTIONS	PROGRESS
The Committee to consider true diversity of thought taking into account the full range of skills, knowledge, experience, backgrounds and characteristics of Board members - the Committee will regularly review Board composition, succession planning, talent development and the broader aspects of diversity.	A diverse Board will include and make use of differences in skills, regional and industry experience, background and race, gender and personal attributes, such as intellect, critical assessment and judgement, courage, openness, honesty and tact; and the ability to listen, forge relationships and develop trust.	The Committee is balancing the consideration of these characteristics, bearing in mind also that all Board appointments are made on merit, in the context of the skills and experience the Board requires to be effective. These factors were taken into account in progressing the recruitment of the Non-Executive Director to succeed Graham Edwards.
The Committee will work with recruitment consultancy firms who understand the Group's values and approach to diversity and will identify and propose suitable candidates.	During 2021-22, the Committee worked with Goodson Thomas, following a best value selection process. The firm is a signatory to the Standard Voluntary Code of Conduct for executive search firms and has committed to adhering to those standards.	The recruitment process is ongoing as at the date of publication of this report.
The Committee will report annually, in the corporate governance section of the Annual Report, on the process it has used in relation to Board appointments, its progress in maintaining or improving the diversity of the Board and on gender diversity ratios.	See pages 129 and 130.	This report evidences the work of the Committee on the process for appointments, progress in maintaining or improving the diversity of the Board and on gender diversity and inclusivity. By reviewing progress year on year, the Committee maintains oversight of the implementation of policies to improve diversity and inclusivity across the business. The review of the Gender Pay Gap report also includes a discussion about the actions planned to further reduce the gap. At its meeting in March 2022, the Remuneration Committee also considered the barriers to ethnicity pay gap reporting.
The Committee will also report 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.	This was reviewed at the March 2022 Board Meeting as part of the development of an action plan to respond to the recent Culture and Engagement surveys (see page 56).	Members of the Board met with representatives of the Re:Think ED&I Group in July 2021, to hear about the progress in recruiting and retaining a diverse workforce and encouraging specific initiatives such as the Company's schools outreach programme, work with community groups, and encouraging colleagues to record ethnicity data to enable future reporting of ethnicity pay gap information.
Review its Diversity Policy annually and recommend any amendments to the Board.	Reviewed in November 2021 and changes recommended to the Board, and duly approved, in February 2022.	The Committee considered the scope and ambition of the Diversity Policy at its November meeting.


ALASTAIR LYONS

Chair of the Nomination Committee
1 June 2022

CORPORATE GOVERNANCE REPORT

4

AUDIT, RISK AND INTERNAL CONTROL

AUDIT COMMITTEE



JANE HANSON

CHAIR OF THE AUDIT COMMITTEE

OTHER MEMBERS

- Debra Bowen Rees
- Graham Edwards (until 29 October 2021)
- Joanne Kenrick

Meetings Held: 5

>SEE PAGE 112 FOR BOARD AND COMMITTEE MEETING ATTENDANCE

The Audit Committee is chaired by Jane Hanson who has a strong background in finance, corporate governance, audit and risk management and has 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 Finance Director, the Head of Business Assurance (from 1 April 2022, the Chief Risk Officer and Head of Internal Audit), the Company Secretary and representatives from the Group's External Auditors, KPMG LLP.

The Committee has unrestricted access to management and external advisers to help discharge its duties.

During the year, the Committee held regular private sessions with the Head of Business Assurance and KPMG without management present.

PRINCIPAL RESPONSIBILITIES

On behalf of the Board the Committee oversees:

- 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);
- the effectiveness and reliability of our risk management framework;
- the integrity and sustainability of the systems of internal control as reviewed by the Internal Audit and Business Assurance functions; and
- the effectiveness, performance, objectivity and independence of the internal and External Auditors.

FOCUS AREAS LOOKING AHEAD TO 2022-23

- Conclude the external audit re-tender process so that the appointed firm is in place from 1 April 2023
- Oversee the developments following the publication of the results from the BEIS Consultation: Restoring Trust in Audit and Corporate Governance being implemented into our corporate governance frameworks
- Oversee the embedding of the Enterprise Risk Management (ERM) Framework adopted in 2021-22



PRIORITIES	ACTIVITY OF THE COMMITTEE	OUTCOME OF THE COMMITTEE ACTIVITY
Financial Performance	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>The Committee recommended that the financial statements be approved by the Board.</p> <p>The Committee reviewed a draft of the 2021 Annual Report and Accounts in order to ensure that it presented a fair, balanced and understandable assessment of the Company's financial status, in accordance with the UK Corporate Governance Code.</p> <p>The Committee gave recommendations to the Board to approve the six-monthly Investor Reports.</p>
Going Concern and Viability Statement	The Committee reviewed updates from External Auditors in relation to increased going concern considerations as a consequence of Covid-19 at the end of the half year and full year end.	The Committee has assessed the prospects of the Company over a period of at least 12 months as required by the 'Going Concern' statement on page 186. The Committee also considered the financial viability of the Group over the next eight years, which it has deemed to be the most appropriate period over which to make this assessment, taking into account our current and next five-yearly regulatory price review period to 31 March 2030. The Group's 2022 Long-Term Viability Statement is set out on page 77.
	<p>The Committee reviewed and commented on the Long Term Viability (LTV) Assessment approach at its meeting in February 2022.</p> <p>At the end of the full year the Committee reviewed the Company's LTV assessment for inclusion in the Annual Report and Accounts.</p>	The Committee agreed the LTV Assessment approach, and the first draft of the 2022-23 LTV Statement incorporating the Committee's comments was presented to the Committee at its next meeting in May.
Internal Audit	<p>Management responses to unsatisfactory and limited-satisfaction audits were 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.</p> <p>The Head of Business Assurance also regularly presents a Whistleblowing Report to the Committee in a private meeting.</p> <p>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 Committee meeting on progress against the internal audit plan. Quality audits undertaken during the year are reported on as part of the internal audit report presented to the Quality and Environment Committee.</p>	<p>The Head of Business Assurance (internal audit) reported regularly on progress against the 2021-22 Internal Audit plan and, in detail, on any audit reports with a less than 'satisfactory' outcome. He also presented his proposed internal audit plan for financial year 2022-23 at the February 2022 meeting of the Committee.</p> <p>The Whistleblowing Reports include details of public interest disclosures made or referred to the internal audit function, and the outcomes, and lessons learned' from the investigation of such allegations.</p> <p>The Audit Committee Chair has monthly one-to-one meetings with the Head of Internal Audit (formerly the Head of Business Assurance).</p>

CORPORATE GOVERNANCE REPORT

4

AUDIT, RISK AND INTERNAL CONTROL

PRIORITIES	ACTIVITY OF THE COMMITTEE	OUTCOME OF THE COMMITTEE ACTIVITY
Internal Control and Risk Management Systems	<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 audits conducted as well as special investigations as a result of whistleblowing incidents.</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>The Committee reviewed progress of the rollout of the Enterprise Risk Management (ERM) Framework prior to this being presented to the Board.</p> <p>The Committee reviewed the Internal Audit Charter which sets out the scope of work for the internal audit function and confirms its independence.</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. The Committee requested a thematic view of whistleblowing activity which reviewed 51 whistleblowing and special investigations conducted in the period since April 2018 and discussed the observations and themes. It was agreed to provide an update of this style of report on an annual basis.</p> <p>The Committee critically reviewed the strategic risks related to financial risk, recession risk and supply chain pressures. It was agreed to ensure that the new ERM Framework reflected the appropriate allocation of risk oversight across Board Committees to avoid any duplication.</p> <p>The Committee approved the Internal Audit Charter and was satisfied that the internal audit function continued to operate on an independent basis.</p> <p>The Audit Committee Chair has monthly one-to-one meetings with the Chief Risk Officer (appointed from 1 April 2022).</p>

PRIORITIES	ACTIVITY OF THE COMMITTEE	OUTCOME OF THE COMMITTEE ACTIVITY
Governance	<p>The Committee received and reviewed the Company's regulatory submissions and assurance processes relating to:</p> <ul style="list-style-type: none"> 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 the publication of our Charging Schemes for 2022-23. 	<p>The Committee provided feedback to the Board on the assurance processes followed for the 2020-21 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 2021.</p> <p>The Committee also received reports on systems of internal control and risk management and on the progress of programmes to improve compliance and internal controls across the business.</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 2022-23 in December 2021.</p>
	<p>The Committee considered and approved certain policies and procedures. These included Treasury and Taxation policies, Supplier Payment Terms.</p>	<p>The Committee gave its recommendation to the Board to approve these policies as set out in the Board's terms of reference. This included approval to provide updated security confirmations to European Investment Bank and to HSBC bank in respect of the LIBOR reform transition.</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 in its 2021 Annual Report and Accounts. It also reviewed a draft of the proposed structure and timetabling for the 2022 Annual Report and Accounts.</p>	<p>The Committee noted compliance with the Code and with Ofwat's Principles, following assurances over the 2021 Annual Report and Accounts from KPMG.</p>
	<p>The Committee reviewed its Terms of Reference and effectiveness as part of the external Board evaluation conducted during the year.</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>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>An example of such an update was an introduction from the Chief Information Security Officer who joined the business in August 2021 following his initial review of the Company's information security and resilience against a cyber attack posture. For more details in this area, refer to the Report of the Technology Committee on page 141.</p>
	<p>The Committee received a presentation from KPMG following a review of the key responses to the BEIS White Paper - Restoring Trust in Audit and Corporate Governance.</p>	<p>The Committee will be provided with a further update on the developments arising from this consultation once the Government publishes the results of its analysis.</p>

CORPORATE GOVERNANCE REPORT

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AUDIT, RISK AND INTERNAL CONTROL

PRIORITIES	ACTIVITY OF THE COMMITTEE	OUTCOME OF THE COMMITTEE ACTIVITY
External Auditors	The Committee is supported by the External Auditors, KPMG LLP. The Committee assesses the effectiveness of the external audit process, the scope of the Group audit and the quality of the audit work throughout the year. It reviews the External Auditors' confirmation of independence, which is included in its half-year and end-of-year reports to the Committee. These reports set out the policy procedures by which the Committee satisfies itself that there are no factors which may, or may be seen to, impinge upon the independence and objectivity of the external audit process, particularly the level of fees relating to non-audit work.	KPMG presented their audit plan for the 2021–22 financial year to the Committee in November 2021 and have reported on progress against it at subsequent meetings of the Committee. This set out specific areas which continued to impact the audit as a result of the Covid-19 pandemic, including a change in scope in response to new and increased risks of material misstatement, and anticipated challenges in conducting certain aspects of the audit, and in the assessment of going concern, given the rapidly changing environment and uncertainty about future economic conditions. The audit plan also highlighted changes in governance and accounting and tax regulation that will impact on financial reporting. The Committee approved the Audit Re-tender process in November 2021, to appoint an external audit firm from 1 April 2023.
	The Committee received reports from KPMG on the Audit Plan KPMG and Strategy for the year ending 31 March 2022 at the half year, in November 2021 and in May 2022, containing the results of the end of year audit. Each report included a confirmation of independence from KPMG and representation letter to be provided by management to KPMG.	The Committee reviewed and approved the KPMG reports at the half year and full year, including the confirmations of independence, being satisfied that the objectivity of the External Audit Partner and audit staff was not impaired, including in relation to the provision of non-audit services (see page 137 for details of fees). The Committee approved the management representation letters which were then signed by the Chief Financial Officer on behalf of the Company and provided to KPMG.
	The Committee reviewed and approved the internal questionnaire to be completed by internal stakeholders to review the effectiveness of KPMG as external auditor following the statutory audit for the year ended 31 March 2022.	The output from this review, together with suggested areas for improvement for the ensuing financial year, will be presented to the Committee at its meeting in September 2022.
	The Committee invited KPMG to discuss the firm's Audit Quality Review published by the Financial Reporting Council (FRC), published in July 2021.	James Ledward, KPMG external audit partner, provided context to the FRC review which monitors the quality of audit work, to the Committee, and highlighted some areas of improvement. The Committee noted that improvement plans are being implemented including tools, processes and technologies that further enhance high quality, consistent and efficient audit delivery.

FINANCIAL REPORT AND SIGNIFICANT ESTIMATES AND JUDGEMENTS

During 2021-22 the Committee considered the following specific issues in relation to financial reporting of the interim and year-end results.

KEY JUDGEMENT AND ESTIMATES	AUDIT COMMITTEE REVIEW	CONCLUSIONS
Provision of impairment and receivables	The approach to setting the bad debt charge was reviewed in detail.	Having assessed current cash collections performance, the Committee concluded that the current bad debt provision was appropriate, although this will be closely monitored in light of current economic conditions.
Classification of costs	Classification between operating expenditure and capital expenditure was reviewed.	Classification of costs between operating expenditure and capital expenditure was considered to be appropriate.
Reasonableness of the defined benefit pension liabilities assumptions	The assumptions that are applied to the pension valuation that include discount and inflation rates.	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.
Parent company investment valuation	The valuation of the parent company's investment in subsidiaries stated at fair value using a discounted cash flow model.	Use of future cash flow forecasts and Regulatory Capital Value as terminal value noted as appropriate.

> THE ABOVE MATTERS ARE DISCUSSED IN MORE DETAIL IN THE AUDITOR'S REPORT ON PAGE 172.

AUDIT TENDER/AUDIT PARTNER ROTATION

As set out in the Committee's last report in the 2020-21 Annual Report, in light of the ongoing pandemic and the change in the Audit Committee Chair in July 2021, the Committee agreed to defer the Group's external audit tender plan for a further year until the end of the 31 March 2022 statutory audit (and subsequently until 31 March 2023) and for James Ledward to continue as Audit Partner for the same period. The Committee discussed the plan at its meetings in September and November 2021 and agreed to commence the external audit tender in December 2021.

KPMG LLP was appointed as the Group's external auditor following the completion of a transparent and independent audit tender process in 2015 for the 2015-16 financial year end. 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. While the Group is not required to tender existing external audit services until 2025, when KPMG will have been the Group's auditor for 10 years, the Committee felt it prudent to re-tender these services and to enter into a contract term more aligned with standard

practice relating to the provision of external audit services.

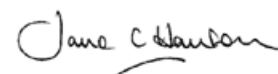
The Committee is following the FRC's guidance notes on best practice for audit tenders during the external audit tender process.

The procurement plan for the audit tender, approved by the Committee in November 2021, commenced in December 2021. A period post Pre-Qualification Stage of the process was allowed for the participating firms to engage with Welsh Water, prior to the submission of tenders in August 2022. The Committee will put forward its recommendation of at least two of the firms, providing a clear preference for one of the two firms to be the Company's auditor, to the Board, for the Board's formal approval. A period of handover will precede the successful firm commencing the statutory audit for the year commencing 1 April 2023.

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). To comply with the FRC's revisions to the Code, there is a cap on fees for non-audit work across the Group of 70% of the three-year average statutory external audit fee for the Group in any financial year, applicable from the financial year starting 1 April 2020. During the period 2021-22, audit fees for the Group's financial statements totalled £340,000 (2021: £302,000), fees for other audit-related assurance services were £84,000 (2021: £82,000) and fees for other non-audit related services amounted to £68,000 (2021: £38,000). As a result, non-audit fees accounted for 13.8% (2021: 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 198.



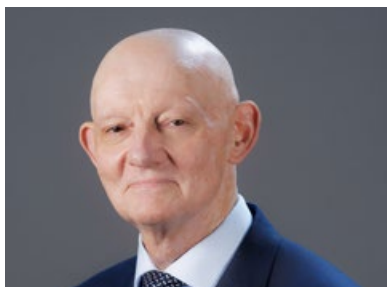
JANE HANSON
Chair of the Audit Committee
1 June 2022

CORPORATE GOVERNANCE REPORT

4

AUDIT, RISK AND INTERNAL CONTROL

QUALITY AND ENVIRONMENT COMMITTEE REPORT



Graham Edwards

CHAIR OF THE QUALITY AND
ENVIRONMENT COMMITTEE

OTHER MEMBERS

- Debra Bowen Rees
- Tom Crick
- Jane Hanson
- Alastair Lyons
- Peter Perry

INDEPENDENT CONSULTANTS

- Steve Brown (until 4 May 2022) (Expertise in the Environment and Wastewater performance)
- Julian Dennis (until 2 March 2022) (Expertise in Water and Public Health)
- David Elliott (Expertise in the Environment and Wastewater performance). Appointed 2 March 2022 to replace Steve Brown.
- Milo Purcell (Expertise in Water and Public Health). Appointed 2 March 2022 to replace Julian Dennis.

Meetings held: 7

> SEE PAGE 112 FOR BOARD AND COMMITTEE MEETING ATTENDANCE

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 2021-22 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 Pollution Prevention Strategy, Waste Water Treatment Works Compliance Strategy (including flow and EDM), Sustainable Management of Natural Resources, Leakage Strategy, Regulation 26 Strategy (water treatment and disinfection), Brecon Beacons Mega Catchment Strategy, Flooding Strategy, Storm Overflow Assessment Framework, Protective Security Strategy 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
Closely monitoring Health and Safety, especially with the impact of the pandemic and changes to our work practices	<p>Annual and quarterly Health and Safety Reports were presented by the Director of Health and Safety, and the Committee also reviewed reports of Health and Safety incidents, near misses or potential risks.</p> <p>During the year, the Committee followed the investigation of the catastrophic explosion at another water company's anaerobic digester site and considered the recommended general process safety enhancements and the timing of these being implemented.</p>	<p>Reviewed and constructively challenged the reports, including actions taken to ensure continued safety of the workforce during the pandemic restrictions.</p> <p>The Committee considered the actions put in place by the Company in responding to expert advice on general enhancements that might be effected in response to the issues experienced on another company with regard to an incident on an anaerobic site and approved the proposals for change.</p>
Hearing directly from our key regulators on their priority areas for the Company	The Committee received presentations on our performance from the Chief Inspector of the Drinking Water Inspectorate and Directors from Natural Resources Wales.	These are positive opportunities to engage with key regulators. We received feedback on our performance and areas for improvement. The Committee reviewed the plan put forward to reverse the decline experienced in the year in the Company's clean water performance as measured by the Drinking Water Inspectorate.
Reviewing in detail the Company's response to severe weather events	The Committee reviewed root causes of the flooding to customer properties which occurred during storm events across our supply area in January/February 2022 (Storms Dudley, Eunice and Franklin), and considered the appropriateness of the short-term mitigation plan and lessons learned.	The Committee noted the improvements in responses to the later storms as a result of lessons learned and changes implemented earlier in the winter.
Monitoring operational performance against key performance indicators for drinking water and environmental standards	<p>At every meeting the Committee receives management reports from the:</p> <ul style="list-style-type: none"> Managing Director of Water Services, Asset Planning and Capital Delivery; Managing Director of Wastewater Services, Business Customers and Energy; and Regulatory correspondence updates from the Director of Quality Policy & Compliance. 	The Committee reviewed and constructively challenged the reports and agreed the format for 'dashboards' setting out areas of improvement in relation to KPIs identified by the Committee.
Reviewing updates of progress against key operational strategies	<p>The Committee routinely received progress updates in respect of operational strategies, including:</p> <ul style="list-style-type: none"> Water treatment and disinfection Iron and Customer Acceptability Lead Leakage Pollution Sewer flooding 	The rate of progress of implementing the operational strategies was considered and short and medium-term priorities were agreed.

CORPORATE GOVERNANCE REPORT

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AUDIT, RISK AND INTERNAL CONTROL

PRIORITIES	ACTIVITY OF COMMITTEE	OUTCOME OF COMMITTEE ACTIVITY
'Teach in' sessions on technical issues	<p>The Committee occasionally spends additional time on a 'deep dive' session on issues that benefit from a detailed review, such as:</p> <ul style="list-style-type: none"> Nutrient pollution issues Flow compliance for wastewater. 	<p>The Committee considered the level of investment proposed in relation to these operational issues and the focus of the investment, and how guidance on planning issues from Natural Resources Wales is impacting development in the vicinity of the SAC (Special Areas of Conservation) rivers.</p> <p>The Committee noted the implementation of the strategy of focused operational monitoring, effective planned maintenance and rapid response to escalating issues, given limited options for additional discretionary investment available during the current investment period, AMP7.</p>
Continued oversight of the 'pipes in dams' capital projects at a number of our reservoir locations	<p>Annual report on Dam Safety, including a review of the 'pipes in dams' project.</p>	<p>The annual report noted that 36 'Measures in the interests of safety' (MITIOS) had been due during the year and that all had been delivered; good progress had also been made on the 'Pipes in Dams' capital programme and work had now been completed at 14 out of 26 priority dams. The Committee recommended the annual report on Dam Safety to the Board for approval.</p>
Governance	<p>The Committee reviewed:</p> <ul style="list-style-type: none"> Its terms of reference Forward Schedule of agenda items for 2021-22 <p>The Committee also reviewed its effectiveness as part of the detailed Board evaluation conducted during the year.</p>	<p>The Committee's review of its performance concluded that the Terms of Reference remained appropriate and that the Committee had continued to make good progress during 2021-22.</p>



GRAHAM EDWARDS

Chair of the Quality and Environment Committee
1 June 2022

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AUDIT, RISK AND INTERNAL CONTROL

TECHNOLOGY COMMITTEE REPORT

**TOM CRICK**

CHAIR OF THE TECHNOLOGY
COMMITTEE

OTHER MEMBERS

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

Meetings held: 4

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

The Technology Committee is chaired by Prof. Tom Crick, who has an extensive background in computer and data science. The Managing Director of Water, Asset Planning and Capital Delivery attends all meetings of the Committee.

**PRINCIPAL
RESPONSIBILITIES**

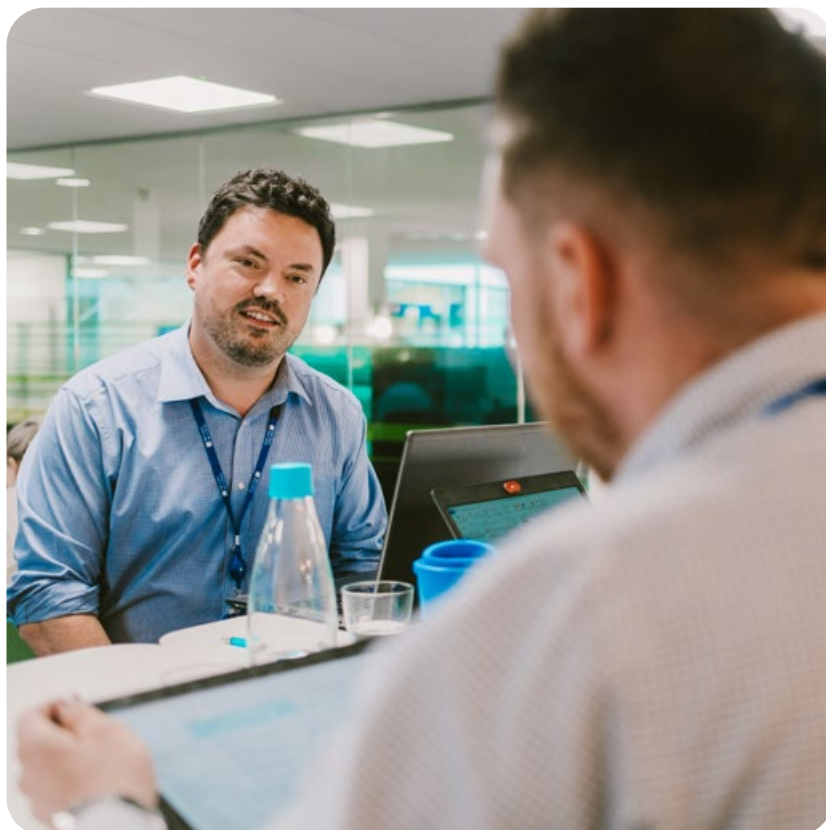
To approve the strategies developed for the Group's information technology (IT), operational technology (OT), and information security provision to support the achievement of the Group's medium-term business objectives in the most efficient manner and in accordance with the Group's identified risk appetite.

To review the implementation plans to deliver the Group's technology strategies and to oversee the progress being achieved, including reviewing and tracking progress of the Group's obligations under the Network and Infrastructure Systems (NIS) Regulations 2018.

**FOCUS AREAS LOOKING
AHEAD TO 2022-23**

Review and monitor progress with the:

- IT Service team transformation and ongoing development
- Security programme, including focus on cyber threat due to geopolitical situation (Ukraine), increasing our CMMI security maturity level to a target maturity level of 3 in 2023 and improving cyber risk awareness across the business
- Cloud migration
- Implementing the AMP7 Investment Plan and planning investment for PR24 (AMP8)
- The Company's readiness for the discontinuation of Public Switched Telephone Network (PSTN) in 2025.



CORPORATE GOVERNANCE REPORT

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AUDIT, RISK AND INTERNAL CONTROL

PRINCIPAL ACTIVITIES	ACTIVITY OF COMMITTEE	OUTCOME OF COMMITTEE ACTIVITY
IT Strategy	<p>The Committee received strategic updates at each meeting which focused on:</p> <ul style="list-style-type: none"> • The AMP7 Investment Plan and its alignment to the Technology Strategy; • Progress with the new delivery model, including the roles of our key partners and in-house team; and • The Company's journey to Cloud. <p>The Committee received a strategic overview from the new functional Head of Enterprise Applications.</p> <p>The Committee received updates on the Company's SMART (water and wastewater network) Strategy and its Alarm Management Strategy.</p>	<p>The Committee considered the current strategy, the technology landscape, and team/partner capability, in the context of the AMP7 delivery plan and the Group's longer-term plans as set out in Welsh Water 2050.</p> <p>The Committee monitored progress with the contract renewal with a key Cloud support partner for a further five years.</p> <p>The Committee noted the Cloud programme's progress and governance arrangements which included senior representation from Welsh Water and our key partners.</p> <p>The Committee noted progress towards: addressing the enabling capabilities gap; adopting a more agile methodology; and re-establishing appropriate governance arrangements.</p> <p>The Committee noted the progress on both strategies since their early development and agreed that these updates should become annual updates to the Committee.</p>
Information and Cyber Security	<p>The Committee received updates from the Chief Information Security Officer (CISO) at each meeting on progress with the AMP7 Information Security Plan, including:</p> <ul style="list-style-type: none"> • remediation plans, Security Target Operating Model and revised funding to support our information security programme; and • Key information security risks, including a KPI dashboard. <p>Members of the Board received a 'teach in' from the Chief Security Adviser in Microsoft's Cybersecurity Solutions Area, on the cyber security and compliance landscape.</p> <p>The Committee received an update on the current threat landscape, including the recent NCSC Guidance on the Ukraine threat.</p>	<p>The Committee closely monitored progress with the delivery of the Information Security Programme, including security risk and governance and activities to develop further the security culture at Welsh Water.</p> <p>The Board and senior Security Operations colleagues reviewed the Company's plans for cyber resilience in the context of this input.</p> <p>This will remain the priority for the CISO and Cyber Security Team with updates provided to the Committee as appropriate.</p>

PRINCIPAL ACTIVITIES	ACTIVITY OF COMMITTEE	OUTCOME OF COMMITTEE ACTIVITY
Operational Technology	<p>The Committee received updates on OT performance and security measures.</p> <p>The Committee also received progress updates on our compliance with the Drinking Water Inspectorate's (DWI) NIS Regulations 2018 following the DWI's assessment of our Cyber Assessment Framework (CAF) responses.</p> <p>The Committee reviewed the impact on the Company of the discontinuation in 2025 of the Public Switched Telephone Network (PSTN), which provides infrastructure and services for public telecommunication.</p>	<p>The Committee noted the wider use of technology to protect the Company's operational assets. This is supported by combining the existing ITS and OT Cyber Security programmes to ensure consistent delivery and deployment approach across both environments.</p> <p>The Committee noted good progress under the NIS Regulations and that half-yearly updates would be brought to the Committee.</p> <p>The Committee will continue to monitor the management of this transition, which is through both a Company and industry response via the Water UK Operations Strategy Group, considering different technology solutions appropriate to our affected assets. Updates will be brought to the Committee at each meeting.</p>
Governance	<p>The Committee reviewed, with input from the CTO and CISO:</p> <ul style="list-style-type: none"> • Its terms of reference; and • Forward Schedule of agenda items for 2021-22. <p>The Committee also reviewed its effectiveness as part of the detailed Board evaluation conducted during the year.</p>	<p>The Committee approved minor amendments to its terms of reference.</p> <p>The 2021-22 Forward Schedule was approved by the Committee.</p> <p>The Committee's review of its performance concluded that the Committee had made good progress during 2021-22 in its oversight of the Group's IT, OT and information security provision.</p>

The Committee noted a positive step change in the progress made during the past year, acknowledging the impact of the Company's first CTO who joined during 2020, and the recruitment of a permanent CISO, who joined in August 2021. This has been further reinforced with other senior appointments in the key areas of Enterprise Applications, Security Risk and Governance, and Security Operations that have been made during the year as part of the ITS Transformation Programme. The Committee will continue to keep a clear focus on the emerging threat landscape and the Company's commitment to further developing its cyber resilience.



TOM CRICK

Chair of the Technology Committee
1 June 2022

CORPORATE GOVERNANCE REPORT

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AUDIT, RISK AND INTERNAL CONTROL

ENVIRONMENT, SOCIAL AND GOVERNANCE COMMITTEE REPORT



DEBRA BOWEN REES

CHAIR OF THE ESG COMMITTEE

OTHER MEMBERS

- Jane Hanson
- Alastair Lyons
- Peter Perry
- Mike Davis

Meetings held: 4

> SEE PAGE 112 FOR BOARD AND COMMITTEE MEETING ATTENDANCE

In the absence of the Committee Chair, and/or their nominated alternate, who will also be a Non-Executive Director, the remaining members present shall elect one of themselves to chair the meeting.

PRINCIPAL RESPONSIBILITIES

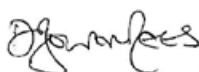
The responsibilities of the Committee are:

- Developing and overseeing the Group's ESG Strategy, including the definition of key objectives within the strategy;
- Monitoring performance against the Group's ESG targets and key performance indicators;
- Reviewing the Group's progress towards the achievement of its Carbon Reduction Target;
- Considering third-party partnerships entered into in relation to the ESG Strategy;
- Considering the reporting conventions and the range of ESG metrics that should be adopted by the Company;
- Approving how the ESG Strategy is communicated internally and externally;
- Considering the Company's reporting to ESG Rating Agencies, and the selection of rating agencies by which to be assessed;
- Reviewing upcoming ESG reporting requirements and the Company's assessment of their implications, both strategically and operationally, for the Company's business and its reputation; and
- Ensuring that the Company maintains appropriate policies to effectively support the Company's ESG framework, in particular its environmental impact.

FOCUS AREAS LOOKING AHEAD TO 2022-23

- Further developing specific objectives in the context of the ESG Framework Document which was finalised and agreed by the Committee in September 2021 and reporting progress against these objectives through agreed KPIs;
- Overseeing the Group's application for its initial ESG rating based on 2021-22 reporting;
- Reviewing progress against key policies relevant to the Group's ESG Strategy;
- Reviewing the Company's progress towards the achievement of its Carbon Reduction Targets; and
- Reviewing the effective stakeholder communication of the Group's ESG Strategy and progress.

PRIORITIES	ACTIVITY OF COMMITTEE	OUTCOME OF COMMITTEE ACTIVITY
ESG Framework	The Committee considered the draft ESG Framework and suggested amendments to the document as a working document for the Executive team to use in planning content to bring to the Committee.	ESG Framework Document and draft KPI metrics table approved by the Committee in November 2021.
ESG Strategy	Key elements of the Strategy Document were discussed at the September and November 2021 meetings of the Committee and approved at the February meeting.	ESG strategy published on the Group's website dwrcymru.com/esg
Key Stakeholder Relationships	The Committee reviewed key stakeholder relationships and actions arising.	Understanding of the interaction of the Company with key stakeholders on ESG issues.
ESG Rating	The Committee considered the options for obtaining an ESG-related rating that the Group could seek to evidence the Group's ESG credentials.	The Committee agreed that it would seek a rating from Fitch based on 2021-22 reporting.
Wellbeing Commitments and ESG Strategy Objectives	The Committee reviewed performance against the Company's Wellbeing Commitments with deep dives into: <ul style="list-style-type: none"> • Net Zero Carbon Strategy • Community Fund investments • Biodiversity Strategy. 	The Committee considered and challenged the Company's performance against key objectives.
Presentation from the Chair of the Customer Challenge Group	Peter Davies, Chair of the Customer Challenge Group (CCG), presented to the Committee on the CCG's review of the Company's performance against its Wellbeing Commitments.	The Committee noted the CCG's feedback and considered its relevance to the Company's plans for delivering against the Wellbeing Commitments in the context of delivering against its ESG Strategy objectives for future reporting periods.
Commitment to the UN Global Compact	The Committee considered the proposal to commit to meeting the objectives of the UN Global Compact.	The Committee recommended to the Board that a commitment to the UN Global Compact should be made by the Group and the Board duly endorsed that recommendation in March 2022.
Governance and Committee Effectiveness	The Committee considered and approved Terms of Reference for this new Committee of the Board.	The Committee recommended to the Board for its approval the Terms of Reference for this new Committee and these were adopted in June 2021.


DEBRA BOWEN REES

Chair of Environment, Social and Governance Committee
1 June 2022

CORPORATE GOVERNANCE REPORT

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REMUNERATION

REMUNERATION COMMITTEE REPORT



JOANNE KENRICK

CHAIR OF THE REMUNERATION
COMMITTEE

OTHER MEMBERS

- Debra Bowen Rees
- Alastair Lyons
- John Warren
(to 2 July 2021)
- Tom Crick
(from November 2021)

Meetings held: 6

> SEE PAGE 112 FOR BOARD AND COMMITTEE MEETING ATTENDANCE

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.

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 own 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

During 2021-22, the Committee received independent advice from Deloitte LLP which is 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 2021-22 totalled £36,950 (plus VAT).



SECTION 1: REMUNERATION COMMITTEE CHAIR'S STATEMENT

DEAR GLAS MEMBERS

On behalf of the Board, I am pleased to present our 2021-22 Remuneration Report.

STRUCTURE OF THIS REPORT

For this year we have retained the simplified structure of our remuneration disclosure that we introduced last year.

This Report is split into six sections:

SECTION 1

Remuneration Committee Chair's statement (pages 147 to 148)

SECTION 2

The Alignment of Pay and Performance, Remuneration Principles and Ofwat guidance (pages 149 to 151)

SECTION 3

Summary of Directors' Remuneration Policy for AMP7 (2020-2025) which was approved by Glas Members at the 2020 AGM (pages 152 to 155)

SECTION 4

Pay outcomes for 2021-22 (pages 156 to 161)

SECTION 5

Pay decisions made in relation to 2022-23 (pages 161 to 163)

SECTION 6

Other Important Information which is disclosed in line with best practice guidance (page 164)

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

This year, the Company has continued to deliver its services in very challenging circumstances given: the continuing Covid-19 pandemic and managing the resulting workforce absences while adapting working conditions; the supply chain disruption caused in part by EU Exit and in part by Covid-19 and, more recently, the disruption caused by the war in Ukraine; and the intensified external focus on the Company's environmental performance. The Committee has also continued to take into consideration the impact of these factors on the Company's customers and communities when making decisions on executive pay.

Despite the challenges of the last year and in particular the burden that Covid-19 has placed on many of our employees, the Committee has recognised the sustained high quality of service provided to our customers. To reflect this a payment of £1,000 was made under our Colleague Reward scheme to over 2,200 employees (2021: £1,100).

The Company has also continued to review our progress in establishing a diverse workforce that reflects 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 2021-22 see page 86. Fair workforce and Executive pay policies remain 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 July 2021.

The Committee also received feedback from Glas Members at the 2021 Annual General Meeting and the December Members' meeting and the Chair of the Committee met with those Members who wished to discuss remuneration issues individually during summer 2021. 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.

REMUNERATION COMMITTEE FOCUS AREAS IN 2021-22

As we have adopted public listed governance, although we are not a listed company, we put our Remuneration Policy to Glas Members for approval every three years. Our Directors' Remuneration Policy for AMP7 was last approved by Glas Members at the Annual General Meeting on 3 July 2020.

This year, the Committee has continued to focus on implementing this Policy. This has included reviewing how targets are set for AVPS (Annual Variable Pay Scheme) awards consistent with incentivising the delivery of the principal performance commitments set by Ofwat in the Final Determination of the PR19 regulatory price review. Having reviewed the outcomes for the first year of the scheme, it became clear that the approach of using the cumulative ODI performance for customer, strategic and operational performance meant that over or under-performance in relation to a single metric would have a disproportionate impact on the AVPS outcome in a way that had not been anticipated and was not intended when the scheme was introduced. Accordingly, the Committee considered proposals for amending how AVPS targets are set for 2021-22 and future awards to simplify them and to make it more likely to produce a balanced outcome which reflected performance across all relevant measures.

CORPORATE GOVERNANCE REPORT

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REMUNERATION

For 2021-22 AVPS awards, as the measures and approach had already been communicated to employees and Members, the Committee agreed to retain the overall framework but to limit the impact of any single measure within a range of threshold to maximum ODI performance for that measure. This outcome would then be subject to a discretionary assessment by the Committee to make sure that the 2021-22 outcomes are consistent with the overall performance delivered to customers in the period, including consideration of environmental measures. Based on this approach, the initial formulaic AVPS outcome was higher than expected. However, the Committee noted that this outcome would be an increase compared to the 2020-21 AVPS despite performance in a number of key metrics being at threshold level. The Committee therefore applied its discretion to reduce the outcome for the operational element from 24% to 12% of maximum, and to reduce the customer element to produce an overall outcome of 40% of maximum. The Committee agreed that this reduced outcome was more closely aligned to performance in the period and the experience of customers. See page 158 and 159 for details of targets set and performance achieved.

For 2022-23 AVPS awards, it was agreed to reduce the number of measures under the customer, operational and strategic elements to focus on the most important and impactful measures, and to set weightings for each of these measures rather than pooling total ODI performance. The new targets and weighting are explained on page 162 below. These changes in targets are not a formal amendment to the Policy which would require approval from Glas Members, and have been scrutinised by the Committee to ensure that the resulting outcome still represents appropriate delivery of challenging targets in order to earn variable pay. For LTVPS (Long Term Variable Pay Scheme) awards, the Committee also reviewed the approach to target setting and

whether the cumulative ODI approach should be retained or whether instead the approach used for AVPS awards should be applied. Overall, the Committee determined that, as the targets have been set for the full AMP7, and the structure allows for overall outcomes to be adjusted at the end of period, it would be reasonable to take a prudent approach to the interim targets and not make any adjustment at this stage. However, consistent with the plan structure, the Committee can consider applying discretion to adjust awards upwards or downwards and the LTVPS could potentially be adjusted upwards to better align the award with the performance achieved under the plan over the full AMP7 period.

The LTVPS outcome for 2021-22 was 31.9% of maximum with the totex element being met just above target level, and the performance development threshold targets not being met. In accordance with the LTVPS rules the award is capped at 30%. See page 159 to 161 for details of targets set and performance achieved.

In line with the normal annual cycle, the Committee reviewed salary 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 2021-22, and National Living Wage and Real Living Wage rates. The Committee decided to increase Executive Director salaries by 2.8% from 1 April 2022, which was 2% lower than the increase of 4.8% for the wider workforce under the terms of the AMP7 Working Together Agreement.

The Committee also reviewed the fee for the Chair of the Board. A benchmarking exercise took place looking at fees paid by other water companies and UK listed companies of comparable size and complexity. As part of this exercise the Committee also took into account previous practice of discounting the benchmark to reflect the Company's not for dividend structure, current rates of inflation, and the time commitment

for the role, given the nature of the Company's regulated activity. Taking all these factors into account a 2.8% increase was agreed effective 1 April 2022. This is the first increase to the Chair's fee since 2018.

REMUNERATION COMMITTEE FOCUS AREAS IN 2022-23

During 2022-23 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.

The Committee also recognises the importance of setting and implementing appropriate remuneration policies in attracting and retaining a diverse and engaged workforce, and this complements other initiatives being undertaken by the business to promote equality, diversity and inclusivity across the organisation. 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.

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
1 June 2022

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 the inside front cover of this report, 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.

CORPORATE GOVERNANCE REPORT

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REMUNERATION

When developing the Remuneration Policy and considering its implementation for 2022, 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:

Clarity	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). Actual incentive outcomes are set out in the Remuneration Report each year.
Simplicity	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.
Risk	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 to both the AVPS and LTVPS.
Predictability	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.
Proportionality	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 consider the data in its context, including the complexity of the role. As an additional reference we also consider the application of a discount to the market data in order to reflect our not-for-shareholder status.
Alignment to culture	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 determined by achievement against 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.

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

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 36).

Delivery against customer metrics is a key part of our incentive structure 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 on page 229).

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.

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 encourage a focus on achieving the long-term strategy of the Company. It must also be fair to individuals and the wider workforce. The Committee is mindful when thinking about levels of pay of our not-for-shareholder corporate structure.

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 in its delivery for customers.

For AMP7, the AVPS was amended to focus on the key performance objectives of the business plan while LTVPS objectives are linked to a

ROLE OF GLAS MEMBERS

Glas Members perform an essential governance function for the Group in the approval of remuneration policies. The 2021-22 Annual Report on Remuneration will be subject to an advisory vote by Members at the forthcoming 2022 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 a 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 Policy for AMP7 at the 2020 AGM, and last approved the Annual Report on Remuneration at the 2021 AGM with the votes as follows:

	Vote for
Members (present in person or by proxy) who voted in favour of the Annual Report on Remuneration – 2021 AGM	96%
Members (present in person or by proxy) who approved the Directors' Remuneration Policy for 2020-2025 – 2020 AGM	90%

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. One of these sessions, held in July 2021, 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.

See page 121 for other examples of Board engagement and details of site visits undertaken in 2021-22.

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

The Board 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. The views of other relevant stakeholders, including Ofwat and other regulators, Defra and Welsh Government and the CCWater, are also taken into account.



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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
Base salary	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"> • Role, experience and performance • Wider economic conditions • Increases awarded throughout the rest of the workforce • Periodic reviews of remuneration within the water sector. 	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
Benefits	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

	PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY	PERFORMANCE METRICS
Pension	To help attract and retain high-calibre employees.	<p>All employees, including Executive Directors, are 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% (9.6% from 1 April 2022).</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 in which Peter Perry participates.</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



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	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"> • Paid as cash • Not pensionable • Clawback provisions apply in the following circumstances: <ul style="list-style-type: none"> – Material misstatement or a calculation error in assessing any Group member company's financial results – Material failure of risk management in any Group member company or a relevant business unit – Gross misconduct or reputational damage caused to the Company or Group member company – Material corporate failure in any Group member company or a relevant business unit <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.

	PURPOSE AND LINK TO STRATEGY	OPERATION	OPPORTUNITY	PERFORMANCE METRICS
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 2025 (to a maximum potential award of 60% per annum).</p>	<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.</p>
Non-Executive Directors	<p>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.</p>	<p>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.</p> <p>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.</p>	<p>Non-Executive Directors do not receive any additional fees for chairing committees.</p>	<p>Annual Review</p>

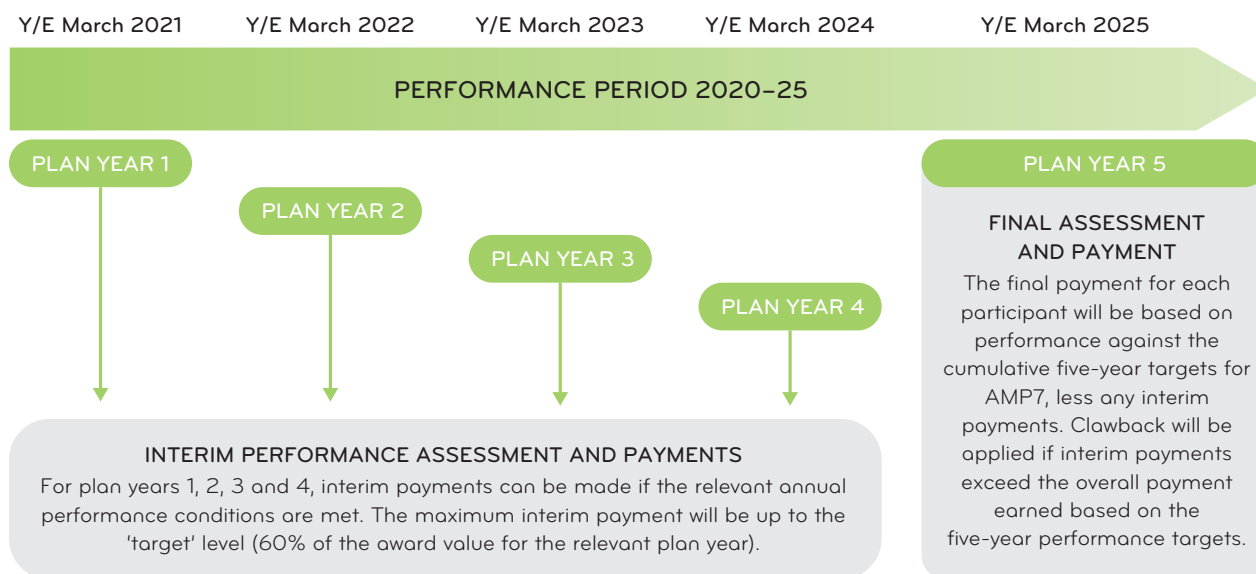
The elements of the Remuneration Policy which address Executive Directors joining and leaving the Board are set out in the 2020 Annual Report which is available at dwrcymru.com/glasgymrereports.

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LONG-TERM INCENTIVE – LTVPS

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



SECTION 4: PAY LAST YEAR – 2021-22

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.

FIXED PAY

The Annual General Salary Award is agreed with our recognised trade unions and salaries are uplifted consistently across the workforce. For the 2022 salary review the Committee, on the recommendation of the Executive Directors, decided it would not be appropriate to align the Executive Director salary increase with that of 4.8% awarded to the wider workforce in accordance with the AMP7 Working Together Agreement but instead reduced the percentage by 2 percentage points. This resulted in a 2.8% increase from 1 April 2022.

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 above Band 5) and the Colleague Reward Scheme (Bands 1-5) 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, to a greater or lesser degree, ensures transparency and a sense of shared ownership of the targets.

The Annual Variable Pay Scheme includes an element of opportunity based on achievement of personal objectives, as well as on Company performance. Maximum opportunity ranges from 10% to 60% 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 2021-22: £1,000
- Actual pay-out 2020-21: £1,100
- Actual Pay-out 2019-20: £1,500
- Actual Pay-out 2018-19: £1,000.

PAY FOR EXECUTIVE DIRECTORS

HOW MUCH EXECUTIVE DIRECTORS WERE PAID FOR 2021-22 (AUDITED)

		Peter Perry		Mike Davis	
		2022 £'000s	2021 ¹ £'000s	2022 £'000s	2021 ¹ £'000s
Fixed Pay	Salary	332	309	263	245
	Benefits ²	1	1	1	1
	Other	5 ³	5	3 ⁴	-
	Pension and pension accrual ⁵	105	337	25	25
	Total Fixed Pay	443	652	292	271
Variable Pay	Annual variable pay – AVPS	133	165	105	131
	Long-term incentive – LTVPS	99	75	47	36
	Total Variable Pay⁶	232	240	152	167
Total Single Figure of Remuneration⁵		675	892	444	438

- Peter Perry and Mike Davis requested that their salaries should be reduced by 20% for May, June and July 2020. The figures shown for FY2021 reflect these reductions. The value of these reductions were added to the Company's Community Fund and did not impact their other elements of remuneration.
- Taxable benefits relate to private health cover.
- For Peter Perry this represents a £5,000 per annum car allowance.
- Payment in line with company Transfer of Base policy due to Nelson closure.
- Total Remuneration for Peter Perry in 2021 included pensions accrual reflective of increase in his salary on appointment as CEO.
- 2021 figures adjusted since last year's report to reflect final outcome of AVPS scheme.

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 during the year is shown below.

	Normal retirement age	Accrued pension at 31 March 2021	Capitalised value of accrued pension at 31 March 2021	Revalued capitalised value of accrued pension at 31 March 2021	Accrued pension at 31 March 2022	Capitalised value of accrued pension at 31 March 2022	Member contributions paid during the year 2022	Pension Input Amount (net of member contributions) 2022
Peter Perry	60	193,555	3,871,100	3,890,456	198,166	3,963,311	-	72,855

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.

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ANNUAL VARIABLE PAY (AVPS) – OUTCOME FOR 2021-22

The table below shows the breakdown of performance against the targets for AVPS for 2021-22. 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.

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

			Threshold performance (10% achievement)	Target performance (60% achievement)	Maximum performance (100% achievement)	Performance achieved
Element	Weighting	Metric				
Customer service	40%	C-MeX	4.4	4.4	6.0	3.4
		D-MeX	(2.0)	0	3.0	(0.3)
		Business Customer Satisfaction	4.4	4.4	4.5	4.4
Total Company ODI £m			1.4	1.9	3.2	1.8
Total % of Salary for this Element			4	24	40	19.1
Operational performance	40%	Tap water quality (score)	4.17	2.90	2.0	9.85
		Water supply interruptions	11:08	10:4	6:1	16:12
		Treatment works compliance (Percent)	99.00	99.16	100	98.32
		Pollution incidents from wastewater (Incidents per 10,000 km of sewers)	23.72	23.72	22.4	23.17
		Bioresources disposal (Percent)	100	100	100	100
		Bioresources product quality (Percent)	96.1	97.3	98.6	98.7
		Sewer flooding to customer properties internal (Properties per 10,000 connections)	2.05	1.6	1.58	1.36
		Sewer flooding to customer properties external (Properties per 10,000 connections)	25.82	25.44	24.47	26.27
		Total Complaints (Complaints per 10,000 customers)	122	105	84	28*
		Unbilled properties (Percent)	4.03	3.80	3.65	3.78
		Water process unplanned outages (Percent)	1.5	1.5	0.7	0.55
Total Company ODI £m			(7.5)	(3)	1.9	(3.7)
Total % of Salary for this Element			4	24	40	12
		Employee engagement (Percent)	75	80	85	69
		Customer trust (Ranking)	4th Quartile	Top	Top + Score ≥8.15	2nd Place
Strategic Goals	20%	Top water quality (Ranking)	Average	Upper Quartile	Top	Below Average
		Employee training (Percent)	85	90	95	91
		Risk of sewer flooding in a storm (Percent)	33.88	30.38	26.88	25.05
		Company level of bad debt (Percent)	4.3	3.3	3	2.5
		Total % of Salary for this Element			2	12
Total % Award Achieved						40%

* Note that performance measure changed for 2021-22

- Customer service – outcome based on regulatory outperformance/underperformance payment achieved against Ofwat's Outcome Delivery Incentive (ODI) (performance against regulatory targets) performance for these measures over the year.
- Operational performance – outcome based on total financial outperformance/underperformance payments achieved against Ofwat's ODI performance for these measures over the year.
- As discussed in the Committee Chair's statement, during the year the Committee became aware of the potential unintended consequences of measuring ODI performance as a cumulative assessment across a basket of measures, in particular that a single measure could disproportionately dominate the AVPS outcome with outperformance in other measures having little opportunity to affect the outcome. As a result, the Committee decided to limit the potential impact of over or under performance against each ODI measure at the threshold and maximum levels in the framework. The intention of this change in approach is to better reward performance across all ODI measures in the scheme, including key environmental measures, while retaining the emphasis on meeting stretching targets aligned to customers for any payment to be made. The Committee, therefore, also considered the role of discretion under the framework and the need to adjust the formulaic outcomes produced by the scorecard where they are not consistent with overall performance achieved in the year.
- The revised approach to assessment of ODI performance increased the overall customer service and operational performance Company ODI performance achieved. This would have produced an overall AVPS award of 50.1% of maximum. Reflecting the overall performance achieved in the year the Committee determined that discretion should be applied to cap the customer service and operational performance at 19.1% of salary and 12% of salary respectively. This resulted in an overall AVPS award of 40% of maximum. The level of performance resulted in total awards to Executive Directors of: Peter Perry: £132,647 (40% of salary) and Mike Davis: £105,132 (40% of salary).
- For reference, Peter Perry had a target opportunity of £198,970 (60% of salary) and a maximum opportunity of £331,617 (100% of salary). Mike Davis had a target opportunity of £157,698 (60% of salary) and a maximum opportunity of £262,830 (100% of salary).

LONG-TERM PLAN (LTVPS) OUTCOME FOR 2021-22

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 for each of the two elements, with overall performance over the five-year period resulting in a final payment or recovery of any overpaid amounts (see illustration on page 156).

For 2021-22, 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%	£690m	£655m	£639m	£653m	31.9
Overall ODI outcomes for performance development measures	50%	£(2.8)m	£(1.5)m	£0.0m	£(2.9)m	0
Total (as % of salary)						31.9

In accordance with the LTVPS rules, as this is an interim payment on account of the performance achieved during the period of the AMP, the pay-out for each element is capped at 60% of the maximum, i.e. 30%.

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Details of the performance achieved for each of the performance development measures which contributed to the overall LTVPS assessment for 2021-22 were as follows:

Measure	Units	CEO Threshold level of performance (5% achievement)	CFO Target level of performance (30% achievement)	Maximum level of performance (50% achievement)	Performance achieved	Outcome Delivery Incentive (ODI) £m
Continuous service measures						
Acceptability of drinking water	Contacts per 1,000 pop.	2.72	2.64	2.07	2.44	(0.9)
Mains repairs	# per 1,000km of Mains	133	132.7	137	136.6	0.0
Leakage	%	2.2	4.2	4.2	5.2	0.3
Sewer collapses	# per 1,000km of Sewer	7.2	7.2	7.2	6.7	⁻¹
Community education	Nr	70,000	72,000	72,000	45,655	(0.1)
Visitors to recreational facilities	Nr	560,000	675,000	675,000	842,701	0.2
Per capita consumption	% reduction	0.7	1.4	2.0	(8.9)	(2.3)
Investment programme measures						
Lead pipes replaced	Nr	2,800	2,800	2,800	1,462	-
Km of river improved	Km	5	5	31	94	²
Surface water removed from sewers	m ³	141,900	141,900	141,900	-	(0.1)
Combined sewer overflow storage systems	m ³	-	-	-	-	-
Delivery of dam safety programme	Sites	8	8	8	8	⁻¹
Delivery of zonal studies programme	Zones	0	0	0	2	⁻¹
Direct procurement for customers: Cwm Taf Water supply strategy scheme (underperformance)	Per 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	3	3	3	0	-
Total		(2.8)	(1.5)	(0.0)		(2.9)

¹ No ODI for outperforming this measure – penalty only measure.

² End of AMP measure.

The measures in the table above with "n/a" for performance in the year reflect commitments to ensure we deliver our capital programmes on time, where there were no outputs scheduled for 2021-22. The overall performance achieved for 2021-22 was 31.9% of maximum, below the target level of 60% of maximum. The award for each element is capped at 30% and therefore this resulted in LTVPS awards to Executive Directors of:

- Peter Perry: 30% of salary (£99,485) – to be paid in July 2022 and will be subject to final performance to 31 March 2025.
- Mike Davis: 18% of salary (£47,309) – to be paid in July 2022 and will be subject to final performance to 31 March 2025.

For 2021-22 performance, Peter Perry had a target opportunity of 60% of salary and a maximum opportunity of 100% of salary. Mike Davis had a target opportunity of 36% of salary and a maximum opportunity of 60% of salary.

FEES FOR CHAIR AND NON-EXECUTIVE DIRECTORS (AUDITED)

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

	Fees		Benefits		Total remuneration	
	£000 2022 ¹	£000 2021	£000 2022	£000 2021	£000 2022	£000 2021
Non-Executive Directors						
Alastair Lyons	222	211	–	–	222	211
Graham Edwards ²	73	67	–	–	73	67
Joanne Kenrick	62	59	–	–	62	59
John Warren ³	16	59	–	–	16	59
Debra Bowen Rees	62	59	–	–	62	59
Tom Crick	59	62	–	–	59	62
Jane Hanson ⁴	62	16	–	–	62	16

1. Fees in 2021 were reduced after the Chair of the Board and the then serving Non-Executive Directors requested their fees for May, June and July 2020 to be reduced by 20%. Due to an administrative error, Tom Crick's fee reduction took place retrospectively from June 2021. This is reflected in Tom's fee for 2022.

2. Graham Edwards is Senior Independent Director and receives an additional fee of £11k per annum.

3. Stepped down from the Board on 2 July 2021.

4. Joined the Board on 1 January 2021.

SECTION 5: PAY DECISIONS FOR NEXT YEAR – 2022-23

PAY FOR EXECUTIVE DIRECTORS

	Base salary 2022-23	Base salary 2021-22
Peter Perry	£340,903	£331,617
Mike Davis	£270,189	£262,830

BASE SALARY

When reviewing Executive salaries, the Committee considered the proposed increases for the wider workforce, business and individual performance to date in 2021-22, and National Living Wage and Real Living Wage rates. The Committee decided to accept the recommendation of the Executive Directors that it would be appropriate to award an increase lower than the increase for the wider workforce under the AMP7 Working Together Agreement. The wider workforce were awarded 4.8% in line with CPIH in December 2021 and the Executives were awarded a 2.8% increase, both with effect from April 2022.

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BENEFITS AND PENSION

Benefits and pension arrangements will not change for 2022-23. 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 9.6%. Benefits in the year will include private health insurance and car allowances.

ANNUAL VARIABLE PAY

For 2022-23 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. As discussed in the Committee Chair's statement, the targets for 2022-23 will continue to be set for the customer, operational and strategic elements, but each measure will have a defined weighting rather than using the cumulative rewards and/or penalties set by Ofwat. This approach will simplify the scheme and will reduce the impact of extreme over or under performance against any single measure, better rewarding performance across all measures included in the framework.

Details of the measures and their weightings are set out below.

	Customer Service	Operational Performance	Strategic Goals
Measures	<ul style="list-style-type: none"> • C-MeX (25%)* • B-MeX (7.5%)* • D-MeX (7.5%)* <p>*Ofwat's measures of customer service for household, business, and developer customer satisfaction, respectively.</p>	<p>Water:</p> <ul style="list-style-type: none"> • Water quality compliance (5%) • Interruptions to supply (5%) • Acceptability of water (5%) • Leakage performance (5%) <p>Waste:</p> <ul style="list-style-type: none"> • Waste water compliance (10%) • Pollution incidents from waste water (5%) • Internal sewer flooding on customer property (5%) 	<ul style="list-style-type: none"> • PR24 preparation (8%) • Employee engagement (4%) • Credit rating performance (4%) • Improve gender balance at senior manager level (4%)
How much of the scheme?	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 2020-25 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 2022-23:

- 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



● Base Salary, Pension and Benefits ● AVPS ● LTVPS

Over the last 10 years, the average outcome for variable pay elements has been 61.9% of maximum for the AVPS, and 47.3% of maximum for the LTVPS. The maximum award has not been achieved under either plan during that time.

FEES FOR CHAIR AND NON-EXECUTIVE DIRECTORS

The fees payable to the Chair of the Board were reviewed in March 2022 and the Committee (in the absence of the Chair) resolved that the Chair of the Board's fee should be increased by 2.8% and be reviewed in spring 2023.

In March 2022, the Chair of the Board and the Executive Directors resolved that the fees for Non-Executive Directors should also be increased by 2.8% and be reviewed in spring 2023.

For the past three annual reviews (March 2019, March 2020 and March 2021) there had been no increase in either the Chair or Non-Executive Director fees. Fees for 2022-23 will be as follows:

Role	Fee
Chair	£228,213
Senior Independent Director	£75,044
Non-Executive Directors	£63,376

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SECTION 6: OTHER IMPORTANT INFORMATION

WORKFORCE PAY ACROSS DŴR CYMRU

CEO PAY RATIO

This is the third 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
2021-22	A	19:1	15:1	12:1
2020-21	A	28:1	23:1	18:1
2019-20	A	22:1	18:1	14:1

The median ratio this year represents a significant decrease from last year. This is mainly due to the pension accrual reported for the CEO in 2021, which was a one-off adjustment to accruals relating to the increase in his salary on promotion to CEO. A reduction in the CEO's AVPS and LTVPS awards since FY2019-20 also contributed to this outcome.

The 25th percentile, median, and 75th percentile employees were determined on 10 May 2022 using total pay for the year ended 31 March 2022 for all employees as at 31 March 2022. Pay details for the individuals on a full-time equivalent basis are set out below:

Year 2021-22	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
Salary	25,642	39,334	40,743
Total pay	30,997	39,362	50,189

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 the necessary skills and talent.
- The variable pay elements have been estimated for the wider workforce, as individual payments are not finalised until July 2022.
- 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 2021 and bonuses paid in the year to 5 April 2021) regardless of role or seniority. We have seen a decrease in both our median and mean Gender Pay Gaps continuing the downward trend over the last five years. It is encouraging that our gender pay gap remains significantly lower than the national average. Our Gender Pay Gap report (link below) highlights the key initiatives we are undertaking 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 93 within our Environmental, Social and Governance report section.

Full details of our gender pay reporting are available on our website at 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.

The median gap has reduced from 7.1% in 2020 to 4.2% in 2021, and the mean gap has reduced from 7.2% in 2020 to 6.6% in 2021. While there are always a variety of factors that affect gender gaps, the main factors in the reduction in 2021 are the increase in women in senior roles within the organisation, and also the split of men and women in less senior roles where the percentage of men has increased.

MEDIAN GAP National		MEAN GAP National		MEDIAN GAP Welsh Water		MEAN GAP Welsh Water	
2021	15.4%	2021	14.9%	2021	4.2%	2021	6.6%
2020	14.9%	2020	14.6%	2020	7.1%	2020	7.2%
2019	17.3%	2019	16.2%	2019	10%	2019	9.8%

As regards bonuses, the majority of our employees receive the fixed amount Colleague Reward payment. The midpoint for each gender falls within the numbers of colleagues who receive the Colleague Reward payment, and as this is a fixed payment, there is no difference between men and women when calculated on a median basis. As a result, as in previous years, there continues to be no median bonus gap. The mean bonus gap reflects the higher proportion of men occupying the most senior positions in the Company where variable pay opportunities are higher. This, however, decreased from 14.5% in 2020 to 8.1% as the gap between Annual Variable Pay awards and the Colleague Reward payment reduced. We expect this to increase next year and be more in line with previous years' results.

ETHNICITY PAY GAP

During the year, the Committee continued to explore 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, while the information we hold has increased to 66.5% of the workforce as at 31 March 2022 (31 March 2021: 45%), we still do not currently have sufficient information available under the necessary metrics to produce meaningful information at this time. The Committee will continue to monitor this going forward, and will continue strongly to encourage the collation of data across the organisation which will make this reporting possible.



CORPORATE GOVERNANCE REPORT



REMUNERATION

ANNUAL CHANGE IN PAY FOR DIRECTORS AND ALL EMPLOYEES

The following table sets out the change in the remuneration paid to Board Directors from financial years 2021-22 and 2020-21 compared with the average percentage change for Dŵr Cymru employees:

	2021-2022			2020-2021		
	% change in salary/fees	% change in benefits	% change in AVP	% change in salary/fees	% change in benefits	% change in AVP
Directors						
Peter Perry	2	(5.1)	(19.7)	2	(2.3)	(6.3)
Mike Davis	2	(5.1)	(19.7)	2	22	51.7
Non-Executive Directors						
Alastair Lyons	-	-	-	-	-	-
Graham Edwards	-	-	-	-	-	-
Joanne Kenrick	-	-	-	-	-	-
John Warren	-	-	-	-	-	-
Debra Bowen Rees	-	-	-	-	-	-
Tom Crick	-	-	-	-	-	-
Jane Hanson	-	-	-	-	-	-
Average Dŵr Cymru Employee	4.5	0	1.0	4.5	0	4.1

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

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total remuneration for Managing Director/Chief Executive (£'000)	590	742	974	746	629	679	607	685	892	675
Total remuneration net of pension accrual (£'000)	590	520	690	604	629	601	624	678	555	570
Annual variable pay outcome	61%	51%	79%	70%	75%	65%	67%	60%	50.8%	40%
Long-term plan outcome	50%	78%	91%	65%	65%	27%	25%	19%	23.1%	30%*

* As this is an interim payment on account of the performance achieved during the period of the AMP the pay-out is capped at 30%.

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

	2021	2022	Change	
			£m	%
Total expenditure	828.5	744.9	77.6	9.43
Employee remuneration costs	153	150	3	1.96
Customer return of value	11	13	2	18.18
Executive Director remuneration costs	1.3	1.1	(0.2)	(15.38)

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 2022 are as follows:

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

Enquiries for the inspection by Members of the above service contracts and letters of appointment should be made via email to the Company Secretary at 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 2022. The performance review of the Company can be found within the Strategic Report on pages 46 to 53. 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 2022. The Corporate Governance Report set out on pages 107 to 169 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 70 to 76.

FINANCIAL PERFORMANCE

The Group is in a strong financial position as at 31 March 2022; gearing remains on track at 58% (2020–21: 60%) 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 58 to 65.

DIVIDEND POLICY (DŴR CYMRU CYF.)

The current Dividend Policy was approved by the Glas Board in February 2022. Details are set out in the Financial Review on page 65.

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 114 to 116.

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 54 and 121.

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 54 to 56.

CORPORATE GOVERNANCE

During the year ended 31 March 2022 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 117 to 118.

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 a payment of £30,000 to Step Change to support the work the charity does in providing debt advice to our customers. We are disclosing this payment as this organisation also campaigns for government policy change, including on debt issues. However, none of the 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 (RRLEs) within our Group structure.

DIRECTORS' REPORT

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 100 to 103 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 2022. 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.

HUMAN RIGHTS

We are committed to respecting human rights in relation to colleagues, and our supply chain (see page 96 for information on our Supplier Code of Conduct). Our internal Code of Conduct is supported by several Group policies including, Anti-bullying and Harassment, Whistleblowing, Anti-bribery and Corruption, and Anti-Fraud.

DATA PROTECTION AND INFORMATION SECURITY

Welsh Water is committed to ensuring that we handle the personal information of our customers and employees in a responsible and honest way, including respecting their data protection rights in compliance with legislation. Our Privacy Statement is available on our website at dwrcymru.com/privacy

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 58 to 65.

ANNUAL GENERAL MEETING (AGM)

The Glas Cymru AGM will be held at Bangor University on Friday 8 July 2022. 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 186. The financial statements for the year ended 31 March 2022 have been prepared on the going concern basis.

By order of the Board



NICOLA WILLIAMS
Company Secretary
1 June 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare the Group and parent Company financial statements in accordance with UK-adopted international accounting standards and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of the Group's profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with UK-adopted international accounting standards;

- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors have decided to prepare voluntarily a Corporate Governance Statement as if the Company were required to

comply with the Listing Rules and the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority in relation to those matters.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We consider the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and provides the information necessary for stakeholders to assess the Group's position and performance, business model and strategy. By order of the Board



NICOLA WILLIAMS
Company Secretary
1 June 2022

