



**GLAS CYMRU HOLDINGS CYFYNGEDIG
(GLAS CYMRU)**

**DŴR CYMRU CYFYNGEDIG
(DŴR CYMRU)**

**REMUNERATION COMMITTEE
TERMS OF REFERENCE**

Approved by the Board on 1 May 2019

REMUNERATION COMMITTEE

TERMS OF REFERENCE

In this document:

- **'Group'** means Glas Cymru Holdings Cyfyngedig ("**Glas Cymru**") and its subsidiaries
- **'Company'** means Dŵr Cymru Cyfyngedig ("**Dwr Cymru**")
- **'Board'** or **'Group Board'** means the Joint Board of Glas Cymru and Dwr Cymru comprising both Executive and Non-Executive Directors
- **'Executive'** means the Executive Committee of Glas Cymru¹
- **'Executive Directors'** means the three Executive Directors who are Directors of Glas Cymru
- **'Policy'** means the Remuneration Policy for the Executive Directors
- **'Executive Team'** means the Dŵr Cymru Executive Committee, including the Company Secretary (the equivalent to the "Senior Management team" as defined in the 2018 UK Corporate Governance Code)
- **'Member(s)'** means the Members of Glas Cymru
- **'Workforce'** means persons engaged under an employment contract or a contract, or other arrangement to do work or provide services to the Company or Group personally

1. PURPOSE

- 1.1. The Board has established a Committee of the Board to be known as the Remuneration Committee ("**Committee**") with responsibility for determining the Policy and setting remuneration for the Chairman of the Board ("**Chairman**"), Executive Directors and the Executive team, and for such other matters as set out in these terms of reference. In exercising this responsibility, the Committee shall have oversight of workforce remuneration policy and related policies, and the alignment of incentives and rewards with the Company's culture, taking these into account when setting the Policy.

2. THE COMMITTEE

2.1. Membership

- 2.1.1. Members of the Committee will be appointed by the Board, on the recommendation of the Nomination Committee and in consultation with the Chairman of the Committee ("**Committee Chair**"). The Committee will be made up of at least 3 members, all of whom will be independent Non-Executive Directors. The Chairman may also serve on the Committee as an additional member if he or she was considered independent on appointment as chairman, but will not be present when the Committee deals with the matter of the Chairman's remuneration

¹ Executive Committee – consists of the Chief Executive, Managing Director of the Regulated Business, Finance Director, Managing Director of Clean Water Services, Managing Director of Wastewater Services, Managing Director of Retail Services, People and Change Director, Director of Communication and Customer Strategy, Director of Business Customers, Director of Regulation and Strategy, and the General Counsel and Company Secretary.

- 2.1.2. Appointments shall be for a period of up to three years, which may be extended for two further three-year periods, provided the Director remains independent. In exceptional circumstances an appointment may be extended beyond this provided the Board considers that the individual Committee member remains independent.
- 2.1.3. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Executive Officer, the People and Change Director, other senior managers or external advisers may be invited to attend for all or part of any meeting as and when appropriate.
- 2.1.4. The Board will appoint the Committee Chair who will be an independent Non-Executive Director. The Committee Chair will normally have been a member of the Committee (or served on another Remuneration Committee) for at least a year prior to being appointed Committee Chair. In the absence of the Committee Chair and/or a nominated alternate at a Committee meeting, the remaining members present will elect one of themselves to chair the meeting. The Chairman will not be the Committee Chairman.

2.2. **Secretary**

The Company Secretary (or their nominee) shall be Secretary to the Committee ("**Secretary**").

2.3. **Quorum**

The quorum necessary for the transaction of business will be 2 members of the Committee, both of whom must be independent Non-Executive directors. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

2.4. **Role of Committee Members**

Committee members will utilise their personal skills, knowledge and judgement to perform the responsibilities set out in these terms of reference.

3. **MEETINGS**

3.1. **Meeting Frequency**

Meetings shall be held four times a year, and otherwise at such frequency as circumstances demand.

3.2. **Notice of Meetings**

- 3.2.1. A meeting may be convened by any member of the Committee or by the Secretary at the request of the Committee Chair.
- 3.2.2. Unless otherwise agreed, a notice of each meeting confirming the venue, date and time, together with an agenda of items to be discussed, shall be sent to each member of the Committee and any other person required to attend no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and other attendees as appropriate.

3.3. **Minutes**

- 3.3.1. The Secretary will minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 3.3.2. Draft minutes of Committee meetings will be circulated promptly to the Committee Chair and once approved by the Committee Chair, to all Board Directors at the next Board meeting, unless in the opinion of the Committee Chair it would be inappropriate to do so.

3.4. **Duties**

- 3.5. The Committee will carry out the duties detailed below for the Company and the Group, as appropriate.
- 3.6. The Committee will:
- 3.6.1. have responsibility for designing and determining the remuneration of the Chairman, the Executive Directors and the Executive team, including pension rights and any compensation payments.
 - 3.6.2. meet the objective of the Policy as defined by the key principles which have been agreed with Members, which are to:
 - 3.6.2.1. attract and retain the right employees to deliver the business' long-term strategic and regulatory objectives;
 - 3.6.2.2. align the interests of the Company's senior team, employees, customers;
 - 3.6.2.3. be split between fixed and variable pay so as to incentivise delivery of the Company's key objectives; and
 - 3.6.2.4. take account of the broader social, environmental, safety and governance issues, as well as the company's not for shareholder corporate structure.
 - 3.6.3. ensure that the remuneration of the Non-Executive Directors is a matter for the Chairman and the Executive Directors and that no director or senior manager is involved in any decisions as to their own remuneration.
 - 3.6.4. in determining the Policy, take into account all factors which it deems necessary including relevant legal and regulatory requirements, and the provisions and recommendation of the UK Corporate Governance Code (the "**Code**"), Ofwat's principles on Leadership, Transparency and Governance, and associated guidance.
 - 3.6.5. maintain oversight of workforce remuneration policy including pension contribution rates, and related policies and the alignment of rewards with culture and have regard to this when setting the Policy, especially when determining annual salary increases. The Committee should endorse clear principles of pay and reward across the organisation, against which pay policies and outcomes can be justified and benchmarked.
- 3.7. When determining the Policy and practices for Executive Directors, the Committee will:
- 3.7.1. address the following areas:
 - 3.7.1.1. **Clarity** – to ensure that remuneration arrangements are transparent and promote effective engagement with Members and the Workforce;
 - 3.7.1.2. **Simplicity** – so that remuneration structures avoid complexity and their rationale and operation are easy to understand;
 - 3.7.1.3. **Risk** –to ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans in remuneration arrangements, are identified and mitigated;
 - 3.7.1.4. **Predictability** – to ensure that the range of possible values of rewards to individual directors and any other limits or discretions are identified and explained at the time of approving the policy;
 - 3.7.1.5. **Proportionality** – for the link between individual awards, the delivery of strategy and the long-term performance of the Company to be clear. Outcomes will not reward poor performance; and

- 3.7.1.6. **Alignment to culture** – so that incentive schemes drive behaviours consistent with company purpose, values and strategy.
- 3.7.2. review the ongoing appropriateness and relevance of the Policy and its alignment with current 'best practice'.
- 3.7.3. ensure that any payment approved to be made to the Chairman or the Executive Directors is in line with the latest Policy and, if not, that the payment or revised Policy is put to the Members for approval.
- 3.7.4. obtain reliable, up-to-date information about remuneration in other companies of comparable scale and complexity. To help it fulfil its obligations, the Committee shall have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary at the expense of the Company but within any budgetary constraints imposed by the Board.
- 3.7.5. be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee.
- 3.7.6. approve the design of, and determine targets for, any executive variable pay or incentive scheme operated by the Company and approve the total payments under such schemes on an annual basis. Ensure that such incentives encourage enhanced performance and reward individuals for their contribution.
- 3.7.7. determine the policy for, and scope of, pension arrangements for each Executive Director and other members of the Executive team.
- 3.7.8. determine the policy on termination payments and compensation commitments, ensuring that contractual terms on termination, and any payments made, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised.
- 3.7.9. ensure the Policy enables the Committee to use its discretion to override formulaic outcomes. This will also include provisions that would enable the Company to recover and/or withhold sums paid and specify the circumstances in which it would be appropriate to do so.
- 3.7.10. approve individual proposals for termination packages in relation to the Executive Directors, the Chairman and other members of the Executive team, ensuring that they are in line with the latest Member approved Policy.
- 3.7.11. take care to recognise and manage conflicts of interest when receiving views from the Executive Directors or other members of the Executive team, or when consulting the Chief Executive Officer about its proposals.
- 3.7.12. work and liaise as necessary with all other Board committees.
- 3.8. **Reporting**
 - 3.8.1. The Committee Chair will report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
 - 3.8.2. The Committee will make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
 - 3.8.3. The Committee shall submit for approval by the Board and Members a Directors' Remuneration Policy (to be included in the annual report and accounts, as appropriate):
 - 3.8.3.1. every three years; or
 - 3.8.3.2. in any year in which there is a change relative to the prior year; or

- 3.8.3.3. if Member approval was not achieved when last submitted; or
- 3.8.3.4. if majority Member approval was not achieved on the last submitted Annual Remuneration Report.
- 3.8.4. The Directors' Remuneration Policy should include the information on directors' remuneration required to be disclosed by the Companies Act (including regulations made thereunder), the Code, the UK Listing Authority's Listing Rules, Ofwat's principles on Leadership, Transparency and Governance and any other relevant statutory, regulatory or governance codes.
- 3.8.5. The Committee will submit for approval by the Board and Members an Annual Report on Remuneration to be included in the annual report and accounts, which should include the information on directors' remuneration required to be disclosed by the Companies Act (including regulations made thereunder), the Code, the UK Listing Authority's Listing Rules and any other relevant statutory, regulatory or governance codes.
- 3.8.6. Through the Chairman of the Board, ensure that the Group maintains contact with the Members on matters concerning remuneration.
- 3.8.7. The Committee Chair (or in his/her absence, an alternative member of the Committee) will attend the AGM prepared to respond to any questions from Members on the Committee's activities.

4. OTHER MATTERS

- 4.1. The Committee will:
 - 4.1.1. have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for assistance as required.
 - 4.1.2. be provided with appropriate and timely training, both in the form of an induction programme for new Committee members and on an on-going basis for all Committee members.
 - 4.1.3. give due consideration to laws, regulations and any published guidelines or recommendations regarding the remuneration of directors of listed/non listed companies and formation and operation of share schemes including but not limited to the provisions of the Code, the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate.
 - 4.1.4. arrange for periodic reviews of its own performance and, at least annually, review its constitutions and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

5. AUTHORITY

- 5.1. The Committee is authorised to:
 - 5.1.1. investigate any activity or state of affairs within its terms of reference.
 - 5.1.2. seek any information it requires from any employees or officers. In seeking any advice or assistance from any of the Company's Executives, to ensure that such role is clearly separated from the Executive's role within the business.
 - 5.1.3. obtain, at the Company's expense, expert advice from the Company's auditors, professional advisers or otherwise, and to take independent professional advice and to require the attendance of outsiders with relevant experience and expertise if it considers it necessary.