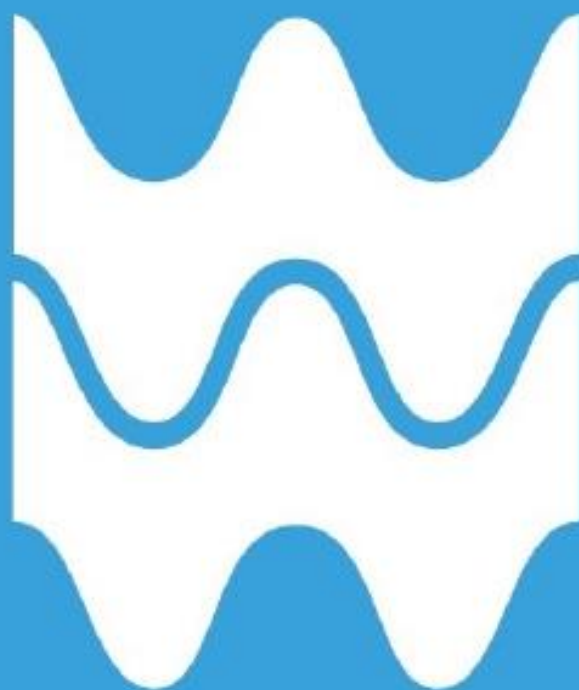


Board Statements & Certificates

APR 2023/24



Dŵr Cymru
Welsh Water

July 2024

Contents

RING FENCING CERTIFICATE	3
COMPANY DIRECTION AND PERFORMANCE STATEMENT 2023-24.....	14
BOARD STATEMENT ON THE ACCURACY AND COMPLETENESS OF DATA AND INFORMATION .	21
RISK AND COMPLIANCE STATEMENT 2023-2024.....	28
APPENDIX 1 – LETTER OF ASSURANCE FOR THE RISK AND COMPLIANCE STATEMENT	47
APPENDIX 2 – LETTER OF ASSURANCE FOR THE RING-FENCING CERTIFICATE	52

RING FENCING CERTIFICATE

The regulatory ring-fence provides an important protection for companies and their customers. Its purpose is to ensure that the regulated company maintains sufficient financial and management resources to enable it to carry out its water and sewerage services in a sustainable manner, and it protects the regulated company from the activities of other entities such as other group companies.

The Ring-Fencing Certificate (“RFC”) is a certificate stating that in the opinion of the Board the Company has sufficient resources to enable it to carry out its Regulated Activities, for at least the twelve month period following the date on which the Certificate is submitted to Ofwat. Although it is a condition of our Licence to produce a RFC, we consider that it is also the right thing to do and helps us to achieve our Vision of earning the trust of our customers every day.

Information Notice 20/01 published by the Water Services Regulation Authority in February 2020 sets out guidance for water and wastewater companies in England and Wales in preparing their RFC. The reliability and accuracy of data is a matter of great importance to us. Within the business we have well-established governance and accountability processes. To confirm that we have followed this guidance, the information contained within our RFC has been subject to checks by the Regulatory and Compliance Teams, scrutiny at Director level, review by the Audit Committee, and audited by our independent External Auditors.

The Directors have resolved that a Certificate required under Condition P30 of our Licence and prepared in accordance with the latest guidance be issued to the Water Services Regulation Authority confirming that in the opinion of the Directors:

- a) the Company will have available to it sufficient financial resources and facilities to enable it to carry out the Regulated Activities, for at least the twelve month period following the date on which the Certificate is submitted;
- b) the Company will have available to it sufficient management resources and systems of planning and internal control to enable it to carry out the Regulated Activities, for at least the twelve month period following the date on which the Certificate is submitted; and
- c) the Company has available to it sufficient rights and resources other than financial resources; and
- d) all contracts entered into between the Company and any Associated Company include the necessary provisions and requirements in respect of the standard of service to be supplied to the Company, to ensure that it is able to carry out the Regulated Activities.

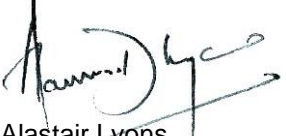


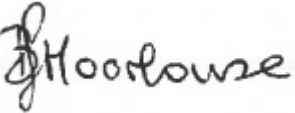
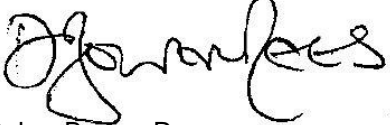

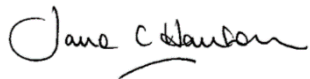
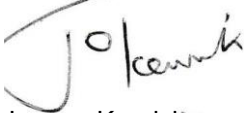
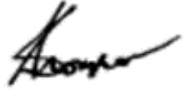
A statement of the main factors that have led to the conclusion that resources are sufficient can be found at Appendix A.

This Certificate has also been reviewed by our financial auditors, Deloitte, and a specific statement of assurance on the Ring-Fencing Certificate has been supplied to Ofwat.

RING-FENCING CERTIFICATE (continued)

The Company has in accordance with the Regulatory Reporting Guidelines and/or our Licence prepared this Ring-Fencing Certificate, which was approved at the joint Board meeting of Glas Cymru Cyfyngedig and Dwr Cymru Cyfyngedig, held on 4 July 2024, as evidenced by the Directors' signatures below.

Approved on behalf of the Board of Dŵr Cymru Cyfyngedig,

 Alastair Lyons Chair of the Board	 Peter Perry Chief Executive Officer
 Mike Davis Chief Financial Officer	 Barbara Moorhouse Non-Executive Director
 Debra Bowen Rees Non-Executive Director	 Tom Crick Non-Executive Director
 Jane Hanson Non-Executive Director	 Joanne Kenrick Senior Independent Non-Executive Director
 Lila Thompson Non-Executive Director	

4 July 2024

Section P35 of Licence Condition P requires our independent auditors to produce a report that sets out whether they are aware of any inconsistencies between the Ring-Fencing Certificate and either the regulatory accounting statements or any information which the Auditors obtained in the course of their work as the Company's Auditors and, if so, what they are.

A copy of the auditor's report can be found on page 52.

RING-FENCING CERTIFICATE (continued)

APPENDIX A

A statement of the main factors that have led to the conclusion that resources are sufficient.

AREA	MAIN FACTORS
Financial resources and facilities	
<ul style="list-style-type: none"> Financial details 	<p>Credit rating status remains amongst the strongest in the sector.</p> <p>The Group is in a strong financial position as at 31 March 2024 with gearing remaining on track at 60%.</p>
<ul style="list-style-type: none"> Performance against Final Determinations (FDs) set at the last price review 	<p>We have met the 2023-2024 FD targets for 27 of our 56 performance measures. We are reporting a net penalty of £24.6m for 2023-24 as we have missed FD target on some measures such as Water quality compliance (CRI), water supply interruptions, leakage and mains repairs.</p>
<ul style="list-style-type: none"> Credit related factors 	<p>As at 31 March 2024, the Group had committed borrowing facilities of £400m, of which £80m had been drawn, with the remaining £320m undrawn, and cash and cash equivalents (excluding debt service payments account) of £167m.</p> <p>There is also a £10m overdraft facility renewable on an annual basis. As at 31 March 2024 there was also a special liquidity facility of £135m.</p>
<ul style="list-style-type: none"> Business plans, long-term viability statements etc. 	<p>The Company's business plan has been developed on the strong foundation of effective operational strategies and a clear investment programme, both aimed at achieving improved performance and cost efficiency.</p> <p>Ofwat's guidance in relation to preparing a statement on long-term financial viability (IN 19/07) has been followed. This resulted in the Board concluding that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2031.</p> <p>The Company has a Licence to operate as a water and sewerage undertaker, which is in place on a rolling 25 year basis.</p>
<ul style="list-style-type: none"> Relevant reports 	<p>The independent External Auditors review the regulatory reporting information to Ofwat in the Annual Performance Report. Independent Auditor's report and the Reporter's letter of assurance are published within our Annual Performance Report available on our website.</p> <p>The Audit Committee review financial performance in detail at the half year and year end and receive regular reports from the Group's External Auditors, Deloitte.</p> <p>The Audit Committee reviews the External Auditor's independence policy, which is included in its half yearly report to the Committee, which sets out the 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.</p>

AREA	MAIN FACTORS
	<p>The Audit Committee reviewed and approved its policy on non-audit services in January 2024 and was satisfied that it was aligned with current regulatory guidance. Under our non-audit fee policy the level of non-audit fees must not exceed 70% of the average statutory audit fees for the preceding three years. The EU regulation for the provision of a non-audit fee cap applies when a statutory auditor has been providing both audit and non-audit fees for an uninterrupted period of three or more consecutive financial years. Therefore, a regulatory non-audit fee cap will not be applicable to newly appointed auditors, Deloitte, for the financial year 2023/24. Non-audit fees have however complied with DCWW'S internal policy cap</p>
Management resources	
<ul style="list-style-type: none"> Management skills, experience and relevant qualifications 	<p>As we prepare for PR24, the CEO's priority is to shape the executive team in order to deliver on the commitments for the remainder of AMP7 and to build an ambitious plan for 2025-2030 and beyond.</p> <p>This means being tough with efficiency – the potential for big changes is in the world of innovation and working smartly – ensuring the Company delivers the best services possible, efficiently and at an affordable price for the customer. To help achieve this, new members have been appointed to the Executive Team who can drive this forward and devise new ways of providing high-quality services in an efficient way. During the year a new Director of Water Services joined the executive committee overseeing Water Assets, Production, Networks and Engineering Services.</p>
<ul style="list-style-type: none"> Recruitment process, staff engagement 	<p>In response to future challenges identified in Welsh Water 2050 a need to attract, develop and inspire people from a diverse range of backgrounds, to deliver an excellent service for our customers was identified. This is set out as Strategic Response 11: becoming an 'Employer of Choice'.</p> <p>After a difficult year dealing with the drought and winter freeze / thaw, we achieved positive results in our most recent Employee Engagement Survey where we achieved an overall satisfaction score of 75% for the second year in a row.</p> <p>Employee Engagement Champions and managers work with the business to respond to local feedback given in the annual Employee Engagement Survey – various Non-Executive Directors meet with them quarterly.</p> <p>The Chief Executive and members of the Executive team hold monthly briefing using Microsoft Teams that all colleagues can join to hear updates on business performance and key developments and to ask questions.</p> <p>The Chair of the Board and Non-Executive Directors undertake regular operational site visits and meet teams across the business for informal meetings and lunches/dinners.</p>
<ul style="list-style-type: none"> Succession planning for key management/staff 	<p>An annual Talent & Resource Review is carried out which includes a review of succession planning, career discussions during performance reviews, promoting training opportunities for colleagues and ensuring development plans are in place. A Mid-year review is carried out to review succession and development plans.</p>
<ul style="list-style-type: none"> Quality of management/staff induction 	<p>All operational roles within the business have a dedicated training plan which incorporates a combination of e-learning modules and</p>

AREA	MAIN FACTORS
<p>and other training and development</p>	<p>training courses. Employees' training compliance performance is continually monitored and internally reported every month. An overall percentage of employees that have completed their training is reported annually for the financial year.</p> <p>The average number of people employed by the Group (including Executive Directors) during 2022-23 was 3,554. The Company's success is fundamentally dependent upon highly engaged and motivated people and the Company is committed to developing its people to meet the challenges of operating the business in the future and to encourage a diverse workforce that fully reflects the communities that it serves.</p> <p>There are a number of different development routes offered to those choosing to join our business including, graduates, degree apprenticeships, higher apprenticeships, Network75, trainees and apprenticeships.</p> <p>The Company is investing in skills development, competency training, customer service and leadership training.</p> <p>The Company is working to define clearer career pathways through the business for colleagues and there is a focus on supporting every individual to reach their full potential.</p> <p>An annual Leadership Conference is held which provides an opportunity for senior managers to consider in detail, and provide feedback on, the Company's business plan.</p> <p>Regular employee "roadshows" take place. "Future Focus" groups of senior leaders across the business have been established to work on key initiatives.</p>
<ul style="list-style-type: none"> • Process for ensuring diversity of perspectives 	<p>To ensure a diversity of perspectives in our workforce, we take steps in our recruitment process to ensure we have representation from minority groups including Black, Asian and Minority Ethnic people, Females, and people with disabilities. We continue to build a workplace that not only celebrates the diverse voices of our colleagues but also represents each customer we serve. Further, by engaging with diverse talent, the Company is able to improve access to skills that are in short supply, creating a larger talent pool, and also enhance our reputation as Employer of Choice.</p>
<ul style="list-style-type: none"> • Board or management activities, reports or statements 	<p>During the year the Board reviewed succession for senior management roles, and for Board members.</p> <p>The Board also reviewed compliance with the UK Corporate Governance Code and continues to engage with the Company workforce through periodic Employee Engagement sessions which are attended by Board members and support development of the Board's engagement strategy.</p>
<ul style="list-style-type: none"> • Independence of Board 	<p>The Board comprises a majority of independent non-executive directors.</p> <p>As a Group owned by a company limited by guarantee, there are no shareholders, instead Membership is made up of individuals drawn from across the Company's 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 Company assets and for</p>

AREA	MAIN FACTORS
	<p>providing an essential public service in a manner which will be sustainable for future generations.</p> <p>The independence of Non-Executive Directors is considered on an ongoing basis and formally on an annual basis. All 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.</p> <p>All Committees are chaired by an independent Non-Executive Director, except the Nomination Committee and Direct Procurement for Customers Project Committee which are chaired by the Chair of the Board and comprised of a majority of independent Non-Executive Directors.</p>
<p>Systems of planning and internal control</p>	
<ul style="list-style-type: none"> • Governance procedures, risk management frameworks, oversight procedures 	<p>The Board is responsible for promoting the long-term, sustainable success of the Glas Cymru Group for the benefit of its stakeholders and is the principal decision-making forum for the Group, providing leadership, both directly and through its Committees, and delegating authority to the Executive team.</p> <p>The results from the ongoing monitoring of financial, operational and compliance controls and the risk management process are reported to the Board via eight formal committees; the Audit Committee; the Remuneration Committee; the Nomination Committee; the Quality and Safety Committee; the Technology Committee; the Finance Committee; Direct Procurement for Customers Project Committee (formerly the Cwm Taf Project Committee); and the Environment, Social and Governance Committee. The Group's internal audit function has carried out a programme of work, which incorporates a review of the control environment.</p> <p>The Executive Team comprises individuals representing all of the key functions of the business, and is closely supported by its risk management and internal audit functions.</p> <p>Supporting the Executive team there is a clearly defined organisational management structure and governance framework, consisting of subcommittees and project specific steering groups, which operate within defined terms of reference and in accordance with group policies.</p> <p>By maintaining this structure of management control, the Board gains its assurance that Welsh Water's operations are being run effectively and that decisions are made in line with our commitment to our values to always do the right thing.</p> <p>The Board maintains oversight of the framework of internal control and risk management and ensures that the Company has the necessary financial resources and human resources to function effectively.</p> <p>The Board has overall responsibility for the operation and effectiveness of the Group's system of internal controls and risk management, and consider risk appetite and progress to target for identified strategic risks in detail every six months, with interim updates every board meeting. These processes involve all areas of the business to identify risks, including new and emerging areas of</p>

AREA	MAIN FACTORS
	<p>concern, consider the potential impact and likelihood of the risk manifesting, and manage mitigating controls accordingly.</p> <p>Throughout the year the Board reviews risk management processes and discusses and agrees mitigation strategies, for the principal and emerging risks across the business.</p> <p>There is an annual review of the effectiveness of internal controls in compliance with the requirements of the UK Corporate Governance Code.</p>
<ul style="list-style-type: none"> Internal and/or external audit policies, processes, activities and/or reports 	<p>The effectiveness of the Internal Audit function is monitored using a variety of inputs including the Audit Committee's review of the audit reports produced, the Audit Committee's interaction with the Chief Internal Auditor, updates at each meeting on progress against the annual internal audit plan, as well as other periodic quality reporting.</p> <p>The Internal Audit function conducts audits of 1st and 2nd line systems of internal control, which consider the adequacy and effectiveness of risk management, compliance and control activities.</p> <p>All internal audits are conducted in accordance with the standards promulgated by the Chartered Institute of Internal Auditors.</p> <p>The Chief Internal Auditor provides an annual opinion on the effectiveness of the internal control framework.</p> <p>Our External Auditors and our Reporter review the Company's approach to risk and request evidence of risk review in the business.</p>
<ul style="list-style-type: none"> Systems for maintaining supply/business continuity, stated action plans 	<p>We regularly test our operational emergency plans against our requirements outlined in the Security and Emergency Measures (Water and Sewerage Undertakers and Water Supply Licensees) Direction (SEMD) 2022. We have an annual exercise programme which covers key disruption risks (e.g. burst mains, water quality, contamination / pollution, and weather-related incidents) and learning from these exercises are used to continuously drive improvements in our processes (in an identical way that we learn from real incidents).</p> <p>During a real incident, our Incident Response Manual (IRM) and Incident Command Structure provide our framework to respond effectively to incidents which threaten our continuity of service.</p> <p>This structure is supported by Business Continuity Plans which is part of our responsibilities as a Category 2 responder within the Civil Contingencies Act (CCA) 2004. These plans cover incidents that have the potential to disrupt / impact wider business activities (e.g. fuel, power, cyber / IT, total loss of asset). Testing of these plans is included in the annual exercise programme which also includes multi-agency exercises through Local Resilience Forums (LRFs). As a sector we have the ability to respond collectively through the Water UK National and Platinum Incident Management groups, as well as the established Mutual Aid process which enables sharing of equipment / resources across companies during periods of disruption.</p> <p>Under SEMD, we are subject to an annual audit of our emergency capabilities, this is in the form of a RAG assessment which is then</p>

AREA	MAIN FACTORS
	<p>submitted to the Drinking Water Inspectorate (DWI) and Welsh Government.</p> <p>Internally, during the year the Audit Committee received regular reports on systems of internal control and risk management, in particular on data protection, business continuity, disaster recovery and cybersecurity, and on the progress of programmes to improve compliance and internal controls across the business.</p> <p>We ensure resilience in our supply chain through strategic partnerships and robust frameworks. Our Supplier Management Frameworks, alongside the Supply Chain Steering Group, are central to nurturing strong relationships with over 2,000 supply partners. Part of this process includes ensuring key contracts have robust Business Continuity Plans in place and that we have sight of these to review appropriateness.</p> <p>Supporting this, the Water UK National and Platinum Incident Management system provides a structured approach to provide mutual aid across UK water companies which reinforces our supply chain's robustness by ensuring continuity and reliability in our operations during major incidents.</p>
<ul style="list-style-type: none"> • Policies to prevent fraud and other unethical behaviour; whistleblowing policy 	<p>The Company's Code of Conduct sets out our focus on "doing the right thing" to Earn the Trust of our Customers and includes reference to the Company's Whistleblowing Policy, which is widely publicised among colleagues and key contractors and provides an opportunity for colleagues to "speak up" on any issues of concern. All colleagues are trained in the Code of Conduct on joining the Company and complete refresher training periodically.</p> <p>The Code is supported by several Group policies, as well as associated procedures and guidance, including: Anti-bribery and corruption; Anti-fraud, Conflict of Interests; Gifts and Hospitality, and Anti-bullying and Harassment.</p> <p>Since April 2015 the Company has subscribed to a confidential and independent whistleblowing helpline operated by Safecall – an independent company that specialises in handling concerns at work. Safecall are available 24 hours a day and can be contacted by phone or by email.</p> <p>The Audit Committee receives updates on Whistleblowing cases in private meetings with the Chief Internal Auditor on a regular basis. Matters are investigated and reported back to the Committee as appropriate. The Committee also received an 'annual thematic view of whistleblowing and special investigation activity which reviewed all incidents conducted in the period and discussed the observations and themes.</p> <p>The Company also has a comprehensive suite of Employment Policies.</p>
<ul style="list-style-type: none"> • Risk, compliance other assurance statements 	<p>During the year the Audit Committee scrutinised the following key regulatory submissions: Annual Performance Report; Risk and Compliance Statement; Data Assurance Summary, and Ring-Fencing Certificate.</p>
<p>Rights and resources other than financial resources</p>	

AREA	MAIN FACTORS
<ul style="list-style-type: none"> Corporate missions and/or values 	<p>The Company strives for continuous improvement in its services to “Earn the Trust of our Customers Every Day” and this focus on doing the right thing for customers underpins the whole approach to service and everything the Company does.</p> <p>In December 2019 an Extraordinary General Meeting of members was held to consider and subsequently approve the writing of Glas Cymru’s Purpose Statement into our Articles of Association in order to formalise our commitment to public service and our singular customer focus whilst recognising the long-term nature of the business: <i>To provide high quality and better value drinking water and environmental services, so as to enhance the wellbeing of our customers and the communities we serve, both now and for generations to come.</i></p>
<ul style="list-style-type: none"> Technology and other systems for ensuring checks and balances 	<p>The Company continues to innovate in terms of technology and new ways of working. There are partnerships with over thirty organisations and academic institutions each aligned to projects focused on Company priorities for improved performance and reduced cost.</p> <p>The Board Technology Committee maintains oversight of cyber and information security risk and opportunity in the business and ensures increased awareness at Board level.</p> <p>The Company continues to work to well-documented operational strategies in the clean and waste water businesses, including an Operational Technology cyber risk mitigation programme.</p> <p>Our teams continue to ensure resilience of both Information and Operational Technology services, and, since 2021-22, have continued an elevated focus and resource on cyber security detect, protect and respond capabilities.</p> <p>We have just completed a move of all our Non-SaaS IT systems to the Microsoft Azure Cloud and have signed New 5 year Framework agreements, with both Security and System Integration partners.</p>
<ul style="list-style-type: none"> Policies to encourage an integrated approach and ‘systems thinking’ 	<p>The Company has an Integrated Management System that is governed, controlled and continually improved. This includes overarching policies and procedures that help promote cross team working for an integrated approach within all business areas. Frameworks and governance groups have been established for open table discussions. All management system policies are reviewed and approved annually by the Chief Executive and promoted within the business.</p>
<ul style="list-style-type: none"> Planning systems 	<p>Expenditure plans are submitted to and approved by Ofwat in five-year periods, as part of a longer term strategic planning framework. We submitted our Long Term Delivery Strategy (to 2050) to Ofwat alongside our 2020-2025 (AMP8) Business Plan in October 2023, as part of the PR24 process. The AMP8 plan forms the first part of delivery of the long-term ambition. The ongoing maintenance and replacement of our assets managed in accordance with a Strategic Asset Management Plan, overseen by the dedicated Asset Planning Directorate.</p>

AREA	MAIN FACTORS
<ul style="list-style-type: none"> Assets maintenance/insurance factors 	<p>The five year business plan has been developed on the strong foundation of effective operational strategies and a clear investment programme, both aimed at achieving improved performance and cost efficiency.</p> <p>The five-year programme for 2020-25 involves more than £2 billion in capital investment.</p> <p>The company arranges insurances to meet the requirements of Schedule 14 of the business' Common Terms Agreement, including but not limited to the following insurances:</p> <ul style="list-style-type: none"> Property Damage Business Interruption (PDBI) Public Liability Employers' Liability Motor insurance Directors and Officers Liability Construction OCIP insurance <p>These insurances protect the business against extreme losses outside of management control, subject to policy terms and conditions. The policies are renewed on an annual basis, with coverage and limits reviewed with the business' insurance broker. The insurance renewal is a matter reserved for the Board.</p>
Contracting	
<ul style="list-style-type: none"> Position/status of key contracts in place 	<p>We work with key suppliers, such as our Capital Alliance and Water Network partners, to find innovative ways of improving efficiency while maintaining standards of service.</p> <p>Not only do teams understand fully the part they have to play in delivering the Company's plans but these have also been built with input and commitment to improved performance from the main supply chain partners.</p> <p>Achieving better service and greater efficiency targets will also require further flexibility from colleagues. A comprehensive programme of change has been agreed with trade unions, covered in our April 2020 'Working Together Agreement'.</p>
<ul style="list-style-type: none"> Contracts between the Appointee and all Associated Companies 	<p>All contracts between the Appointee and all Associated Companies were checked for compliance with licence requirements on standards of performance.</p>
<ul style="list-style-type: none"> Transactions between the Appointee and any Associated Company 	<p>A detailed Note on transactions between the Appointee and any Associated Company is provided in the Risk and Compliance Statement.</p>
<ul style="list-style-type: none"> Compliance with licence provision on cross-subsidies between the Appointee and any Associated Company (Condition I) 	<p>Confirmation of compliance with licence provision on cross-subsidies between the Appointee and any Associated Company is contained within the Risk and Compliance Statement.</p>
<ul style="list-style-type: none"> Guarantees or Cross-Default Obligations 	<p>No Guarantees or Cross-Default Obligations have been given without Ofwat's written consent.</p>

AREA	MAIN FACTORS
Material issues or circumstances	As confirmed in the Long Term Viability Statement, the Board considers that the risk management and forecasting controls in place are robust and that the 2024 plan and stress testing outputs provide an appropriate level of information from which to draw a conclusion on the Group's long-term viability. The Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2031.

COMPANY DIRECTION AND PERFORMANCE STATEMENT 2023-24

We have a clear commitment to our customers, communities, and wider stakeholders, for the long term.

This Direction and Performance Statement explains our purpose and Longer-Term Strategy, how the Company sets its aspirations, and how it has performed for all those it serves.

It explains the importance of our ongoing engagement with customers and stakeholders to ensure we continue to understand and meet their changing needs and tailor our services to match those needs.

There are 6 sections to this Statement:

1. The importance of our Company purpose and how this informs our ambitions
2. Our Longer-Term Strategy and Goals and how this informs our business plans
3. How we set our ambitions
4. Ongoing Evaluation – how we monitor performance and make decisions
5. How we have performed in 2023-24
6. How we balance the relationship between delivering our services and rewarding Executives

1. The importance of our Company purpose and how this informs our ambitions

The Boards of Glas Cymru and Dŵr Cymru Welsh Water have established the Company's purpose, strategy, and values, and is satisfied that these and its culture reflect the needs of all those it serves.

The Boards of Glas Cymru Holdings Cyfyngedig and Dŵr Cymru Cyfyngedig, the statutory appointee providing essential water and wastewater services to 3.1 million people across our supply area of most of Wales and Hereford, Deeside, and Chester, are unified Boards with identical Directors. The entire focus of our organisation is in fulfilling the Group's purpose:

“Welsh Water’s purpose is to provide high quality and better value drinking water and environmental services so as to enhance the wellbeing of our customers and the communities we serve, both now and for generations to come.”

At an Extraordinary General Meeting on Friday 6th December 2019, the Members of Glas Cymru voted to approve the incorporation of the Company's purpose in the Articles of Association. This followed extensive consultation with our customers and other stakeholders on our long term strategy, Welsh Water 2050, and our business plan for the period 2020-25.

Our purpose is central to everything we do and guides all of our decision making.

Our Company vision is To Earn the Trust of Our Customers Every Day. We set ourselves as a company, and as individuals working to meet our customers' needs, a high bar in terms of providing the highest levels of customer service.

We have deliberately limited our non-regulated activities, these currently constitute around 1% of our turnover, and our strategy for commercial activities is to work towards generating a surplus that can be reapplied back into our business for the benefit of our customers.

2. Our Longer Term Strategy and Goals and how this informs our business plans

When we created our long-term strategy, Welsh Water 2050, in 2017, we undertook an extensive process of consultation with our customers and wider stakeholder groups, giving everyone who has an interest in the Company and the essential services we provide an opportunity to comment and provide feedback on the draft document addressing the future challenges and our response to them. Our aim in Welsh Water 2050 was to set out our plan “to become a truly world class, resilient and sustainable water service for the benefit of future generations”.

Welsh Water 2050 sets out the key trends and challenges that we face over the long term, informed by experts, academics and partners. In order to address these long-term trends and challenges we set out 18 Strategic Responses, and committed to update our strategy on a five-yearly basis. The first five-yearly review was undertaken during 2022, and updated Welsh Water 2050 to ensure that it reflects the latest view of the world as it is now and as we expect it to be in the future. This review fed into the preparation of our Long Term Delivery Strategy for PR24. Since 2018, we have seen several dramatic and unexpected 'shocks', including EU Exit, extreme weather events, and the Covid-19 pandemic. These emphasised the importance of being adaptable and resilient as a business, and of keeping a close eye on current and future trends.

Welsh Water 2050 formed the backdrop of completing Ofwat's new requirement for a Long-term Delivery Strategy (LTDS) as part of the PR24 price review process. The LTDS was published alongside our AMP8 business plan in October 2023, setting out in detail the outcomes that we are aiming to achieve by 2050, and the key investments that will be required.

The Board established the Environment, Social and Governance (ESG) Committee in June 2021 to develop the Company's ESG Strategy, which is derived from, and entirely consistent with, our long term strategy set out in Welsh Water 2050 and includes our plan to deliver full Net Zero Carbon by 2040.

Since 2010-11 we have already achieved over 60% reduction in total emissions, comprising operational and embedded carbon. The reduction is mostly due to renewables we self-generate or from private wire agreements with local generators and the remainder of our electricity needs being REGO-backed from our Energy Supplier.

We recognise public concern over river water quality and will continue with our approach of transparency of performance and proactive improvement in this key area. We have shown that we are more than willing to go the extra mile by helping other sectors, such as agriculture, with expertise and practical support to tackle pollution, and we plan to build on this approach. On river water quality, and SOs specifically, we have worked with the Welsh Government River Water Taskforce, Nutrient Management Boards and other similar groups to develop our plans, reflected in Our Manifesto for rivers in Wales (see online at <https://dwrcymru.com/rivermanifesto>). We have also worked with the Welsh Government and other stakeholders to develop a long-term river nutrient strategy with an aim to ensure future investments maximise environmental improvements.

3. How we set our ambitions

We hold a Board Strategy Day every year enabling the Board to spend time debating a number of strategic and long-term business priorities, including reviewing our vision for Welsh Water 2050. A particular focus of the Strategy Day was the continued development and refinement of the Group's preparations for the implementation of plans submitted to Ofwat on the 2nd October 2023 for the next 5-year price review, PR24, and understanding the challenges and opportunities for Welsh Water in the context of the PR24 proposals put forward by the water sector as a whole. We recognise the crucial importance of working in partnership with our key stakeholders to deliver on our plans, and this plays a vital role in our decision making.

Our detailed business plan for the five year period 2020-25 seeks to balance ensuring the affordability of the essential services we provide with the investment needed to maintain a resilient infrastructure. As a result of our not-for-shareholder-dividend corporate structure, all gains eventually go to our customers, so that the interests of the Company and of customers are aligned, and the strategic direction of the Company takes this into account.

Our reporting of progress against our key Outcome Delivery Incentives (ODIs) during AMP7 (2020-25) is framed around our customer and colleague promises. The regulatory targets are supplemented by our internal business and financial planning processes. Every year targets are proposed by the Executive Team and agreed by the Board of Directors. The Executive Team is held to account by our Non-Executive Directors to ensure that the targets are sufficiently challenging and to monitor performance in accordance with those targets.

Our Company Vision to 'Earn the Trust of our Customers Every Day' underpins our approach to delivering services, and the Board is conscious of the need to set targets which maintain and build on that trust, to

promote the long-term success of the Company in accordance with Section 172 of the Companies Act 2006. The ethos and culture of the Company is very much focused on end-delivery for our customers in order to earn their trust.

The Executive Team proposes the Annual Business Plans for the Company and these are signed off by the combined Board of Glas Cymru Holdings Cyfyngedig and Dŵr Cymru Cyfyngedig. The Annual Business Plans are based on the regulatory settlement in the form of five-year asset investment plans from Ofwat as our economic regulator. In some cases, our internal business plan targets for the year were more stretching than the Ofwat Final Determination targets from the PR19 process, and in other cases, particularly where Ofwat applied standard targets across the sector, the internal business plan targets are lower than those set out in the Final Determination but are as challenging as the Board considers realistic.

In approving the targets proposed by the Executive Team, the Board takes into account the views of our stakeholders. Alongside the regulatory reporting framework, the Board has approved initiatives to address the specific needs and interests of these stakeholder groups:

- **Our Customers** – we continue to engage with our customers directly and seek feedback on the strategic goals that particularly matter to them. We also engage regularly with the Consumer Council for Water and act on feedback we receive from them and from our own Independent Challenge Group (formerly Customer Challenge Group), which is independently chaired by Peter Davies OBE and which is comprised of organisations which represent our wider customer base.
- **Our Communities** – We exist, first and foremost, to serve the communities where we operate. We are determined to act responsibly and believe that building close links with and supporting our communities helps build trust. This is why we carry out a wide range of activities focused on our communities, including:
 - Providing one of the most extensive education outreach programmes in the sector to help teach children about the water cycle and the importance of using water efficiently.
 - Operating 4 visitor attraction sites, offering a range of activities for local communities and tourists. We opened our 5th site, near Cardiff, in summer 2023 (Lisvane and Llanishen) offering an array of water sports, including stand-up paddle boarding, canoeing and kayaking.
 - Hosting annual 'open days' at our wastewater sites to help customers learn and understand more about how we operate, linking this to our behavioural change campaigns such as Stop the Block.
 - Operating our £100,000 Community Fund which offers support to local communities with wellbeing and environmental initiatives, and international charities such as WaterAid and Business in the Community.
- **Our People** – during 2023-24 we employed almost 4,000 people, making us one of the biggest employers in Wales. Our success is fundamentally dependent upon our highly engaged and motivated people. We remain committed to developing our people to meet the challenges of operating our business in the future and to encourage a diverse workforce that fully reflects the communities we serve.
- **Our Suppliers** – we work with over 2,000 supply partners to ensure we can deliver our essential services to customers. Our suppliers play an essential part in enabling us to deliver services. Our Supplier Management Frameworks help us to develop close working relationships which are focused on working in partnership to ensure we deliver excellent service to our customers.
- **Our Environment** – we work with a range of organisations and academic institutions to carry our research and develop innovative methods to minimise our impact on the environment and improve the sustainability of our operations. During this AMP, we developed our approach to catchment management, working with local landowners and other organisations to improve water quality in our catchments and reduce the need for chemical treatment. We have now published our Drainage and Wastewater Management Plans or DWMPs. Our plan addresses the impacts that environmental pressures, climate change and customer pressures will have on the wastewater services we provide. These have highlighted significant need for further investment, particularly to reduce the impacts of storm overflows, the nutrient content in treated effluent discharges, flooding

risks, and, in some cases, the impacts of wastewater operations on designated waters, such as those used for bathing. These needs are being addressed in our business plans both for the next 5-year period, and but also for subsequent periods. Our DWMP can be found at [here](#).

- **Glas 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. Members 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.

For further information on our relationships with stakeholders, how we have set out ambitions with reference to their interests and how we are delivering for them, please see pages 54 – 55 of our [Annual Report and Accounts 2023-24](#).

Our Section 172(1) Statement on pages 51-53 of the Annual Report and Accounts sets out how the Board balances the needs and interests of different stakeholders in its decision-making. Examples of where the interests of different stakeholders have had to be weighed include: our River Water Quality; Cost-of-Living Increases, PR24 Planning, and Leakage reporting. The Independent Challenge Group ensures that the voice of customers is taken into account, through the input of the customer representative organisations who are members of it. The views of the Independent Environmental Advisory Panel, an advisory panel consisting of representatives from front-line environmental organisations and leading academics in specialist areas, are also taken into account by the Quality and Safety Committee of the Board.

4. Ongoing Evaluation – how we monitor performance and make decisions

The Board met on 9 occasions during 2023-24. At each scheduled Board meeting, and on a monthly basis between Board meetings, the Board receives detailed information on Health & Safety lagging and leading indicators and current issues, operational performance and current operational issues, financial performance and all AMP7 Performance Commitments, people and recruitment updates, and regulatory/legal developments. This information is reviewed in detail at each Board meeting and the Quality and Safety Committee of the Board also met on 7 occasions in 2023-24 to review operational and regulatory performance issues in more detail.

The Board also meets both formally and informally with members of the Executive Team and senior managers across the business and individual Non-Executive directors have the opportunity to learn about operational issues and visit sites on a regular basis. A number of site visits took place during 2023-24 and meetings with senior management and employee engagement champions drawn from across the business continued to take place regularly via video-conference.

During 2023-24, the Board has challenged the Executive Team on matters including the following:

- Operational performance. This includes the examination and development of action plans to improve performance such as the Service Commitment Plan and plans to improve our Environmental Performance Assessment;
- The River Quality Strategy and Storm Overflow programme;
- The PR24 Business Plan submitted to Ofwat on 2 October 2023;
- The development and implementation of plans to adapt to the challenges of climate change;
- Ensuring the Company continues to provide support to those customers who struggle to afford their bills, and who have characteristics of vulnerability;
- Progress of capital projects including the Direct Procurement for Customers (DPC) scheme to construct a new water treatment works in the Merthyr Tydfil area, ensuring that the scheme meets the requirements of Ofwat's DPC delivery model;
- Leakage and Per Capita Consumption reporting and operational delivery;
- Measures taken to ensure the Health, Safety & Wellbeing of employees and contractors.

Where Monthly Management Reports show that performance is lagging behind in a particular area of the business, the reasons for this and the possible actions that can be/are being taken to address it are

discussed at meetings of the main Board or the Quality and Safety Committee, as appropriate, and action plans put in place to assist in monitoring improvement.

5. How we have performed in 2023-24

FY 24 has been challenging for us in terms of some of our performance measures and we were disappointed to be classed in the 'lagging' category by Ofwat in their annual performance report for 2022/23. In response to this, we are absolutely focused on our recovery plans for the areas where we have fallen short.

In our water supply business we were pleased to deliver over 99% compliance with drinking water standards. However, a single low level coliform failure at our largest water treatment works at Felindre, near Swansea, albeit with virtually no public health implications, meant that our Compliance Risk Index score was effectively doubled. Our performance was measured at 7.74 overall (2022: 5.45), with the Felindre failure accounting for over 50% of the 2023 performance figure. We improved our wider bacteriological performance at treatment works and in service reservoirs in 2023. However, despite an ongoing investment programme of mains renewal our network quality remains very challenging in terms of discolouration and iron compliance. Our PR24 investment plans specifically target sustained improvements in these measures.

The absence of a serious winter freeze event meant that we achieved an improved supply interruption performance in 2023 at 23:16, (2022: 45:00). Our performance in the year was adversely affected by bursts caused by deterioration of the condition of water mains in west Wales, which accounts for over 25% of our customer minutes lost total. In this largely rural area we have a predominance of asbestos cement mains, and working with partners on our PR24 investment plan, we have identified the acceleration of burst frequency to be due to the impact of climate change on ground conditions exacerbated consecutively by the drought and freeze thaw extremes seen in 2022.

Last year we advised that we had notified Ofwat that we had discovered (through our auditing process) inaccuracies in our methodology for calculating reported leakage and customer consumption figures in 2020/21. From this Ofwat launched an investigation in 2023. In response to the issues initially identified by us and in line with requirements from Ofwat, we have reset both our leakage and per capita consumption (PCC) targets for the AMP7 period. In order to recover our leakage and PCC performance we are investing a further £59 million in the last two years of AMP7. It's important to note that the misreporting in the APR was limited, and only impacted our leakage and PCC reporting. We have appropriate controls in place for our APR as a whole and have enhanced these as result of this investigation.

Turning to our wastewater performance, the predominantly wet weather has brought challenging operating conditions during the year. Overall pollution numbers have increased with more than the usual number of incidents linked to the flooding conditions caused by the stormy period in December 2023. Until this point we were heading for an outturn similar to 2022 (89) but we saw an increase to (107). We had 7 serious pollution events slightly up on the previous year. The wet conditions also impacted our waste water treatment works compliance at (97.4%) compared to 98.7% in 2022. This combined performance will mean we remain at 2* Environmental Performance Assessment for the calendar year 2023. However, as we ended our financial year, our underlying level of waste water sample failures and contributory factors such as sewer collapses are reducing putting us in a better place to recover to 3* EPA level in calendar year 2024.

Wales again secured high-quality bathing water results in 2023 with 98% of designated bathing waters meeting our stringent environmental standards. For 80 of our 109 bathing waters (73%) we achieved the highest classification of 'excellent'. Wales results compare well against the other parts of the UK. In England 66% met the Excellent standard and in Scotland 44% achieved excellent. Having said that, bathing water quality reporting is highly susceptible to climatic changes, in particular, periods of heavy rainfall. Wales already receives more rainfall on average than other parts of the UK and this past year was no exception. In July 2023, Wales received 191% of its long-term average rainfall and this was followed by 125% during August and September.

For customer service we achieved 5th place in the Ofwat C-Mex satisfaction survey 4th in 2022/23. In

addition, CCW's trust measure ranks us 1st against Water and Sewerage Companies. We have maintained our commitment to helping those in difficult financial circumstances and support over 130,000 customers through our social tariffs.

Full details of our performance are set out on pages 20-23 of our Annual Report and Accounts and in this Annual Performance Report.

6. How we balance the relationship between delivering our services and rewarding Executives

The Remuneration Committee sets the Executive Remuneration policy in the context of the approach to pay for the workforce as a whole.

Our pay structure is intended to be simple and transparent and clearly links pay to performance. Remuneration includes a significant element of variable pay, with targets that are stretching, and focused on achieving improved operational performance and excellent customer service. The elements of remuneration are as follows:

Fixed Pay

- Base salary
- Pension cash allowance
- Benefits (mainly health insurance)

Variable Pay

- Annual Variable Pay Scheme (AVPS) – an annual variable pay scheme, where awards are based on a range of measure relating to Customer Service, Operational Performance, and Strategic Goals. For AMP7, the scheme has been amended to focus on the key performance objectives of the business plan. Personal objectives have been replaced with a suite of Strategic Goals which are selected by the Remuneration Committee each year.
- Long Term Variable Pay Scheme (LTVS) – a five year scheme, to incentivise achievement of the Company's long-term strategy, 50% based on Totex performance and 50% based on a range of performance development measures relevant to achieving the Company's long-term goals and aligned to regulatory measures contained within our Business Plan.

We adopt governance applicable to a publicly listed company. We therefore put our Remuneration Policy to Glas Members for approval at least every three years. Our mid-cycle Directors' Remuneration Policy for the balance of AMP7 was approved by Glas Members at the AGM in 2023, ensuring that the policy and operation of our variable pay schemes align with our key performance and delivery objectives for the remainder of AMP7. Our next full policy review will take place in 2025, aligning with the AMP8 Determination. The Committee's focus in FY 24 has, therefore, been on the successful implementation of our variable pay schemes during the year.

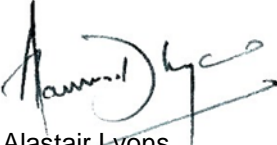
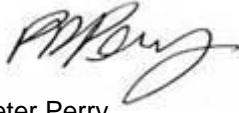

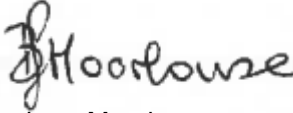
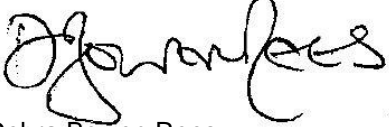

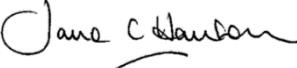
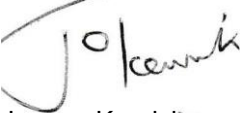
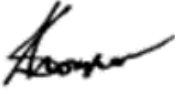
For AVPS in FY 24, the formula-based scorecard out-turn resulted in payouts to the Executive Directors of 25.77% of maximum. Payouts against our Customer, Operational and Strategic goals were 7.06% out of 30%, 6.25% out of 50% and 12.46% out of 20% respectively. For LTVPS in FY 24, the formulaic scorecard out-turn did not result in payouts to the Executive Directors as the threshold levels were not reached. More specifically, our Totex performance reflected the deployment of additional critical investment in our asset improvement programme and was not, therefore, met.

Further details of our Directors' pay policy and implementation are set out in the Directors' Remuneration Report (see pages 132 – 150 of the Annual Report and Accounts). This includes details of the proposed Executive Pay Policy for AMP7, which was approved by Glas Members at the AGM held on 7 July 2023. In setting policy, the Committee was mindful of the objectives of Ofwat's Guidance on Board Leadership, Transparency and Governance and the UK Corporate Governance Code. All awards are subject to malus and clawback provisions (see page 142 of the Annual Report and Accounts for further details).

Statement Approval

The Company has in accordance with its Licence prepared this Company Direction and Performance Statement, which was approved at the joint Board meeting of Glas Cymru Cyfyngedig and Dwr Cymru Cyfyngedig, held on 4 July 2024, as evidenced by the Directors' signatures below.

Approved on behalf of the Board of Dŵr Cymru Cyfyngedig,

 Alastair Lyons Chair of the Board	 Peter Perry Chief Executive Officer
 Mike Davis Chief Financial Officer	 Barbara Moorhouse Non-Executive Director
 Debra Bowen Rees Non-Executive Director	 Tom Crick Non-Executive Director
 Jane Hanson Non-Executive Director	 Joanne Kenrick Senior Independent Non-Executive Director
 Lila Thompson Non-Executive Director	

4 July 2024

BOARD STATEMENT ON THE ACCURACY AND COMPLETENESS OF DATA AND INFORMATION

We pride ourselves on conducting our business in an open and transparent manner. This means that we need to ensure that the data and information we publish is high quality. By high quality we mean data and information that is reliable, accurate and complete within the bounds specified.

It is also important that we provide information to customers and stakeholders that is customer-led, accessible, clear, accurate, transparent and timely. Our ongoing objective therefore is to make available information that is easy to follow and navigate and enables customers and stakeholders to understand how we are performing. We also recognise that this helps build trust and confidence in the business. Although it is a condition of the Company's Instrument of Appointment to produce this Statement, we consider that it also helps us to achieve our Vision of earning the trust of our customers every day.

Within the business we have well-established governance and accountability processes to produce high quality information. To confirm that we have followed guidance issued by the Water Services Regulation Authority the information contained within our Annual Performance Report is subject to checks by the Regulatory and Compliance Teams, scrutiny at Director level, review by the Audit Committee, and is audited by our independent External Auditors.

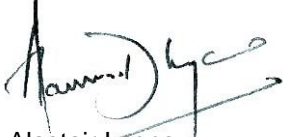


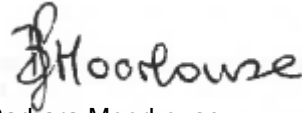
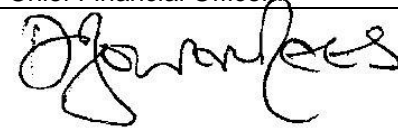

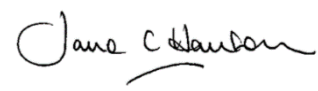


During the year, the Board has engaged and challenged the assurance approaches that the company has undertaken. The Board takes action to ensure the company addresses exceptions and weaknesses in the assurance approaches and is satisfied that the approaches have appropriately identified and addressed any risks to the provision of accurate and complete data and information in particular areas.

In 2022, our assurance processes identified an issue with our leakage and PCC reporting. We commissioned a detailed independent review that identified failures in our governance and management processes that should have identified the issue sooner. We shared this report with Ofwat along with a description of the changes we had put in place to ensure future reporting would be robust and fully compliant with the prescribed methodologies. We also proposed a redress package which included compensation for customers and a commitment for further investment to reduce leakage further. Our restatement of performance data was fully disclosed in our Annual Report and Accounts and APR for FY 23. We cooperated fully with Ofwat during their investigation which was announced in May 2023. We have made changes to how we manage our leakage reduction activities and strengthened our reporting and governance processes for our APR submission as a whole. The updated approach has been reviewed and approved by the Audit Committee as part of last year's APR process.

The Board considers that the Company has in place an assurance framework and adequate systems of control appropriate for a Water and Sewerage Undertaker acting diligently, to allow the Board to discharge its responsibilities under Condition F6.2 of the Instrument of Appointment and Regulatory Accounting Guideline 3.14. The Board confirms that the data and information which the company has provided to Ofwat in the reporting year and which we have published in our role as a water undertaker is accurate and complete.

The Company has in accordance with the Regulatory Reporting Guidelines and/or our Licence prepared this Board statement on the Accuracy and Completeness of Data and Information, which was approved at the joint Board meeting of Glas Cymru Cyfyngedig and Dwr Cymru Cyfyngedig, held on 4 July 2024, as evidenced by the Directors' signatures below.

Approved on behalf of the Board of Dŵr Cymru Cyfyngedig,

 Alastair Lyons Chair of the Board	 Peter Perry Chief Executive Officer
 Mike Davis Chief Financial Officer	 Barbara Moorhouse Non-Executive Director
 Debra Bowen Rees Non-Executive Director	 Tom Crick Non-Executive Director
 Jane Hanson Non-Executive Director	 Joanne Kenrick Senior Independent Non-Executive Director
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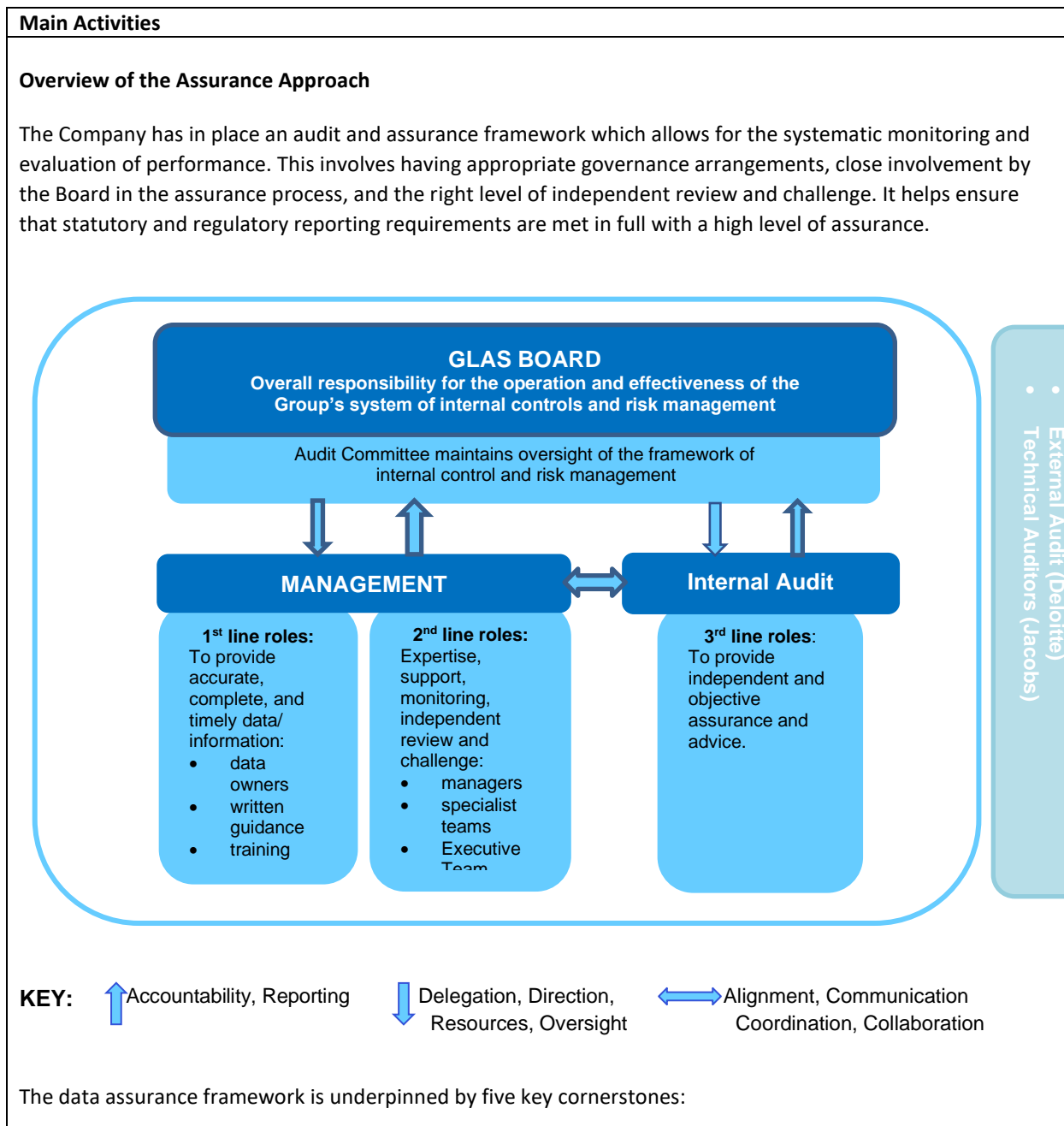
4 July 2024

Appendix i

A description of the activities which the Board has considered to allow it to make the Board Statement on the Accuracy and Completeness of Data and Information.

To produce the Statement on the accuracy and completeness of data and information the Board addressed four key areas and considered the Board's main activities in these areas:

1. How the Board has engaged and challenged on the assurance approaches which have been taken.
2. How the Board has taken action to ensure that any exceptions and weaknesses in the assurance approaches have been addressed.
3. How the Board has satisfied itself that the approaches have appropriately identified and addressed any risks to the provision of accurate and complete data and information in particular areas.
4. How the Board has utilised individual directors and committees in carrying out its activities in this area.



1. Robust assurance principles – the Company operates a “three-lines of assurance” model, targeted at areas of greatest risk.

2. Clear ownership and accountability – the Company has clear lines of ownership and accountability for both the delivery of performance and the accuracy and reliability of the data provided.

- Strong personal and collective ownership is critical for ensuring the accuracy of the data and information produced, driving improvements.
- Regular internal performance reporting to the Executive monthly and Board (at every meeting), and updates on performance to the Independent Challenge Group and CCW, reinforces this culture of ownership and accountability.
- Every year, the compliance framework is refreshed to ensure that individual accountabilities are linked to regulatory and statutory obligations.
- There is also a rigorous process of sign-off for regulatory data contained within the Annual Performance Report, including sign-off by the data owner, the responsible senior manager (where appropriate) and the accountable director. This is in addition to our Board governance arrangements.
- The ‘three lines of defence model’ ensures that there is clear separation of accountabilities between those responsible for delivery of a performance commitment or a regulatory/statutory obligation and those responsible for ensuring the integrity of that data. This delineation is mirrored in the governance arrangements.

3. Effective governance – the Company’s Assurance Plan provides for governance of all performance commitments and other external reporting with a clear delineation of accountabilities and has the following key features:

- the Board’s role is to meet its obligations to the Company’s stakeholders. It reviews performance in the light of the Company’s strategic objectives and business plan commitments – ensuring that any necessary corrective action is taken;
- the Board’s Audit Committee assists the Board in discharging its responsibilities for the integrity of the Company’s financial statements, the assessment and effectiveness of internal controls for both financial and non-financial data and the effectiveness of internal and external auditors; and
- the Independent Challenge Group provides independent external challenge of both our performance against our commitments and any supporting information we provide on it. Our Regulators, DWI, EA and NRW, and the consumer watchdog CCWater, also provide independent scrutiny and challenge.

4. Transparency and accountability – the Company publicly reports on its performance and hold itself to account where it does not meet its commitments.

5. Company culture –the Company’s culture is a cornerstone of the data assurance process and is based on shared values and beliefs. It helps shape the way the Company conducts its everyday business and ensures it strives to “do the right thing”. Because of its importance, company culture is sometimes described as a layer of control even preceding the first line of defence against inaccurate information. Maintaining a positive culture is important to the Board because:

- everyone is aware of the expectations regarding high quality information;
- other controls will focus on checking and correcting errors, but in a positive corporate culture, errors are less likely to arise because individuals create, record and transmit information completely and accurately as part of the way they work;
- other controls are laid over the top of the information-reporting process, but cultural controls are embedded within it;
- other controls might be occasional or periodic, but culture is ongoing and permanent; and
- everyone knows that they can be honest about data errors.

Risk Based Approach to the provision of accurate and complete data and information in particular areas

The risk-based assurance approach in operation examines the Company’s end-to-end reporting processes to identify the risks, strengths and weaknesses associated with providing information that is of a high quality and which customers and stakeholders can trust. It also examines the probability of these risks materialising and the

potential impact that they may have. This ensures that the Company focuses on the areas which would have the greatest impact and allows it to take action to monitor and actively manage any relevant risks. Last year, we enhanced our existing risk assessment process by moving to an objective approach that focusses on the number of data reports and the amount of processing required to generate the final value as these are the greatest source of risk.

Even though the Company was promoted to the self-assurance (highest) category in the last and final Company Monitoring Framework assessment carried out by Ofwat January 2019, the Company continues to follow similar robust and transparent assurance processes that have served it so well over recent years.

The Company has again undertaken a reporting risk assessment for all relevant data that will be contained in the Annual Performance Report (and other key documents). This year we have enhanced this process as a result of the review into our leakage and PCC reporting. Where we identify data items that are more complex and higher risk, we ensure that there are proportionally greater levels of control and governance in place, and an increased level of scrutiny through deep dive process reviews by our external assurer. This was an important exercise and formed the basis of the Company's Data Assurance Summary.

As in previous years, the Data Assurance Summary includes a wide variety of controls and mitigating actions designed to ensure that customers and stakeholders can trust the information the Company publishes.

Data Assurance and the culture and governance framework

In terms of data assurance, the Board considers that the following features of our culture and governance framework are key strengths:

- Colleagues in the business understand and appreciate the value attached to data quality and the processes used to generate the data. The Regulation Department provides an annual update to data owners and guidance in the form of an information pack on the process and timeline for the Annual Performance Report;
- The Company's Corporate Behaviours Framework and Code of Conduct actively encourages colleagues to 'have the confidence to raise any concerns' and 'speak up' about inaccurate information or suggest improvements to existing processes that will improve data quality. The options available to colleagues wishing to raise any concerns are detailed in the 'Whistle Blowing' procedure;
- Reviews of performance are conducted regularly throughout the Company from Board level to individuals. This includes those carried out by the Board, the Audit Committee, the Chief Executive Officer, the Quality and Environment Committee and the Executive team;
- The Technical Auditor (Jacobs) carries out a formal review and certification of 49 of the current 56 Performance Commitments (two are audited by Deloitte and five are deemed low risk so do not require third party review to provide assurance) and a selection of other regulatory data and provides a detailed report commenting on compliance with procedures and relevant regulatory reporting requirements and highlights any issues with the reported figures. This includes checking the source of data, compilation of the data including the process of any extrapolation and assessing the adequacy of reported data. In addition, the Technical Auditor reviews and if required scores the Methodology Statements where they exist for all of our key measures and other relevant regulatory data;
- Ahead of the publication of the Annual Performance Report, the Internal Audit team carry out a high level audit and evaluation of the systems in place on the reporting framework within the Company and review the effectiveness of the system of risk management, control and governance;
- A programme of internal audits is approved and overseen by the Audit Committee to assess the adequacy of control, governance and risk management processes. The results of these audits are reported to the Audit Committee, which ensures that actions arising from internal audits are completed on a timely basis;
- The Company has a well embedded risk management process that identifies, assesses, and manages our risks. All colleagues play a part in risk management. Individual teams within the business take responsibility for managing risks within their areas of responsibility. The Business Area Risk Registers are reviewed quarterly by the Executive. The Executive update on strategic risks affecting the business is reviewed at every Board meeting;

- Robust financial control monitoring processes provide assurance that the Company's key financial controls are operating effectively and that the financial information produced by our accounting system can be trusted; and
- The Company's Integrated Management System, which has certification to various ISO Standards, has been established to reinforce the management of risks and opportunities associated with many areas of the business and compliance with regulatory and legislative obligations. Audits of compliance with this system are conducted both internally and by our third party certifiers (SGS).

Key assurance activities during 2023/2024

Data providers, their managers and business unit directors

During the year nominated data providers, their managers and business unit directors produce and approve data, commentaries and methodologies and audit trails to support the reported performance and demonstrate the control checks that have been applied.

Methodology Statements

Comprehensive Methodology Statements are in place for all performance commitments. They are updated to reflect comments received from the Regulation Team and the Technical Auditor and changes in process or obligations which may have occurred in the year.

The Regulation Team

The Regulation team undertake their own reviews, and this includes a rigorous process of internal due diligence to test: the application of the appropriate Methodology Statements and reporting requirements; challenge information, judgements and assumptions associated with both financial and non-financial data; and to ensure compliance with the relevant guidance. This provides a good opportunity to highlight to management areas where judgements were required, or assumptions needed to be tested.

Information packs containing all relevant information are provided to all data owners. This is supplemented with several group question and answer training sessions.

Independent Technical Auditors

Jacobs (the Company's Technical Auditor) undertake a full data review in accordance with an agreed Audit Plan. This involves:

- a) A review of documentation including Methodology Statements already in place for individual data items;
- b) A process review which involved face to face discussion via Teams with the data owner; and
- c) A year-end audit involving document review and face to face discussions via Teams with data owners covering: - adherence to internal processes; - tracing to source data; - sample checks; - confidence grade reviews; - calculation of rewards/penalties (where appropriate); and - commentaries.

Jacobs prepare reports for each audit and the risks are scored. Jacobs also produce a letter to the Board summarising their findings and attend both the Audit Committee meeting in June and the Board meeting in July to report their conclusions and to answer any questions.

Financial Auditors

The independent financial auditors (Deloitte) undertake their audit and assurance procedures and substantially complete them by the time of the Audit Committee meeting on 26 June 2024. Deloitte attends the Board meeting in July and provide their assurance confirmations and audit opinion.

Internal Audit

The Internal Audit Team undertook a high-level review of governance processes put in place to ensure the accuracy and completeness of non- financial data reported in the Annual Performance Report for 2023-24. The report concluded that there was an effective governance framework for the completion, review and approval of Data Tables and assigned an overall rating of “Full Assurance”.

Independent Challenge Group

Updates on our performance are shared with the Chair of the Independent Challenge Group (formerly known as Customer Challenge Group).

The Executive Team

The Executive Team review all data reported in the Annual Performance Report during two review meetings on 26 May and 11 June. This is also attended by Jacobs and the Internal Audit team. Members of the Regulation team and selected data owners (and/or their managers) are also present. For each performance commitment and data table, a summary containing current year’s performance, historical performance and data owners’ and Jacob’s/Deloitte’s issues is produced and forms the basis of discussions. Key judgements and material assumptions are reviewed.

The Audit Committee

During 2023/2024 the Audit Committee received and reviewed the Company’s key regulatory submissions and assurance processes relating to:

- the Annual Performance Report, and Assurance Reports from Jacobs and Deloitte. At the same time the Committee received the Company’s annual Risk and Compliance Statement (and associated Ring-Fencing Certificate), and Assurance Report from Jacobs, together with the Internal Controls paper from the Executive, and
- the publication of our Charging Schemes for 2023/2024

The Board received feedback from the Audit Committee on the assurance processes followed for the 2023/24 Annual Performance Report, together with the updates from Jacobs and Deloitte, in advance of the Board’s formal approval of the Annual Performance Report prior to publication in July 2024.

The Audit 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, Deloitte and the Company’s Group Financial Director in relation to accounting treatments.

The Audit Committee recommended that the financial statements be approved by the Board, it also confirmed, in respect of the 2023/24 Annual Report and Accounts, that it was fair, balanced and understandable.

Both the Audit Committee and the Board review the overall process, the operation of the systems of internal and external controls and reviewed the key judgements required in compiling the Annual Performance Report.

The Audit Committee and the Board make appropriate enquiries of the Executive Team and the relevant experienced colleagues involved, in particular the Strategy and Regulation Director and also the Technical Auditor and the independent financial auditor.

RISK AND COMPLIANCE STATEMENT 2023-2024

Scope of the Risk and Compliance Statement

The Water Services Regulation Authority (Ofwat) requires all water companies to provide a statement setting out how they have complied with their relevant statutory, licence, and regulatory obligations for which Ofwat is the relevant enforcement authority, or failing that, to explain why they are unable to do so. The Risk and Compliance Statement is one of Ofwat's key regulatory tools and allows companies to evidence their accountability to their customers and demonstrate to Ofwat that they are complying with their obligations.

The Risk and Compliance Statement

We recognise the importance of demonstrating to our customers, stakeholders, and regulators that we are meeting the statutory, licence, and regulatory obligations that apply to our activities. We have set out in this Statement, and in our Annual Performance Report and Annual Report, our compliance with and performance against certain key performance measures, legal requirements, and regulatory outputs. We have also identified the risks that we are facing and the steps we are taking to manage and mitigate those risks.

In preparing this Statement we have considered our compliance with those legal, licence, and regulatory obligations for which Ofwat is the enforcement authority. In respect of these obligations, subject to the matters set out in this Statement, we confirm that:

- We have a full understanding of, and are meeting, our relevant statutory, licence and regulatory obligations.
- We have taken steps to understand and meet our customers' expectations.
- We are satisfied that we have sufficient processes and internal systems of control fully to meet our obligations.
- We have appropriate systems and processes in place to allow us to identify, manage, mitigate, and review our risks.

In this Statement we also:

- explain links between the standards of performance we achieve, and directors' and senior executives' pay (s35A Water Industry Act Statement);
- confirm that the auditors have been made aware of all relevant information (Companies Act 2006);
- explain our dividend policy (Licence Condition P30 and Regulatory Accounting Guideline 3.14);
- confirm that we have sufficient financial resources and facilities, management resources and systems of planning and internal control available to us for at least the next 12 months to meet our obligations as a water and sewerage undertaker and outline the main factors taken into account when making this statement (Licence Conditions P12 and P31);
- confirm that a report has been prepared by the companies' auditor and addressed to Ofwat, stating whether they are aware of any inconsistencies between the P31 Ring-fencing Certificate and the financial statements or any information obtained in the course of their work (Licence Condition P36);
- confirm we will be able to continue in operation and meet our liabilities as they fall due over the period to March 2031 (UK Corporate Governance Code and Regulatory Accounting Guideline 3.14);
- confirm that the data and information provided to Ofwat in the reporting year and/or which has been published as a water and sewerage undertaker was accurate and complete with any exceptions clearly set out (Regulatory Accounting Guideline 3.14);
- confirm that we have maintained two issuer credit ratings which are classed as an Investor rating from two different Credit Rating Agencies (Licence Condition P26);
- confirm that if a special administration order were to be made, we would have available sufficient non-financial resources to enable a special administrator to manage the affairs, business, and property of our regulated activities (Licence Condition P14);
- confirm that transactions with associated companies are at arm's length (except where agreed by Ofwat) with no cross subsidy occurring (Licence Condition P19); and

- confirm that we provided a statement to confirm the number of disposals of protected land (Licence Condition K and Regulatory Accounting Guideline 3.14).

The Individual Statements

Dŵr Cymru fully recognises its accountability to its customers, its regulators and its other stakeholders and is pleased to provide the following Statements to demonstrate that it complies with its obligations and is managing its risk in an appropriate manner.

1. The Company considers it has a full understanding of, and is meeting, its relevant obligations.

Our primary obligations and duties as a Water and Sewerage Undertaker are set out in the Water Industry Act 1991, the Water Resources Act 1991, and our Licence.

We keep our assurance processes continually under review to ensure they remain appropriate. A key emphasis is on ensuring the Company has sufficient processes and internal systems to fully meet its obligations. Our Legal Team works with colleagues throughout the business to identify new legal obligations and amendments to existing legislation. Colleagues in the Regulation Team keep abreast of developments or changes to our regulatory and Licence obligations. The Compliance Team provides advice, guidance, and support to the whole business on understanding the extent of any regulatory or Licence obligation and supporting management to implement an appropriate internal control framework to ensure compliance with those obligations.

During 2023-24 Ofwat:

- made two modifications to Licence Condition P (Regulatory Ring Fence) concerning the dividend policy and investment grade issuer credit ratings. A further modification to the cash lock-up condition will be effective from 1 April 2025; and
- replaced Condition G: Core Customer Information, which was considered to be rule-based and specific, thereby restricting companies' ability to innovate, with a new customer-focused licence condition, Condition G: Principles for Customer Care. This new Condition requires the Company to adopt high standards of customer service and appropriate support for the full diversity of its customers' needs through the delivery of a number of principles for customer care.

It is essential that all concerned in ensuring Licence Condition compliance continue to understand their individual responsibilities and appropriate checks and controls are in place to meet our obligations. To achieve this, it was important to build upon the existing knowledge of the Licence Owners and to discuss the application of any new modifications with them. Consequently, and building on the processes we have developed over the last few years to ensure 'ownership' of Licence conditions and legal/regulatory obligations, for each individual Licence Condition covered within the Risk and Compliance Statement we have now:

- Established who the Licence Condition 'owner' is;
- Established the relevant Dŵr Cymru Executive (DCE) Member;
- Produced a PowerPoint Guide outlining the purpose of the Condition and our obligations;
- Developed a proforma that:
 - Reviews the Licence Condition in detail to establish all requirements;
 - Establishes how compliance with the individual requirement is achieved;
 - Captures all instances of non-compliance with our obligations;
 - Contains a 'compliance statement' which is signed by the Licence Condition Owner; and
 - Contains a 'compliance declaration' signed by the relevant DCE Member.

For the 2023-24 Risk and Compliance Statement the Compliance Team mapped Company processes against our relevant statutory obligations. This was a desk exercise combined with consultation with operational managers. In each case the outcome of the process followed demonstrated that the obligation in question was recognised and that there were processes in place likely to ensure compliance. We continue to use a common reporting format which includes:

- responsible Member of the DCE Team;
- formal description of the obligation, including hyperlinks to the actual legislation referred to;
- description of the obligation in plain English;
- details of policies, procedures and responsible Departments;

- internal governance and assurance arrangements;
- external assurance arrangements; and
- any material non-compliance in the report year.

Each individual statutory obligation has a Compliance Proforma (similar to the Licence Condition Proforma) that evidences how compliance is achieved.

The Compliance Team liaises with colleagues throughout the business to discuss the obligations they contribute to deliver as part of our focus on continuing to embed compliance within “business as usual” processes. As part of an approved Compliance Programme they also undertake a series of annual Compliance Reviews designed to provide an opinion on compliance with our relevant legal/licence obligations.

A quarterly Regulatory Issues Report is received by the Quality and Safety Committee (attended by all Board members) highlighting exceptions to the Company’s compliance with its statutory, licence and regulatory obligations. Further detail about each of these exceptions is provided later in this Statement.

2. The Company has taken steps to understand and meet customer expectations.

Our customers are at the heart of everything we do. Getting meaningful feedback and input from our customers to help inform our long-term business planning and day-to-day decision-making is vitally important to ensure that our plans meet our customers’ needs and expectations. As we have seen in recent years, especially since the Covid pandemic and during the cost-of-living crisis, our customers’ needs and expectations can change over relatively short periods of time and we conduct regular customer research and regular face-to-face public meetings to gather our customers’ views.

We gather data from our business-as-usual interactions with customers and engage with customers and other stakeholders in various ways on an ongoing basis. The insight produced by this engagement informs our day-to-day business decisions and priorities. Our wider customer engagement activities include:

Ad hoc research: customer research conducted for one-off purposes e.g. customer with extra care needs contacted in May 2024 to inform our Vulnerability Strategy for AMP 8.

Customer data-driven insight: this includes all customer contact data, complaints, feedback e.g. ‘Rant Rave’ which requests and collates customer feedback for each contact, and speech analytics software that provides insight into customer sentiment during calls with our agents.

Tracker research: this monitors trends of key topics over time e.g. our Trust Tracker monitors trust, value for money and other issues monthly.

Public events: we proactively communicate with customers before starting the work and often host community events for high impact schemes to explain to customers what we are doing and the likely duration and impact of the work.

Customer expectations are likely to continue to change with an increasing desire for a more personalised service and control over their use of services and less tolerance of service outages. This will particularly be the case for business customers. We have also seen in 2023-24 customers increasingly concerned about our environmental performance and the state of the natural environment more generally.

During the year we:

- held two public, online meetings (in April and November 2023) to outline our draft AMP8 Business Plans and then how we had amended them following some of the feedback we received. “Stepping up to the challenge” report can be found [here](#). The sessions were well attended by 120 customers and a variety of organisations that had an interest in various aspects of our plans. A lot of ground was covered over the course of the two sessions including environmental impact, affordability, water quality, carbon reduction, and fish stocks in Welsh rivers;
- updated and repeated the 2021 research undertaken on behalf of Dŵr Cymru by Blue Marble to understand customers’ views specifically on Storm Overflow following stakeholder and media interest in the discharging of sewage into rivers. We wanted to identify if customer views have changed since 2021, if so how, and understand opinions about a new Storm Overflow measure; and

- have made good progress delivering the agenda set out in our Innovation Strategy, with links to over 100 academic and other institutions, technology specialists, and global innovation concerns to develop and progress new technologies to improve customer service.

Customer research from the Edelman Trust suggests that trust is declining across most sectors. This is supported by the Water Matters research conducted by CCWater, which shows fluctuations in the trust measure. Additionally, our own monthly trust tracker indicates that trust is at a lower level overall than it was last year. In light of increasing cost of living and environmental pressures, we recognise that we need to continue to work hard to maintain customer confidence in our ability to balance affordability with the need for investment to reduce our environmental impact and maintain services for the future. We also achieved 1st place in the industry for customer trust according to CCWater's Water Matters report published in May 2024.

Welsh Water 2050

Dŵr Cymru has a long-term strategy – Welsh Water 2050, first published in 2018. It outlines the key challenges and opportunities for the business over the long-term, and how we plan to respond to them to ensure we continue to provide a resilient and sustainable service. The strategy undergoes a full review and update every five years, with the first review having taken place in 2022.

After consulting our customers, we agreed with Ofwat in December 2019 (under the PR19 process) a 5-year programme for 2020-25 involving more than £2.0 billion in capital investment. It includes real-terms bill reductions, efficiency improvements, and a total of 56 performance and investment delivery targets for each year of the period.

The PR24 Business Plan for the next five-year period 2025-30 (AMP8), was submitted in October 2023 for scrutiny and challenge by Ofwat. It is aligned with our long-term goals under Welsh Water 2050.

Independent Challenge Group

The Independent Challenge Group (ICG) comprises customer and environment advocates from a broad variety of backgrounds. It meets regularly to review and comment on customer research, strategy, policy and initiatives. The Chair of ICG attended the PR24 Customer Insight agenda item at the June 2023 Board meeting to provide an independent overview of the customer engagement and research that had contributed to the Group's PR24 business planning process, identifying the key priorities for customers that needed to be reflected in the Group's business plan.

The Wellbeing of our Customers and our Communities

The nature of the services we provide, and our clear purpose to support our communities and the environment, as set out in our Articles of Association since 2019, means that Environmental, Social and Governance (ESG) issues are at the heart of what we do.

Our ESG Strategy was reviewed and approved by the Board's ESG Committee in February 2022. It includes 10 key objectives to support the focus on ESG issues in the context of Welsh Water 2050. The ESG Strategy will be reviewed later this year following receipt of Ofwat's Final Determination.

Alongside Welsh Water 2050 we launched our Wellbeing Commitments in 2020. These were the Welsh equivalent to the Public Interest Commitments published by water companies in England in 2019. They are aligned to the seven Wellbeing Goals identified in the Wellbeing of Future Generations (Wales) Act.

We recently completed our Water Resilient Communities Project work in Newport, with preparations underway to focus on a new project area. This place-based project, which targets some of Wales' most deprived communities, brings together several services in an integrated effort. We have continued in a wide range of activities, including the delivery of free water saving devices, toilet leak appointments, attendance at events to support customers who may be struggling with their bill, and face-to-face support for customers in arrears.

As we move our focus onto the next 'place', this project will continue to challenge colleagues to reflect on the way that they support communities, discover innovative ways to maximise community benefit – and to apply the learning beyond the project.

At its November 2023 meeting the ESG Committee received updates from the Customer Strategy and Engagement Director and the Managing Director – Household Customer Services regarding engagement with our customer base, including ongoing work with vulnerable customers and the introduction of the company's newly expanded 'Cymuned' (Community) Support Fund which offers short-term support to working households who find themselves in a situation where their bills exceed their income.

Customers who need extra help

We expect recent societal and demographic trends to continue until 2050, including an ageing population, pressures on household finances and increasing numbers of people with long term health conditions. This underlines the importance of our vulnerability strategy. Welsh Water 2050 explains how we're responding to this challenge, working effectively with partners and other service providers to give appropriate and effective support to customers who need extra help.

Our Specialist Support Team brings together our affordability support with Priority Services, which ensures that those customers who are in need receive assistance with all aspects of our service. This team of specialist advisors is trained to deal with the most complex situations facing our customers and ensure that they get all the support we can provide.

Over recent years, working with debt advice agencies, we have developed a range of financial support packages to help over 130,000 vulnerable customers who struggle to pay their bills. Our latest support scheme, Cymuned, is aimed at providing working household customers with temporary support to pay their water bills. Until we launched Cymuned, working households were not usually eligible for financial assistance from Dŵr Cymru, but the scheme enables us to provide short-term support if their household bills exceed their income. After a short pilot, we launched the scheme across our operating area in July 2023. It is one of the few assistance schemes available to working households.

Our 'Here for You' campaign aims to raise awareness of the financial support on offer from Dŵr Cymru while breaking down perceived barriers for customers getting in touch if they're struggling.

Dŵr Cymru has been awarded the BSI Kitemark for inclusive service. By exceeding the standards of ISO 22458:2022 certification for consumer vulnerability and aligning with Ofwat's requirements, we have demonstrated our commitment to implementing company procedures that ensure fair, flexible, and accessible services for all.

Business Customers

We have dedicated teams that support all our business customers, large and small. This includes around 110 customers who are participants in the competitive retail services for water (for water companies based wholly or mainly in Wales, only customers who use more than 50MI per year at a single site can choose their water retailer). There are, therefore, around 110,000 business customers for whom we remain the monopoly provider. We provide a tailored service to those business customers who request our expert knowledge and support to ensure we meet their expectations and help them manage their water and wastewater processes. We also offer business customers a range of additional services that complement our core service provision, such as leak detection and network optimisation, and we offer advice on issues such as water quality and cold weather preparations. Over each of the last five years we have achieved an excellent business customer satisfaction rating of over 86% in our independently run random customer surveys.

Developer Services

One of Dŵr Cymru's key priorities is to provide the essential water and wastewater infrastructure and services to support and promote economic growth and development across our supply area. Our dedicated expert team supports our developer customers, whether concerned with providing new housing, commercial or industrial premises. The customer service experience of our developer services customers is measured by D-MeX, a mechanism introduced by Ofwat in 2020-21. We were rated 11th in the sector for D-MeX in 2023-24 (2022-23: 13th) and although we recognise that some of our developer customer responses are impacted by additional regulation affecting these customers operating in Wales, we remain keen to further improve our D-MeX rating. The quantitative element of our 2023-24 D-MeX score ranked us in joint 1st place but the qualitative element ranked us as 11th. The team also supports the many major infrastructure projects being undertaken in our area, such as those relating to new highways and rail, that

typically require investments in water and wastewater infrastructure totalling around £50 million in committed works on a rolling annual basis. We note the recent announcement from the UK Government regarding Wylfa B and will monitor developments and support as appropriate.

3. We have satisfied ourselves that we have sufficient processes and internal systems of control fully to meet our Obligations.

The Board has overall responsibility for setting the risk appetite of the business and ensuring the adequacy and efficacy of the Group's system of internal control and risk management. The Audit Committee reviews the integrity, adequacy, and effectiveness of the Group's system of internal control and risk management and related compliance activities on behalf of the Board.

The system of internal control is designed to ensure compliance with our obligations and manage the risk of failure to achieve business objectives. The operational policies and procedures which set out these controls are housed in the Integrated Management System or similar repositories and achieve international quality standards for Asset Management, Competence Management, Environmental Management, Laboratory Testing and Calibration, Occupational Health and Safety, Quality Management, and Vulnerable Customers. Our three lines of defence work together to provide confidence to the Board and its Committees, senior management, and our stakeholders over the adequacy of the design and operation of the controls.

During the year the Audit Committee has:

- maintained oversight of the operation of the Company's systems of internal controls and assurance of regulatory reporting;
- received reports from the Chief Internal Auditor on the outcomes of internal audits, special investigations, and whistleblower investigations;
- critically reviewed the responses from management on internal audit investigations and closely monitored the status of overdue management actions;
- reviewed Business Systems and Quality Audit Plans, which cover largely compliance activity in the operational water and waste businesses prior to being presented to the Quality and Safety Committee for approval;
- reviewed the Internal Audit Charter which sets out the scope of work for the internal audit function and confirms its independence;
- received the External Quality Assessment which concluded that the Internal Audit function 'Generally Conforms' to the Chartered Institute of Internal Auditors Standards, which is the highest level of conformance to the Standards available;
- maintained oversight of the effectiveness and reliability of the risk management framework and received updates on the ongoing development of the Company's strategic risk appetite framework; and
- received updates on the progress of the Leakage and Per Capita Consumption Committee from the Chief Risk Officer. The Audit Committee Chair continues to be a member of the Leakage and Per Capita Consumption Committee.

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.

On behalf of the Board, the Quality and Safety 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. This Committee also reviews the Company's operational systems and quality assurance audit programme and receives the findings of audit reports relating to water and wastewater service provision.

The Audit Committee reports the results of its review of regulatory reporting 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 Safety Committee and from management, and relies on its routine monitoring of key performance indicators and monthly reports of financial and operational performance. The Board receives independent assurance from internal audit, and

where relevant, external specialist consultants, and also from Dŵr Cymru's technical advisor on regulatory reporting issues (Jacobs Engineering Group).

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

Our culture is also a cornerstone of the internal control framework and is based on shared values and beliefs. It helps shape the way we conduct our everyday business and ensures we strive to 'do the right thing'. Because of its importance, company culture is sometimes described as a layer of control against inaccurate information, even preceding the first line of defence. Maintaining a positive culture is important to us because other controls might be occasional or periodic, but culture is ongoing and permanent.

The culture of our Company is defined by the values we adopt and the knowledge, skills, and attitudes of our employees. We have made it our Vision to earn the trust of our customers every day. It is vitally important that we act responsibly as individuals and as a company at all times - not only when we are required to do so by law, but also generally, in our working lives.

Through direct engagement with employees within employee engagement sessions, informal meetings with managers and by conducting operational site visits, the Board is able to see and experience first hand how our culture and values are applied across the business. Maintaining an effective culture within Dŵr Cymru is a key component to support the delivery of our strategies and the Board's decision making to promote the long-term success of the Company.

4. We have appropriate systems and processes in place to allow us to identify, manage, mitigate and review our risks.

Our Enterprise Risk Management (ERM) Framework defines how risks are identified, evaluated, mitigated, monitored, and governed across Dŵr Cymru. The Board continues to monitor its impact on the Company's risk management and reporting.

The Glas Board oversees the system of governance in operation throughout the Group. This includes a robust system of internal controls and a sound Risk Management Framework which includes risk identification, assessment, mitigation, and monitoring throughout Dŵr Cymru at an asset, project, function, and strategic level. It is also responsible for ensuring that Group policies which address specific risk areas are aligned to the Group's risk appetite and clearly inform the business as to how it should conduct its activities to remain within risk appetite.

Dŵr Cymru operates the Three Lines of Defence model. Under this model:

First Line

Operational management has ownership, responsibility, and accountability for directly assessing, managing, and mitigating risks.

Second Line

Specialist control functions and internal governance bodies provide the frameworks for, and monitor and support, effective risk management by the first line. They also ensure the flow of information on risk up and down the organisation, including risk escalation protocols.

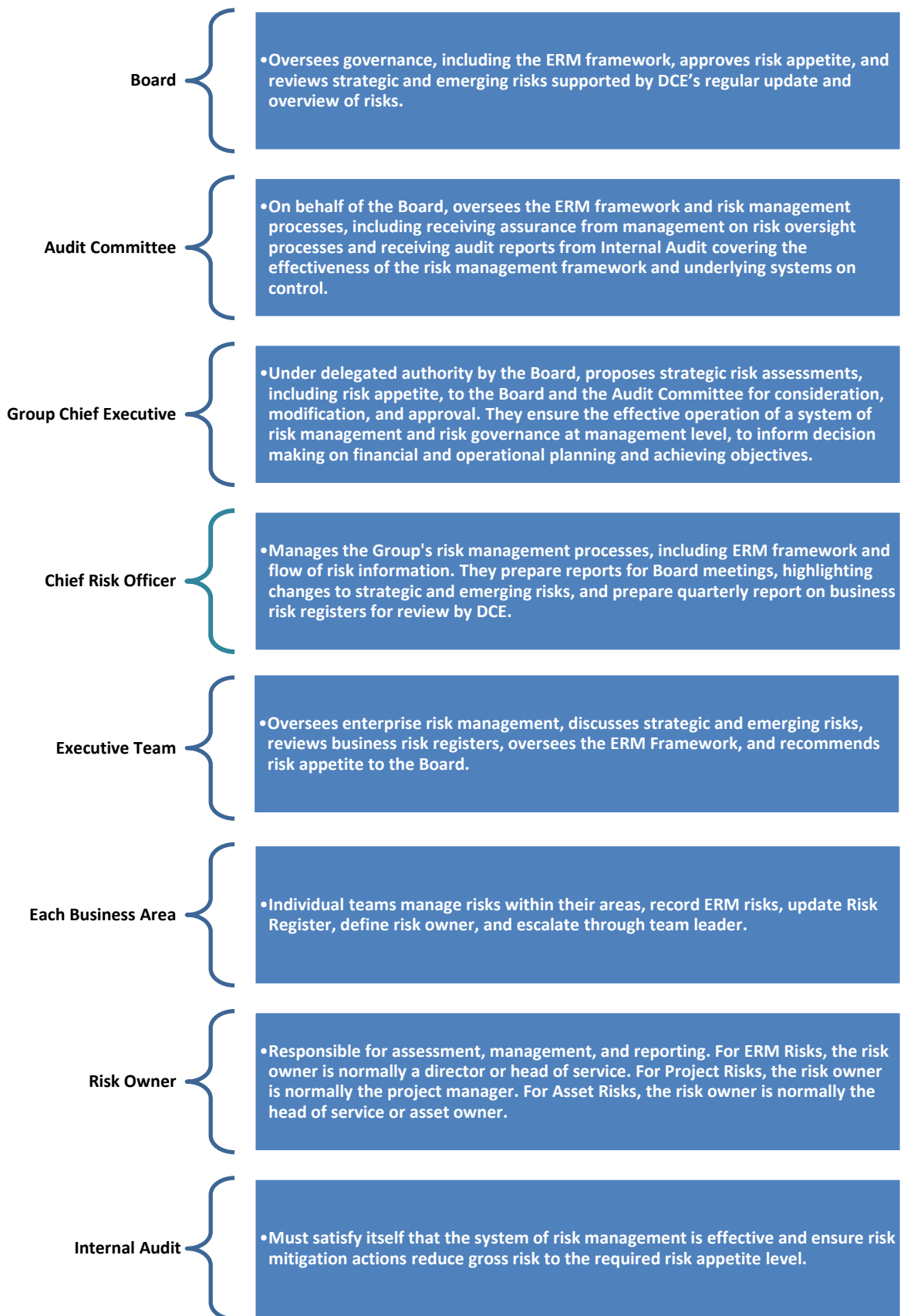
Third Line

Independent assurance over the adequacy of design, effectiveness of operation and sustainability of the systems of internal control.

The Board and Audit Committee sit outside the Three Lines of Defence and receive reports and assurance from the three lines.

It is the responsibility of every colleague to identify the risks associated with their own area of operation and robustly to operate/comply with any controls designed to mitigate those risks. Risks which cannot be managed at an individual level should be escalated. Each risk has a risk owner who is accountable. The risk management framework supports Dŵr Cymru's commitment to earn the trust of our customers every day through delivering excellent customer service. The effectiveness of risk management depends on this integration in the governance and decision-making of the organisation.

Risk management is integrated into organisational activities and governance, with responsibilities and accountabilities assigned at appropriate levels within Dŵr Cymru.



DISCLOSURE OF DEPARTURES FROM THE STATEMENT OF COMPLIANCE WITH OUR OBLIGATIONS

Our Vision is to earn the trust of our customers every day. Strong governance and leadership, with the correct focus on customers at the heart of everything we do, together with properly transparent reporting, can play an important part in helping us achieve this Vision.

The Board notes that the following specific matters have been identified. In all instances of potential non-compliance, a thorough review was undertaken to identify the root cause and to obtain assurance that there were no significant risks to future compliance with the particular obligation. Further details on our performance can be found in our Annual Performance Report for 2023-24 available at www.dwrcymru.com.

Leakage and Per Capita Consumption (PCC)

Dŵr Cymru notified Ofwat in 2022, and referenced in our 2022 Risk and Compliance Statement, that we had launched a review of our leakage and PCC reporting, following our annual assurance processes which identified potential issues with the application of the methodology used for calculating these measures. The review concluded that these key measures have been inaccurately reported, with actual leakage being higher than reported, and actual per capita consumption being lower than previously reported. We subsequently restated the performance data for 2020-2022.

A committee of the Board, then oversaw a detailed investigation independent of the affected management to establish the facts, determine why the issues had occurred, and what needed to be done to rectify them and prevent a recurrence, and form a view as to the consequences. This review concluded that while our robust assurance process identified the issue, there were failures in our governance and management processes that should have identified the issue sooner. We have made changes to how we manage our leakage reduction activities and strengthened our reporting and governance processes. We have also undertaken a customer redress package including a £10 rebate to customers, made in 2023, and put an additional £59 million investment into activities that support leakage and PCC performance.

Our internal review, and these redress activities, were relayed to Ofwat, who have considered them, as part of their review that was published on 28 May 2024 (Draft Consultation issued March 2024). Ofwat's report reached very similar conclusions to our own, and in recognition of the package of measures put forward by Dŵr Cymru, Ofwat concluded that a nominal penalty of £1 was appropriate.

Environmental Permitting (England & Wales) Regulations 2016 – Enforcement Action

We have been ordered to pay £104,275 by way of a fine and costs following a prosecution by the Environment Agency (EA) in respect of one charge that we breached Regulations 12 and 38 of the Environmental Permitting Regulations by exceeding the permitted level of biochemical oxygen demand within discharges from the Kingstone and Madley WWTWs on three occasions between 5 August 2020 and 20 June 2021, and to which we pleaded guilty.

During 2023-24 we accepted three Cautions offered by Natural Resources Wales (NRW) for the following:

- Pass forward flow breaches at Ty Gwyn WWTW between 24 September 2019 and 24 September 2020.
- A permit breach relating to storm tank performance at Ruthin WWTW between 16 November 2019 and 16 November 2020.
- Sewage discharge breaches on 15 March and 3 May 2022 from a sewage pumping station at St Clears Car Park, St Clears.

During 2023-24 we have received correspondence from NRW requiring responses to questions raised under caution in respect of pollution incidents and/or permit compliance for the following sites:

- Cardiff and Afan combined heat and power facilities (permit compliance).
- River Taff (discharges following a sewer burst).
- Afan WWTW (requirement for a permit).
- Abergele/Pensarn Storm Overflow (Pass Forward Flow compliance).
- Picton Pumping Station and Picton Fields Storm Overflow (Pass Forward Flow compliance).

We have received the following enforcement notices from NRW:

- Cardigan WWTW (requiring the provision of an outline design for a solution to remedy permit compliance and confirmation of AMP 8 funding for the solution, and the date by which it will be operational, by 31 March 2025).
- Llanddulas SPS (requiring the completion of works by 1 June 2024 to remedy Pass Forward Flow compliance) in respect of which we notified NRW that there had been a delay in undertaking the relevant works and for which commissioning commenced on 21 June 2024.

Environmental Permitting (England & Wales) Regulations 2016

For the 2023 calendar year we have a total of 107 wastewater pollution incidents recorded, with seven serious pollution incidents (recorded as High impact, Category 1 and 2). There were 27 water incidents recorded for 2023 which were all low impact (Category 3), and there were no capital incidents in the year.

In the year to date (as of end May 2024), we have 47 pollution incidents with a number of unassigned pollution incidents sat with NRW making forecasting very difficult. There is one confirmed Serious incident (Nant Glandulais), although three have been unclassified which may be given a High impact classification.

Whilst there has been a change in the identified rate of pollution from sewer blockages which can be attributed to our proactive inspection programme and increasing our smart network monitoring, we have seen an increase in the number of incidents caused by overload in sewers, mainly from the volume of rainfall that has persisted over the last six months of the year. We remain focused on recovering our position on Environmental Performance Assessment (EPA) to 3* and a large part of our EPA recovery plan is focused on improving our pollution performance. In particular, we are increasing our smart network capacity with additional network monitoring and using artificial intelligence software to help us detect abnormal changes to levels within the sewerage network and at pumping stations so we can respond before an incident occurs. We are also focusing on the removal of unwanted flows in key areas experiencing hydraulic overload. A number of our High impact incidents come from a small number of sewers and rising mains that have deteriorated in condition, or are of a material that is known to fail quicker than others. We have put investment in our AMP8 plan to replace some of the high risk of polluting mains from our estate and the funding is now subject to the Ofwat Determination.

Storm Overflows (SOs)

We operate a network of SOs that were originally designed to protect properties by diverting storm water (rain water mixed with effluent) away from them when the capacity of these combined sewers is beaten, discharging instead into water courses and relying on dispersal to minimise impact on the environment. When Dŵr Cymru took over the sewerage system from local authorities on privatisation we assumed responsibility for over 2,300 such overflows. At the time of privatisation all overflows that were then identified as unpermitted were covered by a single blanket permit which was intended to be replaced with an individual permit in due course. Some of the historic SOs were constructed many years ago in places that are currently very difficult to access or even to know that they exist. As part of our Event Duration Monitoring installation programme to install monitors on all of our SOs, a large data rationalisation was undertaken which identified a number of overflows had no permit to discharge and we wrote to NRW in 2016 explaining that we had identified a number of storm overflows that had not been individually permitted. We agreed to submit permit applications to the regulator on a phased basis and as there were also a number of SOs that were no longer in use these permits required revocation. Between 2015 and 2021 we submitted 144 permit applications for unpermitted SOs, and revoked 305 permits as no longer required.

In 2021, NRW requested that the process for permitting the storm overflow be changed and an extensive flow monitoring and modelling exercise be undertaken to understand the impact of each overflow on the environment and the solution required to address any insufficiency against modern design standards.

In October 2023, NRW issued guidance on how they expect companies to investigate unpermitted storm overflows (GN021) and classify them in line with the further guidance issued on storm overflows, (GN066). The process also outlines the information we require to enable a permit application to be submitted, and the expectation on how and when any improvements required would be made. We are still querying with the NRW as to whether we apply for a permit post classification or whether they will need design completion (which would be a further two years to the programme).

Our overflows have been under investigation since 2022, but the new guidance means that the level of assessment undertaken has to be increased and therefore we will not be in a position to apply for permits until March 2025 at the earliest, with the latest permit applications likely to be by March 2027.

	Total	2024/25	2025/26	2026/27
Actual	160	-	-	-
Permit submission programme (LBE)	1	60	49	50

An additional four sites will be added to the investigation programme, and we have two years to complete the classification and two years to undertake design. The application that has been submitted is Usk SPS, which was duly made on 1 November 2022 and should have been determined by 1 March 2023.

For the reasons described above we have around 164 overflows (157 in Wales, 7 in England) that do not currently have permits as they were not known about when we took over responsibility for the network. There are a further 50 assets that are now being investigated to see whether they discharge to the environment and are, as such, additional unpermitted SOs. In addition, we have 66 emergency overflows that we believe are operating as SOs and are also under investigation.

We sent our list of unpermitted SOs to the NRW on 31 January 2024 as a baseline and are continuing to work with them on the template so that we can agree to move forward with the new process of registering newly observed SOs. We are also working with NRW on the timelines and KPIs for progression of designs once we have our initial classifications. A letter was sent by NRW to both Hafren Dyfrdwy and ourselves asking us to confirm the requirements on unpermitted storm overflows in April 2024; we have written back confirming our understanding and requesting clarification on the permit application requirement.

It is worth noting that in England the EA will permit these discharges with clauses to undertake investigation within three years, subsequent design with a further three year timescale (six year total) and will then issue an amendment for improvement to 2050 in line with the Environment Act 2021.

In January this year we started publishing near real time (within the previous 24 hours) data on spills from those SOs that have the potential to pollute beaches, or popular inland bathing waters. While our plan is to progressively reduce the number of such spills that create environmental harm, publishing this information in the meantime allows those who use such sites to plan when to swim.

With regards to pollution incidents our aim is to find wherever feasible sustainable solutions to SOs, using methods such as reed beds to filter overflows instead of building large concrete storage tanks with a damaging carbon footprint and substantially higher costs. To do so involves working with landowners and local authorities to identify appropriate sites for such schemes and requires the regulator to look at new ways of permitting these under the EPR regime.

Event Duration Monitoring (EDM) is a regulatory requirement to monitor the frequency and duration of releases from SOs. Dŵr Cymru was the first water company to begin installing monitors on our SOs which we began back in 2015, several years before our regulators needed us to. Achieving 100% installation at all SOs proved problematic due to a small number of very difficult to access sites. The two remaining SOs should have monitors installed before the end of 2024. This will still leave six sites without EDM – the NRW have confirmed three are not required due to complexity of install and we will be requesting confirmation of the same for the other three. The coverage also does not extend to the sites which we are investigating as potential SOs.

Due to the very significant investment required for the total removal of SOs from our system we are prioritising what is affordable by our customers on the basis of avoiding environmental harm. That is why we are investing significantly to improve SOs with £140 million being invested between 2020-25 and a further £670 million planned from 2025-30. We are awaiting Ofwat's Determination on our Business Plan for 2025-30 which overall proposes £4 billion investment to improve our performance and services to customers. This includes £2.5 billion investment in environmental services – 84% more than across 2020-25.

Pass Forward Flow Compliance Investigation (Operation Standard)

In November 2021, Ofwat wrote to us requesting information about Pass Forward Flow (PFF) compliance and our previous disclosures of non-compliances. We provided detailed responses to all of Ofwat's requests for information in December 2021. In March 2022, Ofwat announced it had opened enforcement cases in respect of five companies, and a sixth company was then added at the end of June, however in common with all Water and Wastewater companies, we understand that Ofwat's investigation is ongoing as it reviews the information submitted.

In November 2021 we also received a request from the EA for data related to PFF compliance in respect of certain of our WWTWs in England. We responded to this. A small number of further English sites have been recently added to this data request. In April 2023, we responded to a further request from the EA for supplementary information and later that year they visited seven of our WWTWs. The EA stated in November 2023 that it had concluded its site visits for all companies having undertaken a total of 114 visits for 'indicator sites' identified to be representative of all WWTWs and that it "will take many months" to analyse the data and documents. We have had no further updates on the matter. The EA issued a further request for information under Section 108 of the Environment Act 1995 on 22 May 2024 in relation to operational and procedural records for six WWTWs (Chester; Eign; Heswall; Leominster; Moreton on Lugg; and Whitchurch) and two related SOs at Chester and Eign. We have until 22 July 2024 to respond.

Further Pass Forward Flow Compliance Investigation

A letter was received from the EA on 29 June 2023, notifying us of its intention to conduct analysis of the performance of all PFF limiting overflows during the period 1 January 2021 to 31 December 2022. Despite the similarity of subject matter, this has not been presented as being a request made as part of Operation Standard. The EA requested the provision of duration and flow passed forward monitoring data for all our Flow to Full Treatment Limiting Overflows with receiving WWTWs located in England. We responded on 31 July 2023 and have had no further correspondence on the matter.

Storm Overflow operation on "dry days"

The EA wrote to us on 26 October 2021 asking for reports on the operation of overflows subject to Event Duration Monitoring (EDM), confirming that if the data supplied, and subsequent analysis identified that the storm overflows in question were operating on a "dry day" and outside permit conditions, the data may be used to form further action. A dry day is considered by the EA to be when rainfall does not exceed 0.25mm and the assessment of compliance was undertaken when a spill event was occurring after four dry days. The required information was provided on 1 November 2021. Correspondence was then received from the EA on December 2022 noting that three sites were perceived to be discharging outside of permit conditions after four consecutive dry days. Detailed reports on each of the three sites were sent to the EA in January 2023. We confirmed that one site had not discharged to the environment as it was blocked at the time (it was then subsequently permanently closed to the environment and abandoned). The other two sites had data recording and reporting issues (from Dŵr Cymru instrumentation) or mis-reading of the data (by the EA) that led to erroneous assessment, with a couple of the discharges noted to be caused by short lived operational issues that were resolved quickly. Subsequently, the EA removed our Compliance Classification Scheme (CCS) classification and noted no further action is required of the Company based on 2020 data. The EA is now assessing 2021 and 2022 data, and so new Compliance Assessment Report actions may be issued. However, we have been made aware that the new dry spill retrospective analysis reporting from 2024 onwards will mean previous investigations will be halted.

We received a request on 27 March 2024 from the EA requiring us to provide records on the operation of SOs subject to EDM as part of its further analysis of all discharges from the 2023 Annual Returns. We responded on 3 May 2024, and we are currently dealing with a small further enquiry seeking clarification as to the data provided for three sites.

Run to Waste from Water Treatment Works

We have written again to NRW setting out our position that Run to Waste (RtW) discharges are permitted from WTW in emergency situations and that in any event such discharges generally have no environmental impact. We have accepted NRW's position that permits are required, and applications have now been made for all WTWs with RtW discharge points. We understand that due to resourcing constraints NRW may take up to two years to deal with the applications. In the meantime, due to the delay, NRW has stated

that it will not consider RtW discharges as unpermitted pollution incidents. We are waiting on the EA to issue its formal Regulatory Position Statement on run to waste following its consultation exercise.

Operator Self Monitoring Programme – Breaches of Descriptive Consent

Our sampling team for both Urban Waste Water Treatment Directive and Environmental Permitting Regulations compliance reports sample outcomes to NRW and the EA. During 2020, the team encountered some operational difficulties, in part related to an internal reorganisation, and in part related to COVID absences, which meant that around one third of all samples related to the Environmental Permitting Regulations were rescheduled. We kept NRW and the EA informed of these rescheduled samples. On 10 May 2021 we received a letter from NRW which notified us that they were investigating a number of non-compliances with regard to samples taken during 2020. We submitted our report to NRW on 30 June 2021.

On 7 January 2022 NRW issued a letter asking questions under caution regarding the Environmental Permitting Regulations and breaches of multiple permits under the Operator Self Monitoring programme during 2020. A detailed response was sent on 21 February 2022. NRW subsequently asked further questions under caution, and a response was submitted at the end of June 2022.

We submitted our compliance data return to NRW for the 2021 and 2022 Operator Self Monitoring programme, which demonstrated far fewer issues than for 2020 (around 75% reduction in the number of descriptive non-compliances at WTWs and WWTWs). However, we have yet to receive confirmation from NRW that the investigation into the 2020 performance is formally concluded. However, the current performance was referenced in the OMA audit carried out NRW/EA on 20th November 2023 (the first undertaken since 2019) and acknowledged that improvements had been made. Therefore, in the absence of any further correspondence from NRW, we are assuming that this matter is now closed.

Operator Self Monitoring Programme – Breaches of Numeric Consent

At the time of writing, this metric is still under discussion with NRW. For the 2023 calendar year there are 12 non-compliant works listed by the NRW in their latest regulatory return draft as reportable under EPA. There are a further two sites under discussion between EA and NRW as to how they are treated under compliance.

In the year to date (up to end April 2024) we have three numeric non-compliant sites and are running at 99.52% compliance. This keeps us within the “green” status and on trend with 2021 and 2022. This is an improvement to the 2023 performance but could still see us be “amber” at year end and therefore unable to get to 4* performance as this metric must be “green” to be 4*.

NRW have, during 2022 and 2023 been undertaking a review of WWTW permits into SAC rivers. This has resulted in 145 permits being issued with Phosphorus limits with either new limits, or tighter than previous limits. As a consequence, we have an increased focus on sludge management at the sites to ensure that performance does not deteriorate, and we remain positive that our approach is working.

With flow compliance, there were 83 newly reported sites for the 2023 calendar year as failing FPF. Including these newly identified sites, we are investigating and delivering solutions on a total of 136 sites.

There were 10 new sites identified as failing their Dry Weather Flow permit condition in 2023. Including these sites we are investigating and delivering solutions at a total of 43 sites.

Industrial Emissions Directive (IED)

NRW and the EA have recently enforced IED related permitting for our sludge treatment centres which treat over 100 tonnes per day. In order to meet the permit conditions, we have invested significantly in physical measures at these assets.

Cog Moors, Cardiff, and Five Fords IED permits are in place, all capital works are complete, and we are compliant with conditions. For Cardiff we have complied with an improvement notice to improve in areas such as containment. These capital improvements have been completed and inspected by NRW. We are awaiting formal sign off.

We have responded to requests for interviews under caution at both Afan and Queensferry for failing to secure an IED permit at the sites. A permit for Afan was first applied for on 21 December 2021 and

subsequently withdrawn on 25 April 2022 due to the requirement by NRW to submit more information to them. The application was resubmitted on 27 July 2022 and with NRW requiring further additional information was submitted as a final version on 29 September 2022. Post the second application, NRW issued three Schedule 5 Notices between November 2022 and March 2023 requiring clarifications of information and additional information. However, in December 2023, NRW rejected the application. A third application was submitted in February 2024 but as a “PreApp” using the pre-application service. A site meeting has since been held with NRW and discussions are ongoing.

Permit applications were submitted for Queensferry in May 2021, April 2022, and November 2022 but all were deemed as “not duly made” i.e. insufficient information for NRW to begin the determination process. A fourth application was submitted in March 2024 but as a “PreApp” using the pre-application service. A site meeting has since been held with NRW and discussions are ongoing.

We met the EA to discuss a permit for Eign and we submitted the permit application in November 2022 with compliance expected by end of 2024, The EA have issued a Schedule 5 Notice for the application requesting that some further flood risk work be undertaken, and compliance will depend on the outcome of this assessment. We are due to reply to the EA on this by the end of July.

NRW have written to us saying they have removed the driver for any National Environment Programme funding for IED improvements, stating this should have been done in the PR19 process and we should take up the issue of funding with Ofwat. The situation of IED in England is unclear at the moment whether it will be in or out of the Water Industry National Environment Programme.

Control of Pollution, Oil Storage (Wales) Regulations 2016

On 14 November 2022, we made an Enforcement Undertaking offer to NRW, which included proposals to make payments of £5,000 each to three charitable bodies operating adjacent to the Afon Cefni, following a fuel leak at the Llangefni Industrial Estate pumping station which occurred on 3 March 2022. NRW confirmed that the Enforcement Undertaking had been accepted in June 2023.

Water Abstraction (Water Resources Act 1996)

We currently hold 151 Licences issued by the EA/NRW which govern how much water can be taken from reservoirs, rivers, or groundwaters. During 2023 there were six instances of abstraction licence non-compliance. We are currently awaiting the final classification from NRW but have been informed that they will all be Category 3 incidents (“minor impact to the environment”) or Category 4 incidents (“no potential environmental impact”).

The Water Supply (Water Quality) Regulations (Wales) 2018 – Water Quality

Under Section 68 of the Water Industry Act 1991, water companies are under a statutory duty to supply wholesome water. Regulation 4 of the Water Supply (Water Quality) Regulations 2018 in Wales provides that water is wholesome if it contains concentrations or values in respect of various properties, elements, organisms and substances that do not contravene the prescribed maximum, and in some cases, minimum concentrations or value.

Each year we carry out sampling at water treatment works, service reservoirs, and customer taps to ensure our water meets the European and National Standards. During the 2023 calendar year we carried out 236,470 tests and found 65 (0.03%) had failed to meet one of the 41 required standards.

An investigation report is completed for each failure, and this is submitted to the Drinking Water Inspectorate (DWI) for independent assessment. Any recommendations or suggestions made by DWI are recorded with agreed timescales to enable progress to be tracked.

DWI are currently investigating an event from July 2022 which led to discolouration of drinking water supplies in Neath Valley (related to drought conditions and deterioration in source water quality). Given the circumstances and duration of this event (over two months) it is possible that DWI will be minded to pursue a prosecution under Regulation 33(1) of the Water Supply (Water Quality) Regulations 2018 for supplying water unfit for human consumption. We were invited to assist with the investigation by attending an Interview Under Caution in April 2023.

The Water Supply (Water Quality) Regulations (Wales) 2018 – Drinking Water Safety Plans

A continuous supply of safe clean drinking water is vital to maintain public health. Ensuring the quality of that drinking water is fundamental to the service we provide to our customers. We do this by ensuring that the risks to drinking water quality are identified and managed. A Drinking Water Safety Plan (DWSP) is the most effective way of ensuring that a water supply is safe for human consumption and that it meets the health based standards and other regulatory requirements. It is based on a comprehensive risk assessment and risk management approach to all the steps in a water supply chain from catchment to consumer (source to tap).

All water quality failures trigger a review of the specific DWSP to enable the capture of new risks and the review of existing risk scores. If any of our DWSPs identify a potential danger to human health, we inform DWI. The DWI may consequently issue a legal Notice, under Regulation 28(4) of the Water Quality (Water Supply) Regulations 2018, requiring the company to complete an improvement programme of remedial actions.

At the end of December 2023, we had 21 Improvement Programmes in place. All are currently reported as 'on track' against delivery/completion dates for the associated improvement programmes.

- Fifteen Regulatory Notices require improvement in customer contact rates in water supply zones related to discolouration of water supply (customer acceptability) requiring delivery by the end of AMP7;
- Three are in response to enforcement action taken: at Maerdy WTW following a water quality event involving elevated turbidity and risk of formation of chlorate; a water quality event in 2021 at Monmouth WTW/ Court Farm WTW involving taste & odour on supply; and for three elevated chlorate events in August 2023;
- One relates to the construction of Cwm Taf Water Treatment Works with a completion date of April 2035;
- One issued during April 2022 relates to Treated Water Storage Tanks, and will be in force until March 2025; and
- One requires improvement in customer contact rates related to discolouration of water supply in all zones that are not already included in the fifteen regulatory notices referred to above.

During 2023 we have held quarterly meetings with DWI to discuss progress.

General Data Protection Regulation

We continue to monitor our programme of compliance across the business. We have significant numbers of interactions with our customers, and we have experienced 134 technical breaches of our data protection policies. Out of the breaches notified internally during 2023-24, we have deemed one to be sufficiently serious and therefore notifiable to the Information Commissioner's Office (ICO) with it subsequently confirming that no regulatory action was required. In each case of a reported suspected breach, we ensure that any lessons learnt are considered, that any relevant individual's training on data protection is up to date, and that the specific circumstances which led to the breach or "near miss" have been addressed with the appropriate manager. As regards a small number of customer complaints to the ICO about how we have handled their personal data or complied with data protection obligations, we have cooperated fully with the ICO, and where necessary amended our practices and/or updated our policies (including our Privacy Policy) to increase transparency.

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR REGULATORY INFORMATION

The following confirmations from our Directors are provided to comply with the requirements of Condition F of our Licence, which requires that accounting statements are prepared in accordance with the Regulatory Accounting Guidelines issued by Ofwat and Condition P (Ring Fencing). In particular, Regulatory Accounting Guideline 3.14 issued in March 2023 (with minor updates on 10 April 2024) requires the following Statements to be made by our Directors:

- Statement on executive pay and performance.
- Statement on disclosure of information to auditors.
- Statement on Dividend Policy for the appointed business.
- Statement on sufficiency of resources and systems (Ring-fencing Certificate).
- Statement on Long Term Viability.
- Statement on accuracy and completeness of data and information.

Statement on Executive Pay and Performance

The Company is required under s35A of the Water Industry Act 1991 to provide a Statement that the remuneration paid to Executive Directors is linked to standards of performance. This Statement is provided within the Report from the Chair of the Remuneration Committee which can be found in our Annual Performance Report for 2023-24 available at www.dwrcymru.com.

Statement on disclosure of information to auditors

In the case of each of the persons who are Directors at the time when the Annual Performance Report is approved under Section 418 of the Companies Act 2006 the following applies:

- a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- b) he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of the information.

This Statement can be found in our Annual Performance Report for 2023-24 available at www.dwrcymru.com.

Statement on Dividend Policy for the appointed business

Licence Condition P30 and Section 3.13 of Regulatory Accounting Guideline 3.14 requires companies to report on the value of any dividend paid and provide a comprehensive explanation of the basis of the dividend.

Dŵr Cymru's ultimate parent undertaking is Glas Cymru Holdings Cyfyngedig, a company formed with the single purpose to manage Dŵr Cymru. As a company limited by guarantee, and having no shareholders, all financial surpluses are retained for the benefit of customers. The reserves built up from retained profits help to insulate Dŵr Cymru and its customers from any unexpected costs and also to improve credit quality to keep the cost of finance as low as possible.

Our Dividend Policy was approved by the Board in February 2022 and by Ofwat in April 2022. No monies are transferred out of the Glas Cymru group of companies under this Policy and all financial surpluses are retained for the benefit of customers. Our Dividend Policy expressly provides that dividends will not be paid unless the Directors are satisfied that this would not impair Dŵr Cymru's ability to finance its regulatory activities. The Dividend Policy permits up to £100 million of funds to be paid intra-Group, outside the regulatory ring-fence, in order to enable the funding of commercial projects.

During the year to 31 March 2024 no dividends were paid or received by the Company.

This Statement can be found in our Annual Report and Accounts for 2023-24 and in our Annual Performance Report for 2023-24 which are available at www.dwrcymru.com.

Statement on sufficiency of resources and systems (Ring-fencing Certificate)

Information Notice 20/01 published by Ofwat in February 2020 sets out guidance for water and wastewater companies in England and Wales in preparing their Ring-fencing Certificate. The regulatory ring-fencing framework provides an important protection for companies and their customers. The Directors have resolved that a Certificate required under Condition P31 of our Licence and prepared in accordance with the latest guidance be issued to Ofwat confirming that in the opinion of the Directors the Company will have available to it sufficient:

- financial resources;
- management resources; and
- non-financial resources,

to enable it to carry out the Regulated Activities, for at least the next twelve month period.

In providing this Certificate, the Directors have also made a statement of the main factors that have led to the conclusion that resources are sufficient. This can be found at Appendix 1 of the Ring-fencing Certificate.

A copy of the Directors' Certificate together with the supporting main factors can be found in our 2023-24 Annual Performance Report available at www.dwrcymru.com.

This Directors' Certificate also confirms that in the opinion of the Directors all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to the Company, to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

Section P36 of Licence Condition P requires our independent auditors to produce a report that sets out whether they are aware of any inconsistencies between the Ring-fencing Certificate and either the accounting statements or any information which the Auditors obtained in the course of their work as the Company's Auditors and, if so, what they are.

A copy of the auditor's report can be found in our 2023-24 Annual Performance Report available at www.dwrcymru.com.

Under Section 14 of Condition P of the Licence, the Company is at all times required to ensure, so far as is reasonably practicable, that if a special administration order were made, the Company would have available to it sufficient rights and assets (other than financial resources) to enable the special administrator to manage the affairs, business and property of the Company.

The Directors are satisfied that the business has adequate resources to continue in business for the foreseeable future. Accordingly, the Financial Statements for the year ended 31 March 2024 have been prepared on a going concern basis. The Directors also confirm this as part of the Ring-fencing Certificate.

Long-Term Viability Statement

Our customers need to know they can rely on the services we provide over the long term. Ensuring the long-term resilience of our business, including financial resilience, is therefore a key area of focus for us. The Board's consideration of the Group's long-term viability is embedded in our business planning process. This includes robust risk management controls, financial forecasting and sensitivity analysis, as well as regular budget reviews. Risks are identified and assessed through a continuous cycle of bottom-up reporting and review and top down feedback and horizon scanning. The Board has analysed the efficacy and robustness of its internal control framework in managing the likely causes and consequences of each risk. We have stress-tested our business plan forecasts to 2031 against a variety of financial scenarios.

Ofwat expects companies to confirm that they are financially viable over the longer term. Our approach to doing this complies fully with Ofwat's latest guidance contained within Information Notice 19/07 published in April 2019 as well as Provision 31 of the UK Corporate Governance Code.

As a result of their assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2031. The Long-Term Viability Statement is provided in the Strategic Report section of our Annual Report and Accounts for 2023-24 which is available at www.dwrcymru.com.

Statement on accuracy and completeness of data and information

The Directors confirm that throughout 2023-24 the data and information provided to Ofwat and/or which has been published as a water and sewerage undertaker was accurate and complete with any exceptions clearly set out. This Statement is accompanied by a description of the activities which the Directors carried out to allow it to make this statement. This Statement can be found in our Annual Report and Accounts for 2023-24 which is available at www.dwrcymru.com.

Licence Condition P26 – Maintaining an Investment Grade Rating

The Directors confirm that throughout 2023-24 the Company, or an Associated Company as issuer of debt on its behalf, has ensured that it has maintained at all times two issuer credit ratings which are classed as Investment Grade Ratings. We have successfully retained our credit ratings at A3, A- and A from credit-rating agencies, Moody's, S&P and Fitch respectively. These continue to be among the best in the UK utility sector.

Licence Condition P19 – Trading with Associate Companies at Arm's Length

We have an Obligation to ensure that every transaction between the Appointed Business and any Associated Company is at arm's length so neither gives to nor receives from the other any cross-subsidy. There were no transactions with any associated companies except for:

- the Executive Directors of Dŵr Cymru Cyfyngedig (DCC) are also directors of other companies within the Glas Cymru Group. However, the emoluments of the Directors are paid in full by DCC as their activities are predominantly related to the regulated water and sewerage business. During the year the Directors' emoluments amounted to £1,555,000 (2023: £1,695,000) (including pensions accruals);
- no dividends were paid or received by the Company during the year (2023: none);
- intercompany interest payable to Dŵr Cymru (Financing) UK plc ("DCF"), another member of the Glas Cymru Holdings Cyfyngedig group, was £181,419,455 during the year (2023: £223,724,205). As at 31 March 2024 the balance outstanding on the intercompany loan from DCF stood at £3,514,537,286 (2023: £3,226,711,324);
- all borrowings raised by DCF are immediately on-lent to the company on an arm's length basis. The intercompany loan is subject to the terms and conditions of the whole business securitisation structure of Glas Cymru Anghyfyngedig and its subsidiaries. DCC, in its capacity as debtor, repays such principal and interest as is due on each borrowing on the due date plus 0.01%;
- an intercompany loan to Glas Cymru Anghyfyngedig of £1,971,000 (2023: £1,971,000) remains outstanding as at 31 March 2024. Interest payable on this loan has been waived; and
- as at 31 March 2024 intercompany trading balances owing to the Company were: Welsh Water Infrastructure Limited £nil (2023: £3,560), Welsh Water Organic Energy (Cardiff) Limited £3,647,719 (2023: £2,098,786), Cambrian Limited £25,419 (2023: £25,419), Glas Cymru Anghyfyngedig £8,481 (2023: £8,481), Glas Cymru Holdings Limited £33,063 (2023: £74,290), and Welsh Water Organic Waste Limited £123,397 (2023: £480,661).

Licence Condition K – Land Sales

In Section 3.45 of Regulatory Accounting Guideline 3.14 companies are required to include a statement alongside table 2L of the Annual Performance Report to confirm the number of disposals of protected land and to confirm how many of these were above the financial threshold for reporting such disposals to Ofwat. A copy of this statement can be found in our 2023-24 Annual Performance Report available at www.dwrcymru.com.

Approved on behalf of the Board of Dŵr Cymru Cyfyngedig,

 Alastair Lyons Chair of the Board	 Peter Perry Chief Executive Officer
 Mike Davis Chief Financial Officer	 Barbara Moorhouse Non-Executive Director
 Debra Bowen Rees Non-Executive Director	 Tom Crick Non-Executive Director
 Jane Hanson Non-Executive Director	 Joanne Kenrick Senior Independent Non-Executive Director
 Lila Thompson Non-Executive Director	

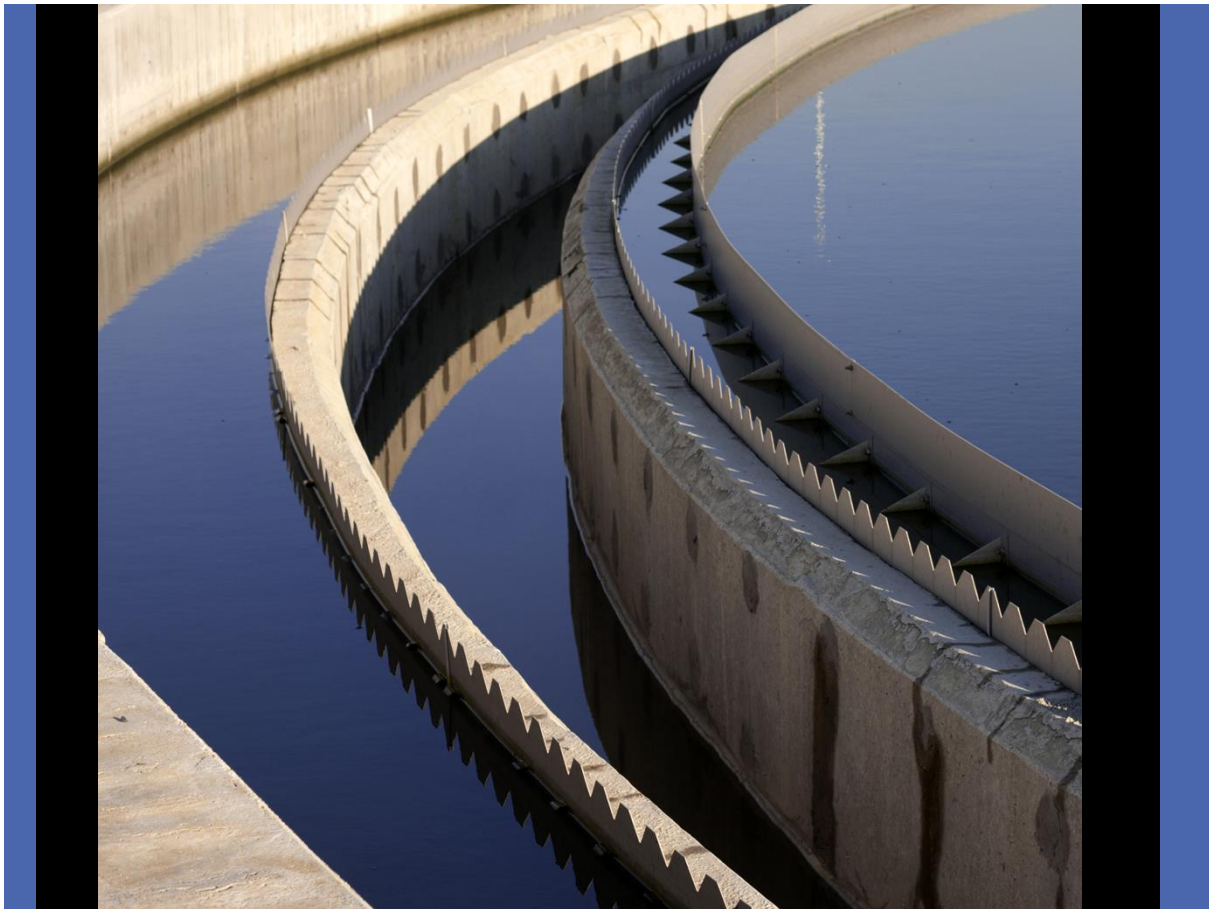
4 July 2024

APR24 Risk and Compliance Assurance Letter

Revision no: 1.0

Dŵr Cymru Welsh Water

Non-financial Assurance Services Framework
6 June 2024



APR24 Risk and Compliance Assurance Letter

Client name: Dŵr Cymru Welsh Water
Project name: Non-financial Assurance Services Framework
Client reference: **Project no:** B2271302
Document no: **Project manager:** Alexandra Crawford
Revision no: 1.0 **Prepared by:** Lisa Slade
Date: 6 June 2024 **File name:** APR24 Risk and Compliance Assurance Letter Draft
Doc status: Final

Document history and status

Revision	Date	Description	Author	Checked	Reviewed	Approved
0.1	31/05/2024	Draft for client comment	LS	SF/ SB	YZ	AC
0.2	05/06/2024	Updated draft	LS	SF / SB	YZ	AC
1.0	06/06/2024	Final	LS	SF	YZ	AC

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6 June 2024

Attn: The Board, Dŵr Cymru Welsh Water

Project name: Non-financial Assurance Services Framework
Project no: B2271302

Subject: APR 2023-24 Risk and Compliance Statement non-financial assurance

Overview

This letter provides an overview of our assurance activity relevant to your Risk and Compliance Statement to be submitted as part of the Annual Performance Report (APR) for 2023/24.

Scope of our assurance

As part of our assurance activities for your APR 2024 you asked us to review the processes that support the declarations in the annual risk and compliance statement that you intend to submit with your APR24. Our assurance is designed to support your own first and second line assurance activity.

Our scope and assurance approach

Our review focused on the approach and processes you follow to assess your compliance with your licence conditions and legal obligations. You interpret the scope of the risk and compliance statement to be those obligations and conditions for which Ofwat is the relevant enforcement authority. This is consistent with your approach in prior years. We are aware that you have processes to manage compliance with other obligations and duties, but that they are not explicitly covered as part of your risk and compliance statement (e.g., compliance with health and safety legislation).

We held an audit meeting on 23 May 2024 with Paul Marsh and Debi Parfitt from your Compliance Team. The meeting was held remotely using MS Teams. Your team had provided some information prior to the audit, and we reviewed further documentation off-line following the meeting. Our work entailed a review of the approach taken to prepare the risk and compliance statement. We inspected a sample of the compliance proforma and reviews of obligations and conditions completed in the past 12 months. We also assessed other evidence that demonstrated your approach to risk management and the completion and sign-off of the various tasks.

We did not review the processes used to assess compliance directly with any owners or nominated individuals associated with each obligation or condition. However, we note that as part of our assurance of the information you are submitting in your APR and your annual scheme of charges, we have directly examined a number of the processes and controls you have in place to support your compliance in relation to reporting information and meeting specific licence condition and legal obligations.

Findings

We consider that the process followed by the team is robust and has good controls.

Our main observations are as follows:

- The process has been significantly improved this year by the introduction of a prioritised programme of independent reviews of the licence conditions and legal obligations to confirm the DCE owner's view of the level of compliance.

APR24 Risk and Compliance Assurance Letter

- We note that, at the time of the audit, the proforma for 2 (out of 18) licence conditions and 3 (out of 66) legal obligations had not been signed-off by the responsible DCE member.
- The Risk and Compliance Statement that we reviewed was in draft form and had not been approved by DCE. It is expected that this will be approved in the 11 June meeting.
- We also reviewed the PowerBI risk register dashboard and noted that actions for 11 risks were overdue at 30 March 2024, including one risk (49 – Newport Flood Mitigation) that was due in July 2022. It is understood that regular updates are received from across the business and overdue risk actions are regularly monitored. Updates on the overdue risk 49 – Newport Flood Mitigation relates to a long-standing delay in the receipt of a permit being received from Natural Resource Wales and updates had been provided to the team periodically on this risk.

Actions/Recommendations

The following non-material actions were raised at the audit:

Issue	Action Required
There were 11 overdue risks and actions identified on the corporate risk Power BI dashboard.	Ensure the colleague who is allocated the role of monitoring the Power BI dashboard chases the overdue risks and actions to ensure close out/ resolution.
The proforma for Licence Conditions, such as Licence Condition P, is shared between DCE owners but it is not clear in the proforma how responsibility for the lines is allocated. The proforma has been signed by one DCE member, but it is not clear what elements of the obligation this approval relates to.	Review format of proforma for conditions where there is shared DCE ownership to make it clear what element each DCE member has signed off.

Assurance Statement

We consider that:

- you have a full understanding of the Company's relevant Licence conditions and legal obligations; and
- you have appropriate systems and processes in place to track compliance and identify and manage risks in a way that meets the relevant licence conditions and legal obligations.

Yours sincerely,



Sarah Fane
Head of Water Strategy and Regulation

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Reinventing tomorrow.**

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The Board of Directors
Dwr Cymru Cyfyngedig
Linea
Fortran Road
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CF3 0LT

15 July 2024

Dwr Cymru Cyfyngedig
Licence to act as Water and sewerage undertaker
Condition P paragraph 36

REPORT OF THE INDEPENDENT ACCOUNTANTS TO THE WATER SERVICES REGULATION AUTHORITY (“THE REGULATOR”) AND DWR CYMRU CYFYNGEDIG (“THE COMPANY”)

We are reporting in connection with our engagement letter dated 3 July 2024, the Regulator’s Contract dated 4 July 2024 and with Condition P paragraph 36 of the Instrument of Appointment granted by the Secretary of State for the Environment of the Company as a water and sewerage undertaker under the Water Industry Act 1991 (“the Licence”), which requires the auditors of the Company to report to the Regulator. Our report is consequent upon the certificate to be given by the directors of the Company to the Regulator on the sufficiency of financial resources.

We have audited the Regulatory Accounting Statements of the Company for the year ended 31 March 2024 and have completed our report, which is dated 15 July 2024, without qualification on those accounts. The content of the Regulatory Accounting Statements is defined in that report. You should note that we have performed no audit work in respect of the Company subsequent to the date of our report. Except where so stated in our audit report, we conducted our audit in accordance with International Standards on Auditing (UK) issued by the Financial Reporting Council. These standards require, inter alia, our audit to comply with the International Standard of Auditing (UK) 570 “Going concern” (“ISA 570”). We confirm that, in accordance with ISA 570, in forming our opinion as to whether the Company’s Regulatory Accounting Statements at 31 March 2024 are not misleading, we considered the Company’s ability to continue as a going concern and made the enquiries required by ISA 570 into assessing the adequacy of the means by which the directors of the Company had satisfied themselves that it was appropriate for them to adopt the going concern basis in preparing the Company’s Regulatory Accounting Statements.

We do not and will not, by virtue of this report or otherwise in connection with this engagement, assume any responsibility whether in contract, negligence or otherwise in relation to our audit of the Company’s Regulatory Accounting Statements.

Our opinion on the Regulatory Accounting Statements is separate from our opinion on the statutory accounts of the Company on which we reported on 10 July 2024, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our “Statutory Audit”) was made solely to the Company members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory Audit was undertaken so that we might state to the Company’s members those matters we are required to state to them in a Statutory Auditor’s report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than Company and the Company’s members as a body, for our Statutory Audit work, for our Statutory Audit report, or for the opinions we have formed in respect of that Statutory Audit.

Respective responsibilities of the auditors and the Directors

The Directors of the Company are responsible for preparing the attached Certificate and statement (“the Statement”) of the main factors they have taken into account in giving this Certificate, dated 4 July 2024.

Our report is solely in relation to the sufficiency of financial resources and does not extend to the sufficiency of management or other resources.

For the avoidance of doubt, our audit of the statutory or Regulatory Accounting Statements is not directed towards meeting the requirements of the Company or the Regulator under the terms of Condition P paragraph 36. We have not carried out specific procedures designed to verify the substance of the matters certified by the Directors of the Company. Our sole responsibility is to review the Certificate for consistency with our knowledge of the Company’s financial affairs gained in the course of our normal audit work. Accordingly, you should note that our review of the going concern assumption is limited to a period of one year from the date of the Regulatory Accounting Statements.

Opinion

Based solely on the above procedures, in our opinion, no matters have come to our attention during the course of our audit work that would indicate an inconsistency between the information contained in the Certificate and accompanying Statement date 4 July 2024 (as attached) and any information which we obtained during the course of our audit work on the Regulatory Accounting Statements of the Company for the year ended 31 March 2024 in respect of financial resources.

Reporting and distribution of the report

This letter is provided to the Company and the Regulator solely for their private information under the terms of our engagement letter dated 3 July 2024. This Report is prepared solely for the confidential use of the Company and for the Regulator and solely for the purpose of compliance with Condition P paragraph 36 of the Licence. You should not without our prior written consent refer to or use our name or the report for any other purpose, refer to them in any document or make them available to any other party.

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Deloitte LLP

Deloitte LLP

Cardiff

15 July 2024

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