

Dŵr Cymru Cyfyngedig

Interim report and accounts

for the six months ended 30 September 2020

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Directors and advisers

Directors

Debra Bowen Rees (Non-Executive Director)

Tom Crick (Non-Executive Director)

Mike Davis (Chief Financial Officer)

Graham Edwards (Non-Executive Director)

Chris Jones (Chief Executive Officer)- resigned May 2020

Joanne Kenrick (Non-Executive Director)

Alastair Lyons (Chairman)

Pete Perry (Managing Director)

Menna Richards (Non-Executive Director) - resigned July 2020

Anna Walker (Non-Executive Director) - resigned July 2020

John Warren (Non-Executive Director)

Company Secretary

Nicola Williams

Independent auditor

KPMG LLP

Cardiff

Solicitor

Linklaters LLP

London

Principal banker

National Westminster Bank Plc

Brecon

Interim management report

The directors have pleasure in presenting their management report, together with the financial statements for the six months to 30 September 2020 on pages 4 to 15.

Principal activities

The principal activities of the company are the supply of water and the treatment and disposal of waste water under the Instrument of Appointment made by the Secretary of State for Wales under the Water Act 1989.

Results and dividends

The loss before taxation for the six month period to 30 September 2020 amounted to £109.5 million (September 2019: loss of £80.6 million). No dividend was declared or paid during the period (2019: £nil).

Business review

Dŵr Cymru's underlying loss (loss before tax excluding fair value gains on derivative financial instruments) for the six month period to 30 September 2020 was £68.9 million (September 2019: £28.2 million). Revenues were lower (by £12 million) relating mainly to consumption decreases and the suspension of standing charges following to the temporary closure of businesses as a result of the pandemic. In addition, operating costs were higher (by £7 million); a £17 million increase related to the exceptional costs of COVID-19 and a further £2 million to the atypical weather costs of Storm Dennis and prolonged hot, dry weather during the summer. These increases have been partially offset by reductions in other operational costs, including the impact of a lower core bad debt and new ways of working. In addition the depreciation charge was higher (by £13 million) as a consequence of a number of capital schemes being completed in recent months.

"Customer reserves" (the company's regulatory capital value less net debt) now stand at over £2.3 billion.

The strong operational performance and financial position bring significant benefits to the three million people Dŵr Cymru serves across most of Wales, Herefordshire and Deeside while also safeguarding the environment as it continues with its five year £1.8 billion investment programme. The performance reflects the efficient way the company is managing costs while continuing to improve services to customers.

Principal risks and uncertainties

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. Accordingly, the principal risks and uncertainties of the Glas Cymru group, which include those of the company, are disclosed within the group's annual report. Management does not consider that these have changed materially during the first six months of the year, nor that there will be any significant change between now and the end of the year. Page 15 of this report refers to risk management of treasury activities within the company.

Key Performance Indicators

The company is part of a group controlled by Glas Cymru Holdings Cyfyngedig. The directors of Dŵr Cymru Cyfyngedig use group-wide key performance measures as indicators to the development, performance and position of the company. These are discussed in the Annual Report of Glas Cymru Holdings Cyfyngedig which does not form part of this report (available on the group's website at http://www.dwrcymru.com/en/Reading_Room_Library/Company-Reports.aspx).

Interim income statement

		Six months ended 30 September 2020 (unaudited) £m	Six months ended 30 September 2019 (unaudited) £m	Year ended 31 March 2020 (audited) £m
Revenue	2	384.9	396.5	777.3
Operating costs				
- Operational expenditure		(152.8)	(157.7)	(324.0)
- Exceptional item	3	(16.8)	-	(10.5)
- Infrastructure renewals expenditure		(47.1)	(45.3)	(96.5)
- Depreciation and amortisation		(167.2)	(154.4)	(314.7)
Operating profit		1.0	39.1	31.6
Financial expenses				
- Financial income	4	2.7	3.1	6.1
- Financial expenses	4	(72.6)	(70.4)	(171.3)
- Fair value losses on derivative financial instruments	4	(40.6)	(52.4)	(18.1)
		(110.5)	(119.7)	(183.3)
Loss before taxation		(109.5)	(80.6)	(151.7)
Taxation	5	19.5	12.5	2.0
Loss for the period		(90.0)	(68.1)	(149.7)

The notes on pages 9 to 15 form part of these condensed interim financial statements.

Interim statement of comprehensive income

		Six months ended 30 September 2020 (unaudited) £m	Six months ended 30 September 2019 (unaudited) £m	Year ended 31 March 2020 (audited) £m
	<i>Note</i>			
Loss for the period		(90.0)	(68.1)	(149.7)
Items that will not be reclassified to profit or loss:				
Actuarial loss recognised in the pension scheme		(56.6)	(28.0)	(0.9)
Related deferred tax	5	10.8	4.7	0.2
Revaluation of property, plant and equipment	6	40.6	82.0	132.0
Related deferred tax	5	(7.7)	(13.9)	(52.1)
Total items that will not be reclassified to profit or loss		(12.9)	44.8	79.2
Total comprehensive expense for the period		(102.9)	(23.3)	(70.5)

The notes on pages 9 to 15 form part of these condensed interim financial statements

Interim balance sheet

		At 30 September 2020 (unaudited) £m	At 30 September 2019 (unaudited) £m	At 31 March 2020 (audited) £m
Assets				
Non-current assets				
Property, plant and equipment	7	5,778.3	5,641.9	5,748.6
Intangible assets		195.0	181.2	191.8
Other financial assets: derivative financial instruments		2.8	5.1	0.2
		<u>5,976.1</u>	<u>5,828.2</u>	<u>5,940.6</u>
Current assets				
Inventories		3.9	3.7	4.0
Trade and other receivables	8	392.6	414.8	574.6
Cash and cash equivalents		581.8	290.2	658.7
Other financial assets: derivative financial instruments		4.1	3.1	0.1
		<u>982.4</u>	<u>711.8</u>	<u>1,237.4</u>
Total assets		<u>6,958.5</u>	<u>6,540.0</u>	<u>7,178.0</u>
Liabilities				
Current liabilities				
Trade and other payables	9	(352.1)	(375.4)	(564.1)
Provisions		(6.4)	(2.3)	(6.4)
Other financial liabilities:				
- borrowings		(422.1)	(86.9)	(415.3)
- derivative financial instruments		(20.6)	(26.8)	(23.4)
		<u>(801.2)</u>	<u>(491.4)</u>	<u>(1,009.2)</u>
Net current assets		181.2	220.4	228.2
Non-current liabilities				
Trade and other payables	9	(326.8)	(281.3)	(314.4)
Employee benefits		(143.6)	(124.1)	(87.4)
Provisions		(6.5)	(3.7)	(8.7)
Other financial liabilities:				
- borrowings		(3,757.6)	(3,610.2)	(3,760.1)
- derivative financial instruments		(328.8)	(317.5)	(278.7)
Deferred tax (net)		(458.8)	(426.5)	(481.4)
		<u>(5,022.1)</u>	<u>(4,763.3)</u>	<u>(4,930.7)</u>
Total liabilities		<u>(5,823.3)</u>	<u>(5,254.7)</u>	<u>(5,939.9)</u>
Net assets		<u>1,135.2</u>	1,285.3	1,238.1
Reserves		<u>1,135.2</u>	<u>1,285.3</u>	<u>1,238.1</u>

The condensed interim financial statements on pages 4 to 15 were approved by the Board of Directors on 5 November 2020 and were signed on its behalf by:



Mike Davis
Chief Financial Officer

Interim statement of changes in reserves

	Six months ended 30 September 2020 (unaudited) Share capital	Six months ended 30 September 2020 (unaudited) Capital redemption reserve	Six months ended 30 September 2020 (unaudited) Revaluation reserve	Six months ended 30 September 2020 (unaudited) Retained earnings	Six months ended 30 September 2020 (unaudited) Total	Six months ended 30 September 2019 (unaudited) Total	Year ended 31 March 2020 (audited) Total
<i>Note</i>	£m	£m	£m	£m	£m	£m	£m
Reserves at start of period	309.9	166.2	778.7	(16.7)	1,238.1	1,308.6	1,308.6
Loss for the period	-	-	-	(90.0)	(90.0)	(68.1)	(149.7)
Actuarial loss net of tax	-	-	-	(45.8)	(45.8)	(23.3)	(0.7)
Revaluation net of tax	6	-	32.9	-	32.9	68.1	79.9
Transfer to retained earnings	-	-	(34.5)	34.5	-	-	-
Reserves at end of period	309.9	166.2	777.1	(118.0)	1,135.2	1,285.3	1,238.1

The notes on pages 9 to 15 form part of these condensed consolidated interim financial statements.

Interim statement of cash flows

	Six months ended 30 September 2020 (unaudited) £m	Six months ended 30 September 2019 (unaudited) £m	Year ended 31 March 2020 (audited) £m
Cash flows from operating activities			
Loss for the period	(90.0)	(68.1)	(149.7)
Adjustments for			
- Depreciation and amortisation	167.2	154.4	314.7
- Net finance cost	110.5	119.7	183.3
- Net tax credit	(19.5)	(12.5)	(2.0)
Changes in working capital			
- Decrease in Inventories	0.1	0.2	0.1
- Decrease/(increase) in trade and other receivables	179.5	155.5	(1.5)
- (Decrease)/increase in trade and other payables	(202.0)	(176.3)	0.3
- Pension contributions above service cost	-	(2.3)	(11.9)
- (Decrease)/increase in provisions	(3.9)	(1.5)	7.6
Cash generated from operating activities	141.9	169.1	340.9
Interest paid	(32.7)	(33.7)	(136.8)
Income tax received	2.5	2.1	2.1
Net cash flow from operating activities	111.7	137.5	206.2
Cash flows from investing activities			
Interest received	2.9	3.1	6.0
Purchases of property, plant and equipment	(138.4)	(175.2)	(337.0)
Purchase of intangible assets	(16.9)	(16.1)	(46.1)
Proceeds from sale of property, plant and equipment	0.1	0.3	0.6
Grants and contributions received	6.0	10.4	24.6
Net cash flow from investing activities	(146.3)	(177.5)	(351.9)
Net cash flow before financing activities	(34.7)	(40.0)	(145.7)
Cash flows from financing activities			
Repayment of borrowings	(2.5)	(134.6)	(140.1)
Intercompany loan received	-	2.8	495.6
Loan repaid to group undertaking	(17.0)	(17.0)	(29.1)
Payment of lease liabilities	(12.8)	(11.1)	(12.3)
Other loan repayments	(10.0)	(0.2)	-
Net cash flow from financing activities	(42.3)	(160.1)	314.1
Net (decrease)/increase in cash and cash equivalents	(76.9)	(200.1)	168.4
Cash and cash equivalents at start of period	658.7	490.3	490.3
Cash and cash equivalents at end of period	581.8	290.2	658.7

The notes on pages 9 to 15 form part of these condensed interim financial statements

Notes to the condensed interim financial statements

1. Basis of preparation

Dŵr Cymru Cyfyngedig (the Company) is a company domiciled in England and Wales. The Company's principal activity is the operation of water and sewerage business in the UK.

These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Company's last annual consolidated financial statements for the year ended 31 March 2020. They do not include all of the information required for a complete set of IFRS financial statements, however selected explanatory notes are included to explain items that are significant to an understanding of the changes in the Company's financial position and performance since the last annual financial statements. The principal accounting policies adopted in the preparation of these interim financial statements are consistent with the Annual Report and Accounts for the year ended 31 March 2020. The Annual Report and Accounts are published on the Company's website www.dwrcymru.com and are available from the Company Secretary on request.

These condensed interim financial statements are unaudited. The interim financial results do not comprise the Company's statutory accounts within the meaning of Section 434 of the Companies Act 2006. The comparative figures for the financial year ended 31 March 2020 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. No events or transactions took place during the current interim period which are material to an understanding of these financial statements.

The Company is limited by guarantee and does not have any share capital. In the event of the Company being wound up, the liability of its members is limited to £1 each.

Estimates and Judgements

The preparation of condensed interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenditure. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period were the same as those that applied to the financial statements for the year ended 31 March 2020. The significant judgements and estimates relate to the provision for impairment of trade receivables, pension benefits, fair value estimation and capitalisation with the exception of changes in estimates that are required in determining the provision for income taxes. Taxes on income in the interim period are accrued using the tax rate that would be applicable to expected total annual earnings. The Company has reviewed assets held for any indications of impairment and has made additional provisions against trade debtors and the measured income accrual in expectation of COVID-19 related deteriorations in cash collection.

Going concern

The financial statements have been prepared on the going concern basis as the Directors have a reasonable expectation that the Company has adequate resources for a period of at least 12 months from the date of their approval and that there are no material uncertainties to disclose. In assessing the appropriateness of the going concern basis of accounting the Directors have reviewed the resources available to the Company in the form of cash and committed bank facilities as well as consideration of the Company's capital adequacy, along with a baseline plan which reflects a view of the estimated impact of the COVID-19 pandemic on the Company.

This baseline plan reflects social distancing continuing through the autumn, with gradual lifting of restrictions. Unemployment is assumed to be around 10%, recovering to pre-pandemic levels by 2023; CPIH falls to an average of 1.0% during 2020 and recovers to the government's long-term target of 2% by the end of 2022. The estimated impacts on turnover in 2020-21 is a £19m reduction in non-household revenues of £172m (11%, demand-driven) and £10m of reductions in other revenues e.g. from construction activity (25%) – a net reduction of £29m (however under regulatory mechanisms lost revenues are recoverable in future years). The baseline plan has then been subject to a further more extreme downside stress scenario, which assumes an additional drop in CPIH below 1%, recovering to 2% by March 2023 and unemployment at around 12%. Consequential impacts on the Company's cost base are greater pressure on bad debts (circa £9m per annum through to 2022-23) and delays in the delivery of cost efficiencies in 2020-21 (£9 million), as well as further reductions in revenues. Reduced cash flows would impact on key financial metrics, in particular interest cover ratios. In the extreme downside scenario, gearing and interest covers retain significant headroom within the trigger levels specified in borrowing covenants.

Having considered these matters, the Directors do not believe there are any material uncertainties to disclose in relation to the Company's ability to continue as a going concern.

Notes to the condensed interim financial statements

2. Segmental information

The Directors consider that there is only one operating segment, being the operation of water and sewerage business in the UK. As the Company has only domestic activities there is also only one geographical segment; therefore, the disclosures for this segment have also already been given in these financial statements. While the Company operates in a single segment, its activities can be disaggregated into the following principal income streams:

	Six months ended 30 September 2020 (unaudited) £m	Six months ended 30 September 2019 (unaudited) £m	Year ended 31 March 2020 (audited) £m
Regulated revenue			
Water	161.6	163.5	322.8
Sewerage	201.6	206.6	394
Retail	19.7	23.3	55.3
Total regulated revenue	382.9	393.4	772.1
Other (non-regulated)	2.0	3.1	5.2
Total revenue	384.9	396.5	777.3

Regulated revenue relates to the provision of water, sewerage and related retail services operating under Dŵr Cymru Cyfyngedig's licence as part of the water industry in England and Wales, regulated by the Water services Regulation Authority (Ofwat). Other (non-regulated) revenue relates to income streams which are not subject to Ofwat's price control.

3. Exceptional costs

During the six months to 30 September 2020 the company has incurred significant additional costs as a direct result of the COVID-19 pandemic; due to their size and nature these have been disclosed in aggregate as an exceptional item on the face of the income statement. The additional costs can be split into the following categories:

	£m
Bad debt charges	7.4
National Grid (additional levy following national demand drop)	1.7
PPE (hand sanitisers, wipes, masks, goggles etc.)	5.9
Cleaning, tankering, security	0.8
IT hardware	0.3
Vehicle hire	0.1
Manpower	0.4
Other	0.2
Total	16.8

4. Financial expenses

	Six months ended 30 September 2020 (unaudited) £m	Six months ended 30 September 2019 (unaudited) £m	Year ended 31 March 2020 (audited) £m
a) Financial expenses before fair value gains			
Financial income	2.7	3.1	6.1
Financial expenses			
Interest payable on bonds	(68.9)	(65.1)	(153.1)
Interest payable on finance leases	(4.7)	(4.2)	(17.4)
Other interest payable and financial costs	(5.5)	(7.4)	(13.0)
Net interest charge on pension scheme liabilities	(1.0)	(1.2)	(2.2)
Capitalisation of borrowing costs under IAS 23	7.5	7.5	14.4
	(72.6)	(70.4)	(171.3)
Net financial expenses before fair value adjustments	(69.9)	(67.3)	(165.2)

Notes to the condensed interim financial statements

4. Financial expenses (continued)

b) Fair value losses on derivative financial instruments	Six months ended 30 September 2020 (unaudited) £m	Six months ended 30 September 2019 (unaudited) £m	Year ended 31 March 2020 (audited) £m
Fair value losses on interest rate swaps	(11.4)	(12.6)	(21.6)
Fair value (losses)/gains on index-linked swaps	(37.8)	(43.8)	9.3
Fair value gains/(losses) on trading derivatives	8.6	4.0	(5.8)
Total fair value losses on derivative financial instruments	<u>(40.6)</u>	<u>(52.4)</u>	<u>(18.1)</u>

Derivative financial instruments are held for economic hedging purposes although they do not qualify as accounting hedges under IFRS 9. Consequently, the Company's interest rate and currency swaps are fair valued at each balance sheet date with the movement (net loss or gain) disclosed in the income statement. If held to maturity, which is the Company's intention, the value of these will be zero.

5. Taxation

	30 September 2020 (unaudited) £m	30 September 2019 (unaudited) £m	31 March 2020 (audited) £m
Current tax			
Current tax on loss for the year	-	0.2	0.8
Current tax on research and development credit	-	-	(0.2)
Adjustment in respect of prior periods	-	-	1.3
	<u>-</u>	<u>0.2</u>	<u>1.9</u>
Deferred tax			
Current year movements	19.4	12.3	24.2
Adjustment in respect of prior periods	0.1	-	(1.5)
Effect of tax rate change	-	-	(22.6)
	<u>19.5</u>	<u>12.3</u>	<u>0.1</u>
Taxation	<u>19.5</u>	<u>12.5</u>	<u>2.0</u>

Analysis of amounts charged to the Statement of Comprehensive Income and Revaluation Reserve

	30 September 2020 (unaudited) £m	30 September 2019 (unaudited) £m	31 March 2020 (audited) £m
Defined benefit pension schemes	(10.8)	(4.8)	(0.1)
Reallocation of tax from income statement - pension payments in excess of service charge	-	0.1	1.6
Increase in corporation tax rate - pension scheme	-	-	(1.7)
Credited to the statement of comprehensive income	<u>(10.8)</u>	<u>(4.7)</u>	<u>(0.2)</u>
Revaluation of fixed assets	7.7	13.9	22.4
Increase in corporation tax rate - revaluation of fixed assets	-	-	29.7
Charged to the revaluation reserve	<u>7.7</u>	<u>13.9</u>	<u>52.1</u>

Notes to the condensed interim financial statements

5. Taxation (continued)

Tax reconciliation	30 September 2020 (unaudited) £m	30 September 2019 (unaudited) £m	31 March 2020 (audited) £m
Loss before taxation	(109.5)	(80.6)	(151.7)
Loss before taxation multiplied by the corporation tax in the UK of 19% (six months to 30 September 2019: 17%) and year ended 31 March 2020: 19%)	20.8	15.3	28.8
Effects of:			
- Adjustments in respect of prior years	0.1	-	(0.1)
- Other permanent differences	(1.4)	(1.4)	(2.6)
- Effect of pension payment in excess of service charge	-	0.1	1.6
- Effect of changing rate for deferred taxes from 17% to 19%	-	-	(22.6)
- Difference in standard rate of corporation tax (19%) and rate used for deferred tax (17%)	-	(1.5)	(3.1)
	19.5	12.5	2.0

The Company does not expect to pay corporation tax for the current year due to the availability of capital allowances on its investment programme.

Adjustments in respect of prior years relate to revisions to tax credits for energy efficient capital expenditure, and adjustments to deferred tax balances in respect of capital expenditure.

Deferred tax has been calculated at 19% for the six-month period ended 30 September 2020 and the year ended 31 March 2020, based on the corporation tax rate which applies from 1 April 2020. Deferred tax was calculated at 17% for the six-month period ended 30 September 2019.

6. Revaluation reserve

	30 September 2020 (unaudited) £m	30 September 2019 (unaudited) £m	31 March 2020 (unaudited) £m
Revaluation reserve as start of period	778.7	764.5	764.5
Revaluation of assets	40.6	82.0	132.0
Depreciation charge on revalued assets	(42.6)	(39.6)	(81.1)
	(2.0)	42.4	50.9
Deferred tax on revaluation	(7.7)	(13.9)	(52.1)
Deferred tax on depreciation charge	8.1	6.7	15.4
	0.4	(7.2)	(36.7)
Revaluation reserve at end of period	777.1	799.7	778.7

Notes to the condensed interim financial statements

7. Property, plant and equipment

	Freehold land and buildings	Infrastructure assets	Operational structures	Plant, equipment, computer hardware	Total
	£m	£m	£m	£m	£m
Cost or valuation					
At 1 April 2020	43.1	2,632.5	4,562.0	276.8	7,514.4
Additions net of grants and cash	(0.1)	49.3	95.2	1.9	146.3
Disposals	-	-	-	(0.3)	(0.3)
At 30 September 2020	43.0	2,681.8	4,657.2	278.4	7,660.4
Accumulated depreciation					
At 1 April 2020	23.0	1.9	1,469.7	271.2	1,765.8
Revaluation	-	(18.3)	(22.3)	-	(40.6)
Charge for the period	0.7	33.2	120.0	3.3	157.2
Release on disposal	-	-	-	(0.3)	(0.3)
At 30 September 2020	23.7	16.8	1,567.4	274.2	1,882.1
Net book value					
At 30 September 2020 (unaudited)	19.3	2,665.0	3,089.8	4.2	5,778.3
At 31 March 2020 (audited)	20.1	2,630.6	3,092.3	5.6	5,748.6
At 30 September 2020 (unaudited) - historic cost basis	19.3	1,934.6	2,338.0	4.2	4,296.1

The net book value of fixed assets includes £83.3m (March 2020: £77.9m) of capitalised interest. The Board has approved capital expenditure for the year to 31 March 2021 of £366 million. While only a portion of this amount has been formally contracted for as at 30 September 2020, the Company is effectively committed to the total as part of its overall capital expenditure programme.

8. Trade and other receivables

	30 September 2020 (unaudited)	30 September 2019 (unaudited)	31 March 2020 (audited)
	£m	£m	£m
Amounts falling due within one year			
Trade receivables	351.1	371.1	558.0
Less provision for impairment of receivables	(72.6)	(74.5)	(81.8)
Trade receivables - net	278.5	296.6	476.2
Prepayments and accrued income	98.9	102.5	85.6
Other receivables	15.2	15.7	12.8
	392.6	414.8	574.6

9. Trade and other payables

	30 September 2020 (unaudited)	30 September 2019 (unaudited)	31 March 2020 (audited)
	£m	£m	£m
Current			
Trade payables	40.2	42.7	52.0
Capital payables	36.8	36.9	46.3
Amounts due to group undertakings	2.5	2.1	2.1
Other taxation and social security	6.0	5.0	5.7
Accruals and deferred income	266.6	288.7	458.0
	352.1	375.4	564.1
Non-current			
Deferred income	326.8	281.3	314.4

Notes to the condensed interim financial statements

10. Analysis and reconciliation of net debt

Net debt is defined as the value of cash and cash equivalents less net accrued interest and total borrowings.

a) **Net debt at the balance sheet may be analysed as:**

	30 September 2020 (unaudited) £m	30 September 2019 (unaudited) £m	31 March 2020 (audited) £m
Cash and cash equivalents	581.8	290.2	658.7
Debt due after one year	(3,319.4)	(3,145.6)	(3,326.3)
Debt due within one year	(362.7)	(46.2)	(376.3)
Lease liabilities	(411.4)	(425.2)	(424.1)
Accrued interest	(86.2)	(80.2)	(48.7)
	(4,179.7)	(3,697.2)	(4,175.4)
Net debt	(3,597.9)	(3,407.0)	(3,516.7)

b) **The movement in net debt during the period may be summarised as:**

	30 September 2020 (unaudited) £m	30 September 2019 (unaudited) £m	31 March 2020 (audited) £m
Net debt at start of period	(3,516.7)	(3,323.0)	(3,323.0)
Movement in net cash	(76.9)	(200.1)	168.4
Movement in debt arising from cash flows	42.3	160.1	(314.2)
Movement in net debt arising from cash flows	(34.6)	(40.0)	(145.8)
Movement in accrued interest	(37.5)	(29.2)	2.3
Indexation of index-linked debt	(8.7)	(13.5)	(49.0)
Other non-cash movements	(0.4)	(1.3)	(1.2)
Movement in net debt during the period	(81.2)	(84.0)	(193.7)
Net debt at end of period	(3,597.9)	(3,407.0)	(3,516.7)

11. Financial risk management and financial instruments

The Company's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Company's annual financial statements as at 31 March 2020. There have been no changes in the risk management department or in any risk management policies since the year end.

In accordance with IFRS 13 Fair Value Measurement trading and treasury derivatives of the Company are categorised into different levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (prices) or indirectly (derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data.

Notes to the condensed interim financial statements

11. Financial risk management and financial instruments (continued)

All of the Company's treasury derivatives are categorised as Level 2. Trading derivatives, relating to power price hedges, are categorised as Level 2 where marked-to-market valuations are received for these trades. Where marked-to-market valuations are not received the fair values are estimated rather than observable, and are therefore categorised as Level 3. At 30 September 2020 the fair values of derivatives were as follows:

Level 2:

- **Assets:** trading derivatives £1.2m, Treasury derivatives £nil. (March 2020: Trading derivatives £0.1m, Treasury derivatives £nil).
- **Liabilities:** trading derivatives £nil, Treasury derivatives £349.4m (March 2020: Trading derivatives £1.2m, Treasury derivatives £300.0m).

Level 3:

- **Assets:** trading derivatives £5.7m, Treasury derivatives £nil. (March 2020: Trading derivatives £0.2m, Treasury derivatives £nil).
- **Liabilities:** trading derivatives £nil, Treasury derivatives £nil (March 2020: Trading derivatives £0.9m, Treasury derivatives £nil).

Trading derivatives relate to power hedges. Treasury derivatives relate to interest rate swap contracts. All derivatives are recorded on the balance sheet at fair value.

Level 2 debt investments are valued using a discounted cash flow approach, which discounts the contractual cash flows using discount rates derived from observable market prices of other quoted debt instruments of the counterparties.

Level 3 debt instruments are valued using a discounted cash flow approach, which discounts the contractual cash flows using discount rates derived from observable market prices of other quoted debt instruments of the counterparties. Level 3 debt instruments are valued by comparing valuations from Level 2 trades for the same periods, with the valuations from observable trades being inflated or deflated to allow for any fixed price variations.

12. Contingent liabilities

Claims under the Environmental Information Regulations 2001 (EIR): since 2016, the Company has received notice of alleged claims from various groups comprising individuals and entities operating personal search businesses. The claims are for the repayment of charges received for drainage and water searches carried out since 2004, on the basis that these charges were levied contrary to the EIR. Since April 2020, separate court claims have been served on the Company by three groups of claimants, seeking the repayment of charges and injunctive relief. The collective claimed quantum is £9.9 million, but this figure may be subject to change. The Company has filed defences to each of the claims. The three claims are at an early stage in proceedings with substantive directions yet to be issued. It is anticipated that the three claims will be progressed together. At this stage, any settlement is not deemed probable and so no provision has been recognised.