



Interim report and accounts  
for the six months ended 30 September 2018

## Contents

---

Chief Executive's statement	2
Performance overview	3
Key performance measures	6
Statement of Directors' responsibilities and other matters	7
Consolidated interim income statement	9
Consolidated interim statement of comprehensive income	10
Consolidated interim statement of changes in reserves	11
Consolidated interim balance sheet	12
Consolidated interim statement of cash flows	13
Notes to the condensed consolidated interim financial statements	14
Independent review report	22
Appendix	23

## Chief Executive's statement

---

As a company run for the benefit of our customers, without shareholders, our single focus is to provide the best possible customer service, at an affordable cost.

The first six months of 2018-19 has been one of the most challenging periods we have ever faced. The after-effects of Storm Emma just before the commencement of the current period, were followed by a drier spring and summer even than the drought of 1976. This was followed by the disruptive effects of Storm Callum in October, resulting in the worst flooding events in the last 50 years in some parts of Wales. The combined effect of these events threw into sharp focus the full range of challenges that we may face in the decades to come.

The extraordinary efforts of our colleagues mitigated the impact of these events, with no water restrictions for our customers although there was some localised impact, and a strong overall level of environmental protection, through the most prolonged drought period recorded in Wales since records began in 1910. This is a considerable achievement and reflects good forward planning, great teamwork and the cumulative benefit of long-term investment to improve the resilience of the essential public services that we provide. These unprecedented challenges reflect the volatile weather that we expect to become more common in the future. As such, it is all the more important that we have clear plans to respond to the big challenges that lie ahead for future generations – including climate change, demographic changes, changing land-use and advances in data and technology. Preparing our business to be resilient to these long-term trends is at the heart of Welsh Water 2050 vision that we published earlier this year and which was strongly supported by our customers. This strategy will build on the good progress we are already making to ensure our services are more resilient. This includes targeting investment and using more to target some of our worst performing drinking water quality zones; progressing our Rainscape schemes (sustainable urban drainage) to help prevent flooding; and advancing our world leading 'pipes in dams' programme to ensure that these longstanding assets – some of which were built in the Edwardian and Victorian times – continue to serve us well in the future.

Our latest interim results show that we are making good progress as we are investing at our highest-ever levels - with around £219 million for the first half of the year and a projected £460 million by the end of 2018-19. Building on this strong record, we have submitted our proposed business plan covering 2020-2025 to our regulator Ofwat - with a record level of investment (£2.3 billion) matched by a 5% reduction in the level of average customer bills (before inflation). This plan was developed with the help of around 40,000 customers who shared their views with us through our "Have Your Say" and PR19 campaigns.

Alongside this, our financial and operational performance in the first half of 2018-19 has been good overall. Some of our key performance measures do show the impact of the weather-related challenges that we've faced - particularly in respect of the taste, colour and odour of drinking water supplied to some customers, preventing incidents of pollution and incidents of property flooding, where we are behind target. In general, however, we continue to meet the high expectations that customers have of us and we will be redoubling our efforts in the next six months to ensure our performance in these areas improves.

Our "not-for-profit" way of working means that we continue to place a big emphasis on supporting customers who genuinely struggle to pay their water bills and this is why we are contributing around £7 million a year from the company's profits to help support 118,000 low income households to pay their water bills. Combined with our record of nine consecutive years of below-RPI inflation bill rises, we continue to ensure our average household bill is as affordable as possible. This funding for social tariffs is one aspect of our "Return of Value" announcement in June 2018, which set out £40 million of extra funding this year – money that in other companies would have gone to pay dividends to shareholders – to accelerate investment in our water and wastewater services, customer service systems, and projects to improve the environment around us.

As a provider of the most essential of public services, earning the trust of our customers is vital to everything we do. In August this year, research from the Consumer Council for Water showed that customer trust in us, and satisfaction across the range of the services we provide, is higher than for any other water and sewerage company in England and Wales. I firmly believe that this result reflects the great people we have at Welsh Water, working together to a strong vision and set of values – as evidenced by the Investors in People Gold Award that we recently received.

Over the past few months, we have responded well to an unprecedented set of operational challenges. I am proud of the extraordinary efforts of colleagues who did their very best to minimise the impact on our customers and the environment, whilst learning the lessons that will help us to do an even better job for them in the future. The strong plans that we have put in place in Welsh Water 2050 give me confidence that we will continue to be able to earn the trust of our customers, for many years and decades to come.



Chris Jones, **Chief Executive, Welsh Water**  
13 November 2018

## Performance overview

---

Note: references to Glas Cymru and the Group in this document refer, respectively, to Glas Cymru Holdings Cyfyngedig and the group of companies of which it is the parent; references to Welsh Water relate to Dŵr Cymru Cyfyngedig, the sole operating company in the Group.

### (1) Financial overview / An efficient business

Welsh Water is continuing to deliver its AMP6 financial pledge to make substantial levels of capital investment whilst also reducing the average household customer bill in real terms: we can do this by making continued efficiency improvements in the way we operate and finance the business. In the six months to 30 September 2018:

- our revenue rose to £393 million (2017: £377 million), reflecting an overall price adjustment of around 4%.
- customer debt recovery has remained a big challenge but we are making good headway in improving our collections performance, and the bad debt charge has reduced to £11 million (2017: £12 million). We are continuing to focus on debt collection with our ongoing development of customer assistance tariffs in order to help those customers who genuinely struggle to pay their bills.
- operating costs (excluding depreciation and infrastructure renewals expenditure) have increased by £13 million to £166 million (2017: £153 million): a period of prolonged dry weather period over the summer months presented costly and challenging conditions for the business which gave rise to significant cost pressures.
- net interest payable in the period (excluding fair value movements) was £66 million (2017: £64 million). This increase is mainly due to the impact of the issue in January 2018 of £300 million of bonds, offset in part by an increase in the capitalisation of borrowing costs.
- £219 million has been invested in capital projects which will bring improvements to customer service, environmental quality and drinking water quality and we are planning to invest a further £243 million during the second half of the year.
- the underlying loss (excluding fair value movements) was £28 million (2017: loss of £15 million), with the reduction in profitability reflecting increased operating costs relating to the dry weather spell, depreciation on revalued assets and higher interest charges partially offset by increased revenue. After allowing for the (non-cash) movement in the fair value of financial instruments, the Group reported a total loss before tax of £35 million (2017: profit of £62 million).
- the prudent financing policies followed by the Company mean that its bonds continue to trade well relative to those of similar companies. The credit rating agency Standard and Poor's has recently reaffirmed their A grade rating of the senior bonds but with negative outlook, and Moody's have affirmed Welsh Water's Corporate Family Rating at A2, also with negative outlook. Fitch continue to rate our senior bonds as A with a stable outlook. The reaffirmation of our ratings reflects the strong quality of the company's creditworthiness.
- as at 30 September 2018, Glas Cymru had cash, short-term deposits and undrawn syndicated bank facilities of £655 million (2017: £537 million), giving the Group a high level of financial liquidity.
- our regulatory gearing has remained at 57% since March 2018 which reflects a trend of deleveraging from a level of 93% on the acquisition of Welsh Water in May 2001. The Board's policy is to maintain regulatory gearing at around 60%.

### (2) Excellent customer service

In the first six months of the financial year:

- Consumer Council for Water (CCWater) research (July 2018) confirmed a 96% customer satisfaction rate with water services in Wales and 92% with sewerage services – higher than the industry average (92% and 88% respectively). We also obtained the highest rating of trust in England and Wales, at 8.15.
- we are currently ranked in fifth place overall of the 10 water and sewerage companies in England and Wales, after the first two waves of Ofwat's customer satisfaction surveys (SIM), with a score of 4.47, compared to the industry average score of 4.35.
- the total number of written complaints has continued to be reduced so far this year after the temporary increase early in 2016 caused by a change in our debt collection process and new billing system. Steps were immediately taken to address the issues and written complaints levels have already fallen by over a half to 1,760 for household customers (six months to September 2018).

### (3) High quality drinking water

Between January and September 2018 (some operational measures are reported to the regulator on a calendar year basis, therefore performance figures below are reported for the first nine months of the year):

- we maintained water supplies to all our customers during the summer without imposing any restrictions. At its peak, over 1 billion of litres of water was being put into the network every day, 20% higher than usual, and we worked closely with the Welsh Government's Drought Liaison Group and other stakeholders to safeguard water maintain supplies.

## Performance overview (continued)

---

- overall compliance with water quality standards remained high at 99.98% (2017: 99.98%).
- responding quickly to bursts is a key focus of our strategy to reduce interruptions to our customers' supply and is measured as the number of 'Customer Minutes Lost'. In the first six months of 2017, this has been reduced compared to last year, at 8.5 mins (September 2017: 8.7). We are also putting in place more systems to remotely monitor water treatment works and key lengths of pipe, so that we can do more to ensure customers are not disadvantaged, even in the extreme weather conditions we have seen this year to date.
- leakage levels have increased slightly after a number of severe weather incidents, totalling 174 megalitres per day (2017: 170 megalitres per day).
- the level of customer contacts regarding discolouration or taste issues has increased to 2.4 per 1,000 customers (2017: 2.25). We are seeking to further reduce this level through innovative and targeted water mains replacement and cleansing activities.
- we have finalised preparations for launching our Water Network Alliance. This will involve moving to a single contractor to undertake all our maintenance work on our water network (we currently use several contractors, depending on the type of work undertaken and geography) and this new way of working will lead to the biggest single cost saving during this investment period.
- we are continuing our 'PestSmart' project, which promotes the safe use, storage and disposal of pesticides. Earlier this year, we were awarded almost £1 million funding by Welsh Government as part of its Rural Development Programme which will allow us to expand on this work.

### (4) Protecting the environment

Between April and September 2018:

- we delivered good overall wastewater treatment works performance: 99.5% of works fully complied with discharge permits (2017: 98.2%)
- the number of properties suffering from internal flooding has increased to 131 compared to the same time last year (2017:113), which was primarily due to severe weather events where rainfall and blockages were much higher than usual. We are continuing with our Let's Stop the Block behavioural change campaign to help educate customers about sewer blockages caused by the wrong things, such as wet wipes, being flushed down the toilet.
- the number of pollution incidents confirmed by NRW/EA year to date is 95 (2017:90), the majority having been caused by a combination of the low river levels and the related increase in blockages over the summer period.
- we are learning the lessons from two serious pollution incidents occurring during operational maintenance being undertaken at Felindre Water Treatment Works, Swansea, in July 2018 and Five Fords Wastewater Treatment Works, Wrexham, in September 2018.
- a total of 43 of Blue Flags were awarded to beaches across Wales in 2018 (2017: 45).

### (5) Responding to climate change

Between April and September 2018:

- we have built on the success of the Llanelli 'RainScope' investment programme, which has seen the construction of sustainable urban drainage schemes in the town – which was credited with helping the town avoid the worst effects of flooding during 'Storm Callum' in October. The official opening of our 'Greener Grangetown' sustainable drainage scheme in Cardiff (working with Cardiff Council and Natural Resources Wales) also took place in October – a £2 million project to catch, clean and divert rainwater directly into the River Taff instead of collecting and pumping it eight miles to a treatment works in the Vale of Glamorgan.
- our Combined Heat and Power energy generation stayed stable compared to the same period last year at 16 GWh – enough to power around 5,150 homes.
- our Energy Park project at our largest site in North Wales (Five Fords Wastewater Treatment Works, near Wrexham) is progressing well. Once completed, it will increase gas generation to almost 40 GWh per year – enough for around 3,000 homes and making Welsh Water self-sufficient in gas.
- our hydro power generation fell to 9 GWh - enough to power around 2,900 homes (compared to the same period last year of 13.5 GWh). This is consistent with previous years as traditionally hydro generation is significantly lower compared to the second half of the year, but the performance was further reduced by the drought over the summer.

## Performance overview (continued)

---

### (6) Affordable bills

We are determined to provide the best possible service at an affordable price. In the first six months of 2018:

- we have committed to invest around £7 million a year from our profits to help households who struggle most to pay their water bills.
- we now help fund lower prices for an industry-high 118,000 customers who genuinely struggle to pay their water bills – surpassing our aim to help 100,000 customers by 2020 two years early (2017: 91,000).
- we have continued to pursue those customers who can pay, but won't pay, their water and wastewater charges through our revised and robust procedures for collecting debt; our focus on cash collections plays a key part in helping us keep overall bills down.
- our annual price increase in 2018-19 saw bills held at the Retail Prices Index (RPI) measure of inflation or lower for the ninth consecutive year.
- we remain on track to deliver a decade of below-inflation price increases by 2020.

### (7) Looking after our assets

As part of our work over the past six months, we have progressed key investment schemes including:

- **Cog Moors (Barry)** – £48 million scheme which will boost the amount of green energy produced at the existing Cog Moors Wastewater Treatment Works in the Vale of Glamorgan. The work involves the construction of an additional treatment process, known as Advanced Anaerobic Digestion (AAD) at the works. The AAD facility will enable more green gas – known as biogas – to be recovered from the waste it treats there. The biogas recovered is then used to generate electricity.
- **Dolgarrog (Conwy Valley)** – £34 million to improve the water cleaning process at Bryn Cowlyd Water Treatment Works which serves over 45,000 homes and businesses in the Conwy Valley area.
- **Prioress Mill (Usk)** – £23 million investment to replace the old pumping station at Prioress Mill with a brand new one, which will ensure around 600,000 customers continue to receive a top quality drinking water supply.
- **Hook & Johnston (Carmarthen)** - £8.5 million in brand new wastewater treatment works and pumping station which will help further protect the environment, reduce flooding and improve river water quality in the area.
- **Mermaid Quay (Cardiff Bay)** – £2 million to carry out repairs to a large Victorian brick sewer in Cardiff. Work will also include installing a new high level sewer to take away the wastewater from this busy area of Cardiff Bay.
- **Birchgrove (Swansea)** – £1.2 million to replace the sewer to protect properties from flooding during storm weather.

### (8) Developing our people

Our people are our greatest assets and are at the core of providing a great service to our customers. We also believe nothing is more important than the safety of our 3,000 colleagues and 3,500 contractors. Between April and September 2018:

- we have seen a significant improvement in our performance in reducing the number of RIDDOR injuries (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations), which has dropped to just three so far this year, compared to nine in the same period last year. This reflects our continued focus on a company-wide culture for health and safety, including Stand-down Training Days for colleagues across the business and Executive-led Safety Days to reinforce our STEP (Safety Takes Every Person) and TAKE 5 culture (encouraging colleagues to take 5 minutes to risk assess particular tasks) across the business.
- we continued to focus on the safety of our colleagues – including holding our 12<sup>th</sup> annual Health and Safety conference with over 300 colleagues and contractors attending.
- in reflection of the progress we've made in these areas, we were recognised with the platinum award for the Welsh Government's Corporate Health Standard.
- we were awarded the Investors in People Gold accreditation, which recognises companies for their efforts to create a good working environment and invest in their employees.

## Key performance measures

To measure performance, the Glas Cymru Board set key performance measures, or Measures of Success, independently for Welsh Water that are based on sector benchmarks and to judge where we stand compared with the best performers in the sector.

Measures of Success	30 Sept 2018	30 Sept 2017	2018/19 Targets	Better or worse than last year
* A1a Safety of Drinking Water (% compliance)	99.98%	99.98%	99.99%	X
* A1b Safety of Drinking Water (% Mean zonal compliance)	99.96%	99.98%	99.98%	X
* A2 Customer acceptability (contacts per 1,000 population)	2.40	2.25	2.55	X
** A3 Reliability of Supply (average customer minutes lost)	8.47mins	8.74mins	12mins	✓
* B1 Abstraction for water for use (% compliance)	100%	100%	100%	✓
* B2 Treating wastewater (% compliance)	99.46%	98.24%	98.90%	✓
* B3a Preventing pollutions (categories 1,2 & 3) (number)	95***	90	113	X
* B3b Preventing pollutions (category 3 only) (number)	106	88	113	X
** C1 Responding to climate change (surface water removal-expressed in number of properties equivalent)	15,099	13,661	20,000	✓
** C2 Carbon footprint (renewable energy generation)	38.46	38.77	113.10	✓
** D1 SIM (customer services score (out of 100))	85	85	87	✓
** D2 At Risk Customers (number of customers on our at risk register)	444	420	550	X
** D3 Properties flooded in the year (number)	131	113	223	X
** External Sewer Flooding Properties	2,523	2,440	500	X
** D4a Business Customer Satisfaction (% very satisfied & satisfied)	88.66%	90.06%	90.00%	X
** D4b Non Household Customer Satisfaction (average customer score out of 5 converted to a %)	87.20%	88.00%	90.00%	X
** D5 Earning the Trust of Customers (%)	85.00%	85.00%	84.00%	✓
** E1 Affordable Bills (% below inflation)	1% below inflation	1% below inflation	1% below inflation	
** E2a Help for Disadvantaged Customers (number of customers benefitting from social tariffs)	113,325	85,602	100,000	✓
** F1 Asset Serviceability (assessment of either stable/marginal or deteriorating)	Stable(x4)	Stable(x4)	Stable(x4)	
** F2 Leakage (megalitres per day)	173.88 ml/d	169.95 ml/d	171.00 ml/d	X
** F3 Asset Resilience (% of critical assets that are resilient against a set of criteria- % figures shown separately for water and wastewater assets)	88.70% 78.30%	87.80% 74.00%	87.00% 76.00%	✓
** G1 RIDDOR (number of reportable injuries)	3	9	12	✓
** G2 Competence for Role (%)	83.00%	83.00%	93.00%	✓
** H2 Financing Efficiency (credit rating by S&P, Moody's & Fitch)	A(neg)/A2(neg)/A	A/A2/A	A/A3/A	X

A definition of each Measure of Success can be found in the appendix on page 23.

\* Measured from the start of the calendar year (January to September 2018)

\*\* Measured from the start of the financial year (April to September 2018)

\*\*\* Provisional figure from NRW/EA (subject to further review)

## Statement of Directors' responsibilities and other matters

---

The Directors have voluntarily complied with the Disclosure and Transparency Rules. The Group, including Dŵr Cymru Cyfyngedig, is required under its Licence Condition F to publish information about its interim results as if it was subject to the Listing Rules of the Financial Conduct Authority.

### Responsibility statement of the Directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU
- the interim management report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the Disclosure and Transparency Rules being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year that have materially affected the financial position or performance of the entity during that period and any changes in the related party transactions described in the last annual report that could do so.

### Directors

The following Directors are responsible for the preparation of this half-yearly report:

Peter Bridgewater (Finance and Commercial Director)  
Tom Crick  
Graham Edwards  
Chris Jones (Chief Executive Officer)  
Joanne Kenrick  
Alastair Lyons (Chairman)  
Pete Perry (Managing Director)  
Menna Richards  
Anna Walker  
John Warren

No appointments or resignations have been noted during the period.

### Principal risks and uncertainties

The principal risks and uncertainties affecting the Group for the six months to 30 September 2018 are materially unchanged from those presented on pages 44 to 46 of the Group's published Annual Report and Accounts for the year ended 31 March 2018. The Annual Report and Accounts are published on the Group's website, [www.dwrcymru.com](http://www.dwrcymru.com), and are available from the Company Secretary on request. These key risks faced by the Group are as follows: health and safety major incident; major public health incident; failure to achieve required performance levels and efficiencies during the period 2015-2020; strategic asset failure; failure to deliver AMP6 efficiency plan, including Retail; loss of key talent, capability and competence; ICT risk; tough regulatory settlement for AMP7; uncertainty following Brexit and failure to earn the trust and confidence of our customers.



## Statement of Directors' responsibilities and other matters (continued)

---

### Going concern

The Directors have a reasonable expectation that the Group has adequate resources available to it to continue in operational existence for the foreseeable future which exceeds twelve months from signing these interim statements and have therefore continued to adopt the going concern basis in preparing the condensed consolidated interim financial statements. This conclusion is based upon, amongst other matters, a review of the Group's financial projections together with a review of the cash and committed borrowing facilities available to the Group as well as consideration of the Group's capital adequacy. In addition, the Directors also took into account the primary legal duty of Welsh Water's economic regulator, to ensure that the operating Company can finance its functions.

By order of the Board



Nicola Williams  
**Company Secretary**  
13 November 2018

## Consolidated interim income statement

		Six months ended 30 September 2018 (unaudited) £m	Six months ended 30 September 2017 (unaudited) £m	Year ended 31 March 2018 (audited) £m
Revenue		393.1	377.0	756.7
<b>Operating costs</b>				
- Operational expenditure		(166.4)	(152.8)	(319.0)
- Infrastructure renewals expenditure		(45.4)	(41.1)	(86.0)
- Depreciation and amortisation		(143.3)	(133.9)	(274.5)
<b>Operating profit</b>		<u>38.0</u>	<u>49.2</u>	<u>77.2</u>
<b>Financing costs</b>				
- Finance costs payable and similar charges	3	(68.9)	(66.4)	(175.9)
- Finance income receivable	3	2.5	2.1	3.9
- Fair value (losses)/gains on derivative financial instruments	3	(6.7)	77.1	80.0
		<u>(73.1)</u>	<u>12.8</u>	<u>(92.0)</u>
<b>(Loss)/profit before taxation</b>		<u>(35.1)</u>	<u>62.0</u>	<u>(14.8)</u>
Taxation credit/(charge)	4	5.9	(10.5)	2.6
<b>(Loss)/profit for the period</b>		<u>(29.2)</u>	<u>51.5</u>	<u>(12.2)</u>

<b>Underlying (loss)/profit</b>				
(Loss)/profit before taxation per income statement		(35.1)	62.0	(14.8)
Adjustment for:				
- Fair value losses/(gains) on derivative financial instruments	3	6.7	(77.1)	(80.0)
<b>Underlying (loss)/profit for the period</b>		<u>(28.4)</u>	<u>(15.1)</u>	<u>(94.8)</u>

The notes on pages 14 to 21 are an integral part of these condensed consolidated interim financial statements.

## Consolidated interim statement of comprehensive income

		Six months ended 30 September 2018 (unaudited) £m	Six months ended 30 September 2017 (unaudited) £m	Year ended 31 March 2018 (audited) £m
(Loss)/profit for the period		(29.2)	51.5	(12.2)
<b>Items that will not be reclassified to profit or loss:</b>				
Actuarial gain recognised in the pension scheme		14.6	13.4	12.2
Related deferred tax	4	(2.9)	(2.6)	(2.8)
Revaluation of property, plant and equipment	5	119.2	101.3	158.1
Related deferred tax	4	(20.2)	(17.2)	(26.9)
Total items that will not be reclassified to profit or loss		<u>110.7</u>	<u>94.9</u>	<u>140.6</u>
<b>Total comprehensive income for the period</b>		<u>81.5</u>	<u>146.4</u>	<u>128.4</u>

The notes on pages 14 to 21 are an integral part of these condensed consolidated interim financial statements.

## Consolidated interim statement of changes in reserves

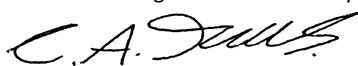
		Six months ended 30 September 2018 (unaudited)	Six months ended 30 September 2018 (unaudited)	Six months ended 30 September 2018 (unaudited)	Six months ended 30 September 2017 (unaudited)	Year ended 31 March 2018 (audited)
	<i>Note</i>	Revaluation reserve £m	Retained earnings £m	Total £m	Total £m	Total £m
<b>Reserves at start of period</b>		1,142.8	101.5	<b>1,244.3</b>	1,115.9	1,115.9
Revaluation net of tax	5	99.0	-	<b>99.0</b>	84.1	131.2
(Loss)/profit for the period		-	(29.2)	<b>(29.2)</b>	51.5	(12.2)
Actuarial gain net of tax		-	11.7	<b>11.7</b>	10.8	9.4
Transfer to retained earnings	5	(30.3)	30.3	-	-	-
<b>Reserves at end of period</b>		<u>1,211.5</u>	<u>114.3</u>	<b><u>1,325.8</u></b>	<u>1,262.3</u>	<u>1,244.3</u>

The notes on pages 14 to 21 are an integral part of these condensed consolidated interim financial statements.

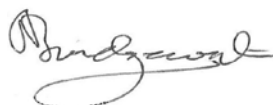
## Consolidated interim balance sheet

		At 30 September 2018 (unaudited) £m	At 30 September 2017 (unaudited) £m	At 31 March 2018 (audited) £m
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	6	5,478.7	5,190.6	5,312.1
Intangible assets		153.5	131.9	146.3
Trade and other receivables	7	0.9	-	0.9
Financial assets: derivative financial instruments		5.9	2.5	1.9
		<u>5639.0</u>	<u>5,325.0</u>	<u>5,461.2</u>
<b>Current assets</b>				
Trade and other receivables	7	404.7	381.0	577.7
Inventories		3.2	3.0	3.2
Financial assets: derivative financial instruments		9.0	5.1	6.4
Cash and cash equivalents		234.5	140.6	288.5
		<u>651.4</u>	<u>529.7</u>	<u>875.8</u>
<b>Total assets</b>		<u>6,290.4</u>	<u>5,854.7</u>	<u>6,337.0</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	8	(381.5)	(365.5)	(564.1)
Financial liabilities:				
- Borrowings		(70.1)	(67.3)	(41.5)
- Derivative financial instruments		(31.1)	(36.0)	(29.2)
Provisions for liabilities and charges		(2.4)	(1.1)	(2.4)
		<u>(485.1)</u>	<u>(469.9)</u>	<u>(637.2)</u>
<b>Net current assets</b>		<u>166.3</u>	<u>59.8</u>	<u>238.6</u>
<b>Non-current liabilities</b>				
Trade and other payables	8	(249.6)	(222.9)	(233.9)
Financial liabilities:				
- Borrowings		(3,316.0)	(2,996.8)	(3,317.3)
- Derivative financial instruments		(387.6)	(371.5)	(376.2)
Post-employment benefits		(63.2)	(79.7)	(80.4)
Provisions for liabilities and charges		(5.8)	(8.0)	(6.5)
		<u>(4,022.2)</u>	<u>(3,678.9)</u>	<u>(4,014.3)</u>
<b>Net assets before deferred tax</b>		<u>1,783.1</u>	<u>1,705.9</u>	<u>1,685.5</u>
Deferred tax (net)		(457.3)	(443.6)	(441.2)
<b>Net assets</b>		<u>1,325.8</u>	<u>1,262.3</u>	<u>1,244.3</u>
<b>Reserves</b>		<u>1,325.8</u>	<u>1,262.3</u>	<u>1,244.3</u>

The condensed consolidated interim financial statements on pages 9 to 21 were approved by the Board of Directors on 13 November 2018 and were signed on its behalf by:



Chris Jones  
Chief Executive Officer



Peter Bridgewater  
Finance and Commercial Director

The notes on pages 14 to 21 are an integral part of these condensed consolidated financial statements.

## Consolidated interim statement of cash flows

	Six months ended 30 September 2018 (unaudited) £m	Six months ended 30 September 2017 (unaudited) £m	Year ended 31 March 2018 (audited) £m
<b>Cash flow from operating activities</b>			
(Loss)/profit for the period	(29.2)	51.5	(12.2)
Adjustments for			
- Depreciation and amortisation	144.1	134.9	277.0
- Net finance cost	73.1	(12.8)	92.0
- Net tax (credit)/charge	(5.9)	10.5	(2.6)
Changes in working capital			
- Decrease/(increase) in trade and other receivables	173.0	185.1	(14.6)
- Increase in inventories	-	(0.2)	(0.4)
- (Decrease)/increase in trade and other payables	(167.3)	(181.1)	17.7
- Pension contributions above service cost	(3.6)	(3.4)	(5.0)
- Decrease in provisions	(0.7)	(1.7)	(1.9)
<b>Cash generated from operating activities</b>	<b>183.5</b>	<b>182.8</b>	<b>350.0</b>
Interest paid	(31.2)	(30.4)	(132.9)
Income tax received	0.5	(0.4)	0.4
<b>Net cash from operating activities</b>	<b>152.8</b>	<b>152.0</b>	<b>217.5</b>
<b>Cash flow from investing activities</b>			
Acquisition of subsidiaries	-	-	(0.5)
Interest received	2.5	2.1	3.8
Purchase of property, plant and equipment	(182.4)	(141.5)	(302.6)
Purchase of intangible assets	(17.2)	(25.6)	(48.5)
Grants and contributions received	8.8	8.4	11.4
<b>Net cash flow from investing activities</b>	<b>(188.3)</b>	<b>(156.6)</b>	<b>(336.4)</b>
<b>Net cash flow before financing activities</b>	<b>(35.5)</b>	<b>(4.6)</b>	<b>(118.9)</b>
<b>Cash flow from financing activities</b>			
Long-term loans received	-	60.0	60.0
Bond issue	-	-	300.0
Bond issue costs	-	-	(3.5)
Repayment of borrowings	(5.1)	(2.1)	(18.2)
Term loan repayments	(13.3)	(13.3)	(21.6)
Finance lease principal payments	-	-	(9.8)
Other loan repayments	(0.1)	-	(0.1)
<b>Net cash flow from financing activities</b>	<b>(18.5)</b>	<b>44.6</b>	<b>306.8</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(54.0)</b>	<b>40.0</b>	<b>187.9</b>
Cash and cash equivalents at start of period	288.5	100.6	100.6
<b>Cash and cash equivalents at end of period</b>	<b>234.5</b>	<b>140.6</b>	<b>288.5</b>

The notes on pages 14 to 21 are an integral part of these condensed consolidated interim financial statements.

# Notes to the condensed consolidated interim financial statements

---

## 1. Basis of preparation

Glas Cymru Holdings Cyfyngedig (the Company) is a company domiciled in England and Wales. These condensed consolidated interim financial statements for the six months ended 30 September 2018 comprise the Company and its subsidiaries (together referred to as the Group). The Group'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 Group's last annual consolidated financial statements for the year ended 31 March 2018. 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 Group's financial position and performance since the last annual financial statements.

The principal accounting policies adopted in the preparation of these condensed consolidated interim financial statements are consistent with those of the previous set of published Annual Report and Accounts for the year ended 31 March 2018, with the exception of the following standards which are effective for accounting periods beginning on or after 1 January 2018; these standards have been applied in the interim financial statements and will be reflected in the Group's annual consolidated financial statements for the year ending 31 March 2019:

### IFRS 9 Financial Instruments

The standard introduces a revised model for the classification and measurement of financial instruments, a revised approach to hedge accounting and an "expected loss" impairment model. The Group has assessed the impact of adoption and recognises that additional disclosures will be required in the full year report and accounts to show historical experience and the extent of forward-looking factors. While an "expected loss" impairment model is in line with the approach historically taken by the Group towards its provisioning against trade receivables, losses in relation to the measured income accrual have only been recognised once billed.

The Group has used its existing provisioning methodology for measured debt in determining an appropriate level of losses against which to provide in the measured income accrual. The impact on the accrual as at 30 September 2018 is £3.9m, being a revenue provision of 5% against a gross balance of £78.3m. The provision will be reassessed for adequacy at each balance sheet date, but the Directors do not anticipate any material fluctuations. There is no requirement to restate comparative information for balances affected by the adoption of IFRS 9 in the period of transition, the impact of which would not in any case be material to the financial statements.

### IFRS 15 Revenue from Contracts with Customers

The standard deals with revenue recognition and established principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction Contracts, and related interpretations.

The Group has undertaken an assessment of the impact of IFRS 15 and recognises that contracts with customers are, in a majority of cases, governed by legislative requirements rather than discrete commercial arrangements. As a result the application of judgement is important in determining the most appropriate treatment of certain income streams. The key consideration in respect of the Group's activities is where revenues from bundled goods and services require separation, which may result in deferring or recognising revenue immediately. We do not anticipate any change to the manner in which we recognise revenues from our core water and sewerage supply services, which constitute more than 95% of total income, since there is a clear performance obligation satisfied over a measured period of time; however, there are some peripheral income streams which do require more in-depth consideration. All water companies have a legal obligation to allow third parties to establish an authorised connection to their networks and a number of activities may be necessary in order to achieve this, giving rise to the following transactions and accounting treatments under IFRS 15:

- *Connection charges*: these are amounts received from developers for connection to the network which we recognise as income on delivery of that performance obligation.
- *Infrastructure charges and requisitions*: third party contributions towards the Group's obligation to ensure future service provision to the connection or mains over its life; we estimate that an average connection lasts for 80 years and defer the release of charges over that period.
- *Asset adoptions*: usually sewers adopted at no cost, whereby the receipt of the asset is out of scope of IFRS 15 and should therefore be recognised at fair value (with deferred or related non-cash income).

# Notes to the condensed consolidated interim financial statements

---

## 1. Basis of preparation (continued)

- *Diversions*: payment in return for moving a water or sewer main to accommodate other infrastructure changes. The performance obligation is to move the main, with no additional asset creation, therefore revenue is recognised immediately.

There has been no material change to our accounting treatment for any of these income streams following the adoption of IFRS 15.

IFRS 16 Leases, which is effective for accounting periods beginning on or after effective date 1 January 2019, will revise the treatment of leases in financial statements and largely eliminates the accounting distinction between operating and finance leases. Work to ensure the correct identification and classification of leases remains ongoing and will continue during the remainder of this financial year.

The Directors do not expect any other standards, interpretations and amendments, which are in issue but not yet effective, to have a material impact on the Group's financial statements.

The Annual Report and Accounts are published on the Group's website [www.dwrcymru.com](http://www.dwrcymru.com) and are available from the Company Secretary on request.

These condensed consolidated interim financial statements are unaudited. The interim financial results do not comprise the Group's statutory accounts within the meaning of Section 434 of the Companies Act 2006. The comparative figures for the financial year ended 31 March 2018 are not the Group's statutory accounts for that financial year. Those accounts have been reported on by the Group'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 one's 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 consolidated 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 consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2018, 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 Group has reviewed assets held for any indications of impairment and, none having been noted, has not performed a full impairment review.

### Going concern

The Group meets its day-to-day working capital requirement through its bank facilities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that it should be able to operate within its current facilities. After making enquires, the Directors have a reasonable expectation that the Group has adequate resources to continue operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements.



## Notes to the condensed consolidated 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 Group 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.

### 3. Financing costs

	Six months ended 30 September 2018 (unaudited) £m	Six months ended 30 September 2017 (unaudited) £m	Year ended 31 March 2018 (audited) £m
<b>a) Financing costs before fair value adjustments</b>			
Interest payable on bonds	(47.7)	(43.3)	(86.7)
Indexation on index-linked bonds	(13.7)	(12.4)	(45.7)
Indexation on index-linked loan	(4.0)	(5.5)	(9.6)
Interest payable on finance leases	(2.0)	(1.1)	(20.8)
Other loan interest	(6.6)	(6.2)	(20.0)
Other interest payable and finance costs	(3.0)	(3.3)	(7.0)
Net interest charge on pension scheme liabilities	(1.0)	(1.2)	(2.5)
Capitalisation of borrowing costs under IAS 23	9.1	6.6	16.4
	<b>(68.9)</b>	<b>(66.4)</b>	<b>(175.9)</b>
Interest receivable	2.5	2.1	3.9
Net financing costs before fair value adjustments	<b>(66.4)</b>	<b>(64.3)</b>	<b>(172.0)</b>
<b>b) Fair value (losses)/gains on derivative financial instruments</b>			
	Six months ended 30 September 2018 (unaudited) £m	Six months ended 30 September 2017 (unaudited) £m	Year ended 31 March 2018 (audited) £m
Fair value gains on interest rate swaps	5.3	18.2	3.6
Fair value (losses)/gains on index-linked swaps	(18.8)	57.8	71.2
Fair value gains on trading derivatives	6.8	1.1	5.2
Total fair value (losses)/gains on derivative financial instruments	<b>(6.7)</b>	<b>77.1</b>	<b>80.0</b>

Whilst the Group employs an economically effective policy using interest rate and index-linked swaps, the hedge accounting criteria of IAS 39 are not satisfied. Consequently, the Group's interest rate and index-linked swaps are fair valued at each balance sheet date with the movement (net gain or loss) disclosed in the income statement. Over the life of these swaps, if held to maturity, these fair value adjustments will reverse and reduce to zero. The notional value of the interest rate swap is £192m (March 2018: £192m) and the notional value of the index-linked swaps is £618m (March 2018: £631m).

## Notes to the condensed consolidated interim financial statements

### 4. Taxation

	30 September 2018 (unaudited) £m	30 September 2017 (unaudited) £m	31 March 2018 (audited) £m
<b>Current tax</b>			
Current tax on profits for the year	-	-	(0.4)
Current tax on research and development credit	-	-	0.3
Adjustment in respect of prior periods	0.9	-	(0.9)
	<b>0.9</b>	-	<b>(1.0)</b>
<b>Deferred tax</b>			
Origination and reversal of timing differences	(5.9)	10.5	(2.3)
Adjustment in respect of prior periods	(0.9)	-	0.7
	<b>(6.8)</b>	10.5	<b>(1.6)</b>
<b>Taxation (credit)/ charge</b>	<b>(5.9)</b>	10.5	<b>(2.6)</b>
<b>Analysis of amounts charged to the Statement of Comprehensive Income and Revaluation Reserve</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Defined benefit pension scheme	2.5	2.3	2.1
Reallocation of tax from income statement – pension payments in excess of service charge	0.4	0.3	0.7
	<b>2.9</b>	2.6	<b>2.8</b>
Revaluation of fixed assets	20.2	17.2	26.9
	<b>20.2</b>	17.2	<b>26.9</b>
<b>Tax reconciliation</b>			
(Loss)/profit before tax	<b>(35.1)</b>	62.0	(14.8)
(Loss)/profit before tax multiplied by the corporation tax in the UK of 19% (six months to 30 September 2017 and year ended 31 March 2018: 19%)	<b>(6.7)</b>	11.8	(2.8)
<b>Effects of:</b>			
Other permanent differences	0.4	0.4	1.0
Effect of pension payment in excess of service charge	<b>(0.4)</b>	(0.3)	(0.7)
Difference in standard rate of corporation tax (19%) and rate used for deferred tax (17%)	0.8	(1.4)	-
Adjustments in respect of prior years	-	-	(0.1)
	<b>(5.9)</b>	10.5	<b>(2.6)</b>

The Group 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 17% for each of the above periods. This is based on the corporation tax rate which will apply from 1 April 2020. A small proportion of the temporary difference may reverse prior to 2020 at 19%, however the impact on the overall deferred tax balance is not material.

## Notes to the condensed consolidated interim financial statements

### 5. Revaluation reserve

	30 September 2018 (unaudited) £m
Revaluation reserve as at 1 April 2018	1,142.8
Revaluation of assets	119.2
Depreciation charge on revalued assets	(36.6)
	82.6
Deferred tax on revaluation	(20.2)
Deferred tax on depreciation charge	6.3
	(13.9)
<b>Revaluation reserve as at 30 September 2018</b>	<b>1,211.5</b>

### 6. Property, plant and equipment

	Freehold land & buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
<b>Valuation</b>					
At 1 April 2018	41.7	2362.3	4105.5	263.2	6,772.7
Revaluation	-	26.8	-	-	26.8
Additions	-	54.2	125.4	4.9	184.5
Disposal	-	-	-	(2.0)	(2.0)
At 30 September 2018	<b>41.7</b>	<b>2,443.3</b>	<b>4,230.9</b>	<b>266.1</b>	<b>6,982.0</b>
<b>Accumulated depreciation</b>					
At 1 April 2018	21.3	-	1,177.7	261.6	1,460.6
Revaluation	-	(26.1)	(66.3)	-	(92.4)
Charge for the period	0.4	26.1	104.5	6.0	137.0
Released on disposal	-	-	-	(1.9)	(1.9)
At 30 September 2018	<b>21.7</b>	<b>-</b>	<b>1,215.9</b>	<b>265.7</b>	<b>1,503.3</b>
<b>Net book value</b>					
At 30 September 2018 (unaudited)	<b>20.0</b>	<b>2,443.3</b>	<b>3,015.0</b>	<b>0.4</b>	<b>5,478.7</b>
At 31 March 2018 (audited)	20.4	2,362.3	2,927.8	1.6	5,312.1
At 30 September 2018 (unaudited) - historic cost basis	<b>20.0</b>	<b>1,765.6</b>	<b>2,233.1</b>	<b>0.4</b>	<b>4,019.1</b>

The net book value of fixed assets includes £62.8 million (March 2018: £55.4 million) of capitalised interest. The Board has approved capital expenditure for the year of £473 million. While only a portion of this amount has been formally contracted for as at 30 September 2018, the Group is effectively committed to the total as part of its overall capital investment programme.

## Notes to the condensed consolidated interim financial statements

### 7. Trade and other receivables

	30 September 2018 (unaudited) £m	30 September 2017 (unaudited) £m	31 March 2018 (audited) £m
<b>Current</b>			
Trade receivables	381.6	362.5	556.7
Less provision for impairment of receivables	(91.0)	(81.9)	(83.8)
Trade receivables - net	290.6	280.6	472.9
Prepayments and accrued income	91.2	93.3	88.1
Other receivables	22.9	7.1	16.7
	<b>404.7</b>	<b>381.0</b>	<b>577.7</b>
<b>Non-current</b>			
Other receivables	0.9	-	0.9
<b>Total trade and other receivables</b>	<b>405.6</b>	<b>381.0</b>	<b>578.6</b>

### 8. Trade and other payables

	30 September 2018 (unaudited) £m	30 September 2017 (unaudited) £m	31 March 2018 (audited) £m
<b>Current</b>			
Trade payables	47.0	41.8	45.7
Capital payables	42.9	53.2	60.3
Other taxation and social security	10.4	7.2	3.4
Accruals and deferred income	281.2	263.3	454.7
	<b>381.5</b>	<b>365.5</b>	<b>564.1</b>
<b>Non-current</b>			
Deferred income	249.6	222.9	233.9
<b>Total trade and other payables</b>	<b>631.1</b>	<b>588.4</b>	<b>798.0</b>

### 9. 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 date may be analysed as:	30 September 2018 (unaudited) £m	30 September 2017 (unaudited) £m	31 March 2018 (audited) £m
Cash and cash equivalents	234.5	140.6	288.5
Debt due after one year	(2,845.3)	(2,519.2)	(2,844.6)
Debt due within one year	(25.5)	(25.7)	(27.1)
Finance lease obligations	(435.9)	(446.5)	(435.9)
Accrued interest	(79.4)	(72.7)	(51.2)
	<b>(3,386.1)</b>	<b>(3,064.1)</b>	<b>(3,358.8)</b>
<b>Net debt</b>	<b>(3,151.6)</b>	<b>(2,923.5)</b>	<b>(3,070.3)</b>

## Notes to the condensed consolidated interim financial statements

b) The movement in net debt during the period may be summarised as:	30 September 2018 (unaudited) £m	30 September 2017 (unaudited) £m	31 March 2018 (audited) £m
Net debt at start of period	(3,070.3)	(2,877.5)	(2,877.5)
Movement in net cash	(54.0)	40.0	187.9
Movement in debt arising from cash flows	18.6	(44.6)	(326.9)
<b>Movement in net debt arising from cash flows</b>	<b>(35.4)</b>	(4.6)	(139.0)
Movement in accrued interest	(28.2)	(23.6)	1.6
Indexation of index-linked debt	(17.7)	(18.0)	(55.3)
Other non-cash movements	-	0.2	(0.1)
<b>Movement in net debt during the period</b>	<b>(81.3)</b>	(46.0)	(192.8)
<b>Net debt at end of period</b>	<b>(3,151.6)</b>	(2,923.5)	(3,070.3)

### 10. Financial risk management and financial instruments

The Group'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 consolidated 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 Group's annual financial statements for the year ended 31 March 2018. 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 Group 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 (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

All of the Group's trading and treasury derivatives are categorised at Level 2 and as at 30 September 2018 were valued as follows:

- assets: trading derivatives £11.3m, treasury derivatives £3.6m (March 2018: trading derivatives £4.8m, treasury derivatives £3.5m).
- liabilities: trading derivatives £nil, treasury derivatives £418.7m (March 2018: trading derivatives £0.3m, treasury derivatives £405.1m).

Trading derivatives relate to power hedges and treasury derivatives relate to interest rate swap contracts; all are recorded on the balance sheet at fair value.

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

## Notes to the condensed consolidated interim financial statements

---

### 11. Subsequent event

A high court judgement announced on 27 October 2018 ruled that pension schemes must ensure that they adjust for any inequality between males and females in the Guaranteed Minimum Pension (GMP), relevant to employees who were contracted out of the State Earnings Related Pension Scheme up to 5 April 1997. While previous legislation has required equalisation up to 17 May 1990, schemes are now required to take into account the effect of unequal GMP accrual between 1990 and 1997.

As at the date of signing these interim financial statements it is difficult to assess the impact on the Group's pension scheme (the Scheme); the Department of Work and Pensions has indicated that it is likely to issue guidance in late December 2018 which is expected to include the method(s) of calculation, timing and the extent of the backdating.

Estimates of the potential level of inequality in UK pension schemes currently range from around 1% to 4% of total scheme liabilities. Having taken advice from the Scheme actuary, the Directors estimate the Group's exposure to be at the lower end of this range, owing to the design and history of the Scheme; at this level (1%, or £4m). An adjustment will be made for an appropriate amount in the second half of this financial year.

# Independent review report to Glas Cymru Holdings Cyfyngedig for the six month period ended 30 September 2018

---

## Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly report for the six months ended 30 September 2018 which comprises the consolidated interim income statement, consolidated interim statement of comprehensive income, consolidated interim statement of changes in reserves, consolidated interim balance sheet, consolidated interim statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30 September 2018 is not prepared, in all material respects, in accordance with the recognition and measurement requirements of IAS 34 *Interim Financial Reporting* as adopted by the EU.

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Directors' responsibilities

The half-yearly report is the responsibility of, and has been approved by, the Directors.

As disclosed in note 1, the annual financial statements of the Company are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The condensed set of financial statements included in this half-yearly report has been prepared in accordance with IAS 34 as adopted by the EU.

## Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

## The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.



**James Ledward**  
**for and on behalf of KPMG LLP**

Chartered Accountants  
3 Assembly Square  
Britannia Quay  
Cardiff  
CF10 4AX

**13 November 2018**

## Appendix - definitions

Measures of Success		Definition
A1a	Safety of drinking water (% compliance)	Provide safe drinking water that meets the Drinking Water Inspectorate's standards. The percentage of the sample tests that are compliant with the standards. We take over 250,000 sample tests per year at our water treatment works, service reservoirs and at customer taps.
A1b	Safety of drinking water (Mean Zonal Compliance)	Mean Zonal Compliance (MZC) is published annually in the Drinking Water Inspectorate (DWI) report. The MZC covers 39 different parameters, such as iron, lead and aluminium, which are tested to establish the quality of water as received by customers. MZC is calculated as the average of the compliance levels for each parameter in each of our 87 water quality zones, which range in size from 11 to around 40,000 properties.
A2	Customer acceptability	The number of contacts received from customers in the year regarding the appearance, taste or odour of drinking water, expressed as a rate per 1,000 customers.
A3	Reliability of supply	The average number of minutes that customers are without water within our supply area (includes both planned and unplanned interruptions).
B1	Abstraction for water for use	The percentage compliance with our abstraction licences, as issued by regulators.
B2	Treating wastewater	For each of our wastewater treatment works there is a permit which regulates the quality of wastewater the Company is allowed to discharge into rivers and coastal waters, which is regulated by the NRW. The measure is the % compliance against the discharge permits.
B3a	Preventing pollutions (categories 1, 2 and 3)	Reduce the number of pollution incidents (caused by blockages or collapsed sewers). Pollution incidents are categorised as category 1, 2 or 3 incident and reported by Natural Resources Wales and the Environment Agency. Category 1 are the most severe and have a major or serious impact on the environment, people or property. Category 2 - significant impact or effect on the environment, people or property. Category 3 - minor or minimal impact on the environment, people or property.
B3b	Preventing pollutions (category 3 only)	As above but only category 3 pollution incidents (minor or minimal impact on the environment, people or property).
C1	Responding to climate change	Reduce the amount of rainwater entering our sewers. The measure is the volume of surface water removed from the system, expressed as the number of equivalent properties.
C2	Carbon footprint	To generate more renewable energy and therefore to offset our carbon emissions and the cost of imported energy (GWh hours per year).
D1	SIM	Service incentive mechanism (SIM) is a measure introduced by the Regulator Ofwat to monitor and report customer service information across all water & wastewater companies as a comparative measure.
D2	At-risk customer service	The number of customers who are on our "at risk" register.. They are deemed to be "at risk" because their service has repeatedly fallen short in one of the following five areas: discolouration of water, interruptions to supply, low pressure, odour from wastewater assets and sewer flooding.
D3	Properties flooded in the year	The number of properties affected by internal sewer flooding per year.
D4a	Business customer satisfaction % satisfied	Business customer satisfaction as measured by either satisfied or very satisfied in the six monthly survey undertaken.



## Appendix - definitions

Measures of Success		Definition
D4b	Non-household customer satisfaction	Business customer satisfaction as measured by the average customer score out of a total of five then converted to a percentage.
D5	Earning the trust of customers	Customer trust as measured in an annual survey we undertake.
E1	Affordable bills	The Group will continue to make bills more affordable by maintaining falling bills in real terms, beating inflation by around 1% a year.
E2	Help for disadvantaged customers	A focus on helping more customers who genuinely struggle to pay their bills by providing assistance through a range of social tariffs and our Customer Assistance Fund.
F1	Asset serviceability	Maintenance of our assets. Serviceability includes a basket of sub-measures used by Ofwat to monitor the effectiveness of our asset management and the maintenance of our assets.
F2	Leakage	Reduce our leakage levels – megalitres per day (Ml/d).
F3	Asset resilience	Improve the resilience score of our most strategic assets. Improve the percentage of strategic assets that are resilient against a set of criteria. Strategic assets are those where failure would have a major impact on service to customers or on the environment.
G1	RIDDOR	The indicator by which we measure performance is the number of reports to the Health and Safety Executive under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR) per annum.
G2	Competence for role	We have a "Progression in Role" framework and have established clear role profiles that define key criteria which we can now use to assess and measure individuals' knowledge, skills and competence to undertake their respective roles.
H2	Financing Efficiency	We measure this by reference to our credit ratings as determined by independent credit rating agencies.