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Glas Cymru Holdings Cyf

Interim report and accounts

for the six months ended 30 September 2020

Contents

Notes:

(1) 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.

(2) The Directors of Dŵr Cymru Cyfyngedig use group-wide key performance measures as indicators of the development and performance of the Company. We measure our performance via eight "Outcomes" which are based on broad groupings of targets set by Ofwat at the last price review – "Outcome Delivery Incentives" (ODIs). The groupings represent the key elements of the essential services we provide to our customers across our supply area. The regulatory targets are supplemented by our internal business and financial planning processes. Every year, targets are discussed and agreed by the Board of Directors. The Board sets stretching but achievable targets, independently, based on sector benchmarks. The Executive team is held to account by our Non-Executive Directors to ensure that the targets are sufficiently challenging and to monitor performance in accordance with those targets. Our Company vision to Earn the Trust of our Customers Every Day, underpins our approach to delivering services, and the Board is conscious of the need to set targets which maintain and build on that trust. The Board also takes into account the views expressed by customers and other stakeholders in the extensive engagement exercises which were undertaken, both in establishing Welsh Water's published 2050 strategy, and in the course of setting the Company's five-year business plan for 2020-25.

Chief Executive's statement

In April 2020, I became Chief Executive of Welsh Water, almost 40 years to the day that I started out as an apprentice with the business.

It has been a privilege to follow in the footsteps of my predecessor, Chris Jones, who was one the founders of Glas Cymru, but the events of 2020 have been beyond anything we could have predicted or imagined. The past six months has been one of the most difficult periods we have faced as company, but I am proud of the way in which colleagues have dealt with the challenges brought by the coronavirus pandemic to date, enabling us to deliver strong operational and financial performance for the first six months as we start our most ambitious ever business plan for 2020-25 and continue to focus on providing the best customer service.

As a not-for-shareholder company, we work to benefit our customers in everything we do. This has never been more important as we, and our customers, grapple with the social and economic implications of the current pandemic. 2020-21 was always going to be a challenging year for the company, as we start a new five-year investment period with tough investment and performance targets to meet, but I am very proud of the way the company has responded to these challenges, and the strong overall performance that we are continuing to deliver for customers.

COVID-19: Our response to the pandemic has required significant changes in the way we work. This has included an unprecedented move to home working - with more than 2,000 colleagues moving from the office to home-based working, achieved within a few weeks in late March and early April. The adoption of new technology has meant a huge adjustment to the ways we work as we conduct most of our non-operational work remotely. Meanwhile, we have amended practices and procedures to ensure strict health and safety protocols for those continuing to work on the frontline to deliver services in our communities. All this has been carried out without any material impact on our service levels. This has taken place alongside a review of our estate and working arrangements - with a planned closure of our main headquarters buildings in Nelson in March 2021, the opening of our new hub at Parc Pensarn in Carmarthen, and transformation of existing sites in Cardiff and Newport to accommodate our smarter ways of working. We are also prepared for the challenges of an emerging downturn in the economy, and the impact of this on our customers and the communities we serve. We have agreed flexible payment arrangements with customers struggling to pay their bills, we suspended charges for around 45,000 businesses during the UK-wide lockdown and we added over 330,000 customers in vulnerable circumstances to our Priority Services Register for extra support through the course of the pandemic, for example, in circumstances where supplies may be interrupted.

Health, Safety, and Wellbeing: Our first priority – always – is the health, safety, and well-being of our colleagues. Our colleagues are our most important assets and we have a responsibility to ensure we're providing the best possible working environment for them. Over the past six months, we have delivered company-wide programmes to help support the resilience and mental health well-being of our colleagues, and we have conducted several surveys to help measure their wellbeing. It is reassuring that 86% of employees were feeling positive about their wellbeing in our latest colleague survey, and we have noted that the majority of those currently working from home would like home working to be part of our future way of working. Our continuous company-wide focus on ensuring health and safety across all the settings in which we work, whether at home, at the office, or in our communities, has meant that we're on course to match our best performances for avoiding serious injuries or illnesses suffered at work. Our top priority for the coming months is to ensure we can keep all our people safe, but also to ensure that we continue to support them in their emotional well-being.

Financial: Despite the current circumstances, we continue to operate on a strong financial footing with an extensive programme of investment to improve our services and benefit customers. We continue to benefit from leading credit ratings in the water industry, and we are sustaining our high score on our financial resilience performance commitment rating among the leading agencies. We have maintained our long-term objective of holding our regulatory gearing at historically low levels at around 60%, down from a high of 94% in 2001 when Welsh Water became a not-for-shareholder company.

Operational and customer service performance: Despite the ongoing pandemic, and significant challenges from extreme weather events and a prolonged dry spell, the business has continued to achieve a strong performance against the measures set by our economic regulator, Ofwat. Our operational and capital programmes have had to overcome the challenges of extreme weather events, such as the prolonged dry weather in late Spring and early Summer which put considerable pressure on our water resources, followed by extreme rainfall events in June with consequent risks of flooding of customer properties and a broad impact on the environment. Despite this, we have continued to raise the bar on the compliance of our wastewater treatment works, and we are more than ever before driving down leakage levels across our supply area. On customer service, having seen a 22% reduction in written complaints from household customers in 2019-20, in July we became the first utility company to reach the top 50 in the UKCSI measure of customer service, while also continuing to register among the best scores for customer satisfaction and trust as reflected in independent CCW research. We are now reaching more customers than ever with our industry-leading social tariff provision supporting more than 120,000 who need help to pay their water bills.

Chief Executive's statement (continued)

However, we know there are still areas where we need to improve the services we provide to customers. This includes ensuring that we resolve any problems quickly for customers who suffer repeated issues with their water supplies and improving the resilience of our wastewater network against increasingly frequent severe storms and weather events which can cause flooding in customer properties. We are also conscious of our impact on the environment around us, and we are working to improve the operation of our wastewater network to reduce the impact of combined sewer overflows on our rivers and coasts. We know that, now more than ever, it is critical we maintain the trust of our customers to deliver services.

I am very proud of how Welsh Water colleagues have risen and adapted so well to the challenges of the last six months. Our role in helping protect public health has never been more important and we look forward to playing our part so that we continue to realise our vision to 'earn the trust of our customers every day'.

Peter Perry
Chief Executive, Welsh Water
5 November 2020

Performance overview

Financial overview

In the six months to 30 September 2020:

- our revenue reduced slightly to £386 million (2019: £398 million), principally reflecting the overall impact of COVID-19 on overall consumption levels and our decision to suspend standing charges to businesses that were closed during the UK-wide lockdown.

- operating expenditure (excluding exceptional items, infrastructure renewals expenditure and depreciation) has fallen by 3% to £154 million (2019: £159 million): headcount and power price reductions, along with savings from ongoing efficiency initiatives, have contributed to an overall cost reduction; in addition, many of the new ways of working introduced in response to the pandemic will deliver sustainable cost savings.

- an exceptional item amounting to £17 million represents additional costs incurred as a direct result of the COVID-19 pandemic; due to their size and nature these have been disclosed separately on the face of the income statement. These include additional bad debt charges, personal protective equipment and the incremental cost of putting in place increased hygiene measures and deep cleaning. (A charge of £11 million in the year to 31 March 2020 related to the establishment of a restructuring provision associated with a headcount reduction of some 200 over the period to 31 March 2025.)

- operating profit has fallen to £1 million (2019: £39 million), reflecting the revenue and expenditure movements noted above as well as a £13 million increase in the depreciation charge on our operational fixed assets; this charge is higher than the prior period as the asset base is revalued at each balance sheet date to the Company's regulatory asset value as set by Ofwat and which rises in line with CPIH inflation.

- net interest payable in the period (excluding fair value movements of derivatives) remained stable at £67 million (2019: £66 million); an increase resulting from our February 2020 £500 million bond issue has been offset by the impact of lower RPI inflation on our index-linked debt.

- net capital investment (including maintenance expenditure, a different definition of investment from that used in the interim financial statements) totalled £187 million (2019: £218 million), beginning our £1.8 billion AMP7 (2020 to 2025) investment programme over the course of which we anticipate delivering investment of around £360 million per annum to ensure improvements to customer service and the environment.

- the underlying loss (excluding fair value movements) was £66 million (2019: loss of £27 million), which reflects lower revenue and an overall increase in operating expenditure, in particular as a result of the challenges presented by the coronavirus pandemic.

- the fair value liability of the company's interest rate and energy price swaps has increased by £68 million to £543 million compared to March 2020 (£475 million). This is driven by financial market movements – and this type of fluctuation is not uncommon. If held to maturity, which is the Company's intention, the fair value of these instruments will be zero. After allowing for this (non-cash) movement, the Group reported a total loss before tax of £135 million. (2019: loss of £119 million).

- the PR19 process and anticipated cost challenges have resulted in pressure on our credit ratings, but these remain the highest in the sector at A-/A3/A from Standard and Poor's, Moody's and Fitch respectively and reflect the Group's creditworthiness and prudent financial position.

- as at 30 September 2020, Glas Cymru had cash, short-term deposits and undrawn syndicated bank facilities of £773 million (2019: £464 million), giving the Group a high level of financial liquidity.

- our regulatory gearing has increased slightly to 60.2% since March 2020 (59.5%) but remains broadly stable and in line with the target level set by the Glas Cymru board of around 60%.

Our performance

Many of the decisions we take today will have a major impact on our customers, the environment and the economy for years to come. After consulting with our customers on their priorities we have made eight key promises to our customers and colleagues and there are in total 56 targets that we want to achieve by 2025 that will benefit our customers, communities, and our environment. In this document, we report our progress on a selection of our 56 performance commitments including Ofwat's common performance commitments.

Performance overview (continued)

At the time of publishing, the full impact of the COVID-19 pandemic is still emerging. We have not amended our business plan targets for 2020–21 to anticipate the effects of COVID-19. Our aim is to continue to do all that we can to deliver on our commitments to our customers and the environment despite the challenges of the pandemic. However, we are already noting an impact to some degree on our ability to meet the following operational targets:

- Per capita consumption – we have seen an increase in household consumption in light of the public health focus on increased handwashing and the shift to home working where possible.
- Visitors to recreational facilities – we have had to close our centres during lockdown and, due to the ongoing restrictions, do not expect to recover the full year target.
- Community education – we also had to close our education centres at the beginning of lockdown and we are unable to access schools, although we are developing a remotely-delivered lesson offering for schools.
- Bad debt – we anticipate that the economic impact of the pandemic will cause more of our customers to have difficulty paying their bills, and although we will aim to support them where appropriate through our social tariffs and financial assistance schemes, it is still likely that the proportion of our customer debt that is deemed irrecoverable will increase.

Our Customer Promises

(1) Clean Safe Water for All

Providing a safe and reliable supply of water is the most vital aspect of our service to customers.

- As at September 2020, overall compliance with the Drinking Water Inspectorate Compliance Risk Index (CRI) remains high at 2.11 (2019: 1.69) against our business plan target of 2.6. (This figure is subject to Drinking Water Inspectorate classification at the end of the calendar year.)
- Reducing the average number of minutes that affected customers are without water during the year is a key priority for the business. In the first six months of the year we have seen a reduction to 5 minutes 11 seconds compared with 6 minutes 28 seconds for the same period last year. We do not expect to meet the Final Determination target of 6 minutes 30 seconds set by Ofwat for the full year but are on target to deliver our business plan commitment of 11 minutes 12 seconds.
- We are committed to reducing the number of occasions on which customers contact us about the appearance, taste or odour of drinking water. As at September we have received 2.23 contacts per 1,000 customers (2019: 2.20). Customer acceptability performance has been affected by the discolouration caused by increased pressure in the network during the period of high demand when we experienced dry weather and lockdown conditions in the spring/early summer.
- During AMP7 we are targeting to identify and replace 7,000 lead pipes across our supply area. COVID-19 restrictions mean that progress on replacing customer lead supply pipes is behind target. However, as this is a cumulative measure across the AMP we expect to be able to catch up once restrictions are lifted.

(2) Safeguard our environment for future generations

We take our responsibility for the environment every bit as seriously as our commitments to customers.

- We have delivered good overall treatment works compliance with 99.3% of works fully compliant with discharge permits.
- A key priority for us is to reduce the number of times we cause pollutions incidents. In the 9 calendar months to September we had a total of 80 pollution incidents (category 1, 2 and 3), which is equivalent to 21.84 per 10,000km of sewer (2019: 20.85).
- Wet wipes containing plastic are a key cause of sewer blockages. As a company we tackle around 20,000 blockages a year, costing close to £5 million, which could otherwise go to improve our services or reduce customer bills. As part of our ‘Stop the Block’ campaign we are calling on the Welsh Government to include wet wipes containing plastic in their list of proposed single use plastic items to be banned in Wales.
- We continue to focus on reducing our leakage levels and have reduced average leakage across the three years to September 2020 by 2.5% compared with average leakage over the 3 years to 31 March 2020 (the baseline for AMP7).

Performance overview (continued)

- We continue to invest in our services and are on track to finish major investment schemes including the installation of advanced anaerobic digestors in Five Fords Energy Park, Wrexham, and Cog Moors Wastewater Works in the Vale of Glamorgan, increasing the amount of green energy the company can generate from the waste it treats. The completion of these schemes are significant steps towards achieving our target of 35% self-generated energy by 2025. They will also help with our ongoing reduction in carbon which we have brought down by 80% over the last 10 years.

(3) Personal service that is right for you

We place particular emphasis on metrics such as customer satisfaction and customer trust and challenge ourselves to be consistently among the best performing companies in the industry.

- The results of our Business customer satisfaction surveys saw customers score us at an average of 4.4 out of 5 for the first half of the year, in line with our target.

- We strive to maintain excellent customer service under Ofwat's C-MeX and D-MeX and Business customer satisfaction measures.

    - Our year to date performance on C-MeX is disappointing (dropping to 4th position) from our top position in 2019-20. However, we are focussed on improving on this in the remaining surveys in 2020-21.

    - We are also disappointed with our D-Mex performance, with a score of 77.25 (2019-20: 84.38). The deterioration in performance was driven by two service failures in the first quarter of the year resulting from transitioning from the office to home working.

    - We have increased the number of vulnerable customers registered on our Priority Services Register to 404,331 including 337,234 on a temporary basis during the COVID-19 pandemic.

(4) Putting things right if they go wrong

We know that we don’t always get everything right for our customers first time. Our customers have told us that the very worst service failure they can experience is sewer flooding, and we are particularly committed to reducing the number of flooding incidents, both within customer properties and on land adjacent.

- We have delivered improved performance in the year to date on both the internal and external measures of sewer flooding. There have been 0.81 instances of internal sewer flooding (2019: 0.86) and 11.1 instances of external sewer flooding (2019: 14.7) per 10,000 connections.

(5) Fair bills for everyone

Keeping bills as low as possible is fundamental to earning and maintaining the trust of our customers. Since becoming a not-for-shareholder company in 2001, our record on customer bills is the best in the sector, showing an 8% reduction relative to the Retail Prices Index (RPI) measure of inflation since 2000. We have kept the increase in the average household bill below RPI every year for more than a decade – the only water company in England and Wales to achieve this.

- Our average household bill for 2020-21 fell by 0.3% relative to the rate of CPIH inflation.

- We have committed to increasing the number of customers whom our social tariffs scheme helps when they are having difficulty paying their water bills. In response to the Covid pandemic we have made changes to this scheme to allow us to support more customers. As at September 2020 there are 123,969 customers benefitting from our support tariffs.

(6) Create a better future for all our communities

Welsh Water is dependent on a wide range of partnerships to provide a resilient and high-quality essential public service for the future. Examples include partnerships with universities (through our resilience work to deliver our Welsh Water 2050 goals), other utilities (to support vulnerable customers), farmers (on pesticide reduction), and environmental organisations (many of which have representation on our Independent Environmental Advisory Panel). During 2015-20 we also worked with our first Water Resilient Community partnerships in the Rhondda Fach and Rhyl.

Performance overview (continued)

- The number of children benefitting from our education centres and our outreach education provision has been severely impacted by social distancing and COVID-19. As at September 2020 only 82 children had benefited from our education programmes compared to a year-end target of 70,000 children.

- We had plans in place to increase the number of visitors to our visitor centres during 2020-21. However, in April 2020 we closed our visitor centres due to COVID-19. As the lifting of restrictions allowed, we cautiously began to welcome visitors back in a Covid-safe way but full year performance will be affected by the ongoing restrictions in Wales.

(7) Resilience

Strengthening resilience so our customers can depend on their water and wastewater services, both now and in the future, is a major feature of our business plan for 2020–25. Resilience is not just about assets – our plan follows the “whole-business” approach to resilience.

- Ofwat have introduced two new common performance commitments for measuring resilience, the risk of sewer flooding in a 1 in 50-year storm and the risk of severe restrictions in a 1 in 200-year drought. We are on track to meet the target for both of these new measures.

(8) Developing our people

Our people are our most important assets. They have already faced huge challenges in the course of 2020 in responding to Storms Ciara, Dennis and Jorge, and the challenges of maintaining our services during the ongoing COVID-19 pandemic.

- COVID-19 has reduced the number of training courses we have been able to run in person, although where possible courses are being delivered remotely. Despite this 80% of our colleagues are trained to be fully competent for their role (2019-20: 83%). The remaining 20% of colleagues not defined as “fully competent” largely reflects new starters who are beginning development into their roles.

- We are continuing our “Journey to Zero” for RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations). We have had 4 RIDDORs year to date as at September 2020. We ended the 2019-20 financial year with a total of 8 RIDDORs.

Common performance commitments

The table shows our performance as at 30 September 2020 for Ofwat's performance commitments which are common to all water and sewerage companies in England and Wales. In some instances, the business plan targets set by the Glas Cymru Board differ to the Final Determination target set by Ofwat. The Glas Cymru Board has independently set stretching but achievable targets that are based on sector benchmarks.

Common Performance Commitments	Actual performance (at 30 September 2020)	2020-21 Business Plan Target	2020-21 FD Target
Water quality compliance (CRI) **C**	2.11	2.6	0
Water Supply Interruptions (minutes)	05:11	11:12	06:30
Mains Repairs (per 1000km of water network)	78.0	133.0	138.9
Unplanned outage %	0.83	2.00	2.34
Treatment works compliance % **C**	99.3	98.7	100
Pollution incidents (Per 10,000km of sewer) **C**	21.84	25.00	24.51
Leakage (% reduction in 3 year average)	2.5	1.8	1.8
Per Capita Consumption (% reduction in 3 year average	-8.4	1.0	1.0
Internal sewer flooding (per 10,000 sewer connections)	0.81	1.69	1.68
Sewer collapses (Per 1,000 km of sewers)	3.66	7.20	7.20
C-MeX	Rank-4th	Top 3	
D-MeX	Rank 13th	Mid-table	
Priority Services for Customer in Vulnerable Circumstances Reach %	4.7	4.3	4.3
Risk of severe restrictions in a drought %	4.52	4.53	4.53
Risk of sewer flooding in a storm %	measured annually	30.69	30.69

C = measured from the start of the calendar year (January to September 2020). All other commitments are measured from the start of the financial year (April to September 2020).

A definition of each Performance Commitment can be found in the Appendix on page 25.

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:

Debra Bowen Rees (Non-Executive Director)
Tom Crick (Non-Executive Director)
Mike Davis (Chief Financial Officer)
Graham Edwards (Non-Executive Director)
Joanne Kenrick (Non-Executive Director)
Alastair Lyons (Non-Executive Chairman)
Pete Perry (Chief Executive Officer)
John Warren (Non-Executive Director)

Following their retirement from the Board, the resignations of Chris Jones (on 15 May), Menna Richards and Anna Walker (both on 4 July) are noted during the period.

No appointments were made during the period.

Principal risks and uncertainties

The principal risks and uncertainties affecting the Group for the six months to 30 September 2020 are materially unchanged from those presented on pages 72 to 76 of the Group's published Annual Report and Accounts for the year ended 31 March 2020. The Annual Report and Accounts are published on the Group's website, 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 (serious injury); major public health incident in the event of a sustained problem with drinking water quality; climate change impacts and increasing pressure on our assets resulting in a major supply failure; loss of key talent, capability and competence (including skills shortage); cyber security and information technology risk; macroeconomic risk and access to funding; COVID-19 and Brexit impacts, and failure to earn the trust and confidence of our customers and other key stakeholders.

Emerging risks which could affect the Group's ability to achieve its 2020-25 business plan or longer-term strategic goals are also closely monitored. The current such risks identified include occupational health issues; public health (micropollutants in drinking water); and public concern about environmental issues. These emerging risks are also discussed in the 2019-2020 Annual Report and Accounts of Glas Cymru on page 77.

Significant disputes with the potential to impact the company

Claims under the Environmental Information Regulations 2004 (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 allegedly 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, settlement is not deemed probable and so no provision has been recognised.

Infraction proceedings in relation to the Loughor Estuary:

In March 2014, the UK Government was informed of an impending infraction case alleging breaches of the Urban Wastewater Treatment Directive around the UK, including areas of the Loughor Estuary, Gowerton and Llanelli catchments. There is an ongoing programme of investment in the area, in particular with regard to sustainable urban drainage systems, which was welcomed by the European Commission. Despite this ongoing investment, in May 2017, the Court of Justice of the European Union issued its judgment in the proceedings against the UK in respect of multiple sites, including Llanelli and Gowerton, which found that the UK had failed to comply with the Directive by the required date of September 2014. The programme of investment is currently scheduled to be completed by the end of this financial year. We are not aware of any further action having been taken by the European Commission.

Going concern

The financial statements have been prepared on the going concern basis as the Directors have a reasonable expectation that the Group and parent company have 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 Group in the form of cash and committed bank facilities as well as consideration of the Group's capital adequacy, along with a baseline plan which reflects a view of the estimated impact of the COVID-19 pandemic on the Group.

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 £19 million reduction in non-household revenues of £172 million (11%, demand-driven) and £10 million of reductions in other revenues e.g. from construction activity (25%) – a net reduction of £29 million (however under regulatory mechanisms lost revenues are recoverable in future years).

This baseline plan has then been subject to a furthermore 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 Group's cost base are greater pressure on bad debts (circa £9 million 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. However, even 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 Group's ability to continue as a going concern.

By order of the Board

Nicola Williams
Company Secretary
5 November 2020

Consolidated interim income statement

	Note	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*	**385.8**	397.8	779.2
Operating costs				
- Operational expenditure		**(153.6)**	(158.7)	(325.9)
- Exceptional item	*3*	**(16.8)**	-	(10.5)
- Infrastructure renewals expenditure		**(47.1)**	(45.3)	(96.5)
- Depreciation and amortisation		**(167.8)**	(154.9)	(315.8)
Operating profit		**0.5**	38.9	30.5
Financial expenses				
- Financial income	*4*	**2.7**	3.2	6.2
- Financial expenses	*4*	**(69.6)**	(69.5)	(164.3)
- Fair value losses on derivative financial instruments	*4*	**(68.4)**	(91.9)	(48.3)
		(135.3)	(158.2)	(206.4)
Loss before taxation		**(134.8)**	(119.3)	(175.9)
Taxation	*5*	**25.1**	19.9	7.1
Loss for the period		**(109.7)**	(99.4)	(168.8)

Underlying loss				
Loss before taxation per income statement		**(134.8)**	(119.3)	(175.9)
Adjustment for:				
- Fair value losses on derivative financial instruments	*4*	**68.4**	91.9	48.3
Underlying loss for the period		**(66.4)**	(27.4)	(127.6)

The notes on pages 16 to 23 are an integral part of these condensed consolidated interim financial statements.

Consolidated interim statement of comprehensive income

	Note	Six months ended 30 September 2020 (unaudited) £m	Six months ended 30 September 2019 (unaudited) £m	Year ended 31 March 2020 (audited) £m
Loss for the period		**(109.7)**	(99.4)	(168.8)
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		**(122.6)**	(54.6)	(89.6)

The notes on pages 16 to 23 are an integral part of these condensed consolidated interim financial statements.

Consolidated interim balance sheet

	Note	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*	**5,791.3**	5,656.1	5,762.3
Intangible assets		**195.4**	181.5	192.2
Trade and other receivables	*8*	**0.8**	0.9	0.8
Other financial assets: derivative financial instruments		**2.8**	5.1	0.2
		5,990.3	5,843.6	5,955.5
Current assets				
Inventories		**4.0**	3.8	4.0
Trade and other receivables	*8*	**394.6**	415.9	576.5
Cash and cash equivalents		**592.7**	298.2	667.4
Other financial assets: derivative financial instruments		**40.3**	6.7	36.2
		1,031.6	724.6	1,284.1
Total assets		**7,021.9**	6,568.2	7,239.6
Liabilities				
Current liabilities				
Trade and other payables	*9*	**(350.6)**	(373.7)	(562.7)
Provisions		**(6.4)**	(2.3)	(6.4)
Other financial liabilities:				
- borrowings		**(421.8)**	(92.1)	(412.8)
- derivative financial instruments		**(25.5)**	(27.9)	(28.3)
		(804.3)	(496.0)	(1,010.2)
Net current assets		**227.3**	228.6	273.9
Non-current liabilities				
Trade and other payables	*9*	**(326.8)**	(281.3)	(314.4)
Employee benefits		**(143.6)**	(124.1)	(87.4)
Provisions		**(5.7)**	(2.9)	(7.9)
Other financial liabilities:				
- borrowings		**(3,700.9)**	(3,553.3)	(3,706.1)
- derivative financial instruments		**(560.5)**	(502.0)	(482.7)
Deferred tax (net)		**(458.7)**	(429.6)	(486.9)
		(5196.2)	(4,893.2)	(5,085.4)
Total liabilities		**(6,000.5)**	(5,389.2)	(6,095.6)
Net assets		**1,021.4**	1,179.0	1,144.0
Reserves		**1,021.4**	1,179.0	1,144.0

The condensed consolidated interim financial statements on pages 11 to 23 were approved by the Board of Directors on 5 November 2020 and were signed on its behalf by:

Peter Perry
Chief Executive Officer

Mike Davis
Chief Financial Officer

Consolidated interim statement of changes in reserves

	Note	Six months ended 30 September 2020 (unaudited) Revaluation reserve £m	Six months ended 30 September 2020 (unaudited) Retained earnings £m	**Six months ended 30 September 2020 (unaudited) Total £m**	**Six months ended 30 September 2019 (unaudited) Total £m**	**Year ended 31 March 2020 (audited) Total £m**
Reserves at start of period		1,203.7	(59.7)	**1,144.0**	1,233.6	1,233.6
Loss for the period		-	(109.7)	**(109.7)**	(99.4)	(168.8)
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	*6*	(34.5)	34.5	**-**	-	-
Reserves at end of period		1,202.1	(180.7)	**1,021.4**	1,179.0	1,144.0

The notes on pages 16 to 23 are an integral part of these condensed consolidated interim financial statements.

Consolidated 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 flow from operating activities			
Loss for the period	**(109.7)**	(99.4)	(168.8)
Adjustments for			
- Depreciation and amortisation	**167.8**	154.9	315.8
- Net finance cost	**135.3**	158.2	206.4
- Net tax credit	**(25.1)**	(19.9)	(7.1)
Changes in working capital			
- Decrease/(increase) in trade and other receivables	**179.4**	155.7	(1.9)
- (Decrease)/increase in trade and other payables	**(202.4)**	(176.8)	0.5
- Pension contributions above service cost	**-**	(2.3)	(11.9)
- (Decrease)/increase in provisions	**(3.9)**	(1.4)	7.7
Cash generated from operating activities	**141.4**	169.0	340.7
Interest paid	**(32.5)**	(32.9)	(136.7)
Income tax received	**2.5**	2.2	2.1
Net cash flow from operating activities	**111.4**	138.3	206.1
Cash flow from investing activities			
Interest received	**2.9**	3.2	6.1
Purchase of property, plant and equipment	**(138.3)**	(175.5)	(337.0)
Purchase of intangible assets	**(16.9)**	(16.1)	(46.1)
Proceeds from sale of 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	**(146.2)**	(177.7)	(351.8)
Net cash flow before financing activities	**(34.8)**	(39.4)	(145.7)
Cash flow from financing activities			
Repayment of borrowings	**-**	(135.2)	(139.3)
Bond issue	**-**	-	500.0
Bond issue costs	**-**	-	(7.2)
Term loan repayments	**(27.0)**	(17.2)	(29.1)
Payment of lease liabilities	**(12.8)**	(11.1)	(12.3)
Other loan repayments	**(0.1)**	-	(0.1)
Net cash flow from financing activities	**(39.9)**	(163.5)	312.0
Net (decrease)/increase in cash and cash equivalents	**(74.7)**	(202.9)	166.3
Cash and cash equivalents at start of period	**667.4**	501.1	501.1
Cash and cash equivalents at end of period	**592.7**	298.2	667.4

The notes on pages 16 to 23 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 2020 comprise the Company and its subsidiaries (together referred to as the Group). The Group's principal activity is the operation of a water and sewerage services 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 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 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 the published Annual Report and Accounts for the year ended 31 March 2020.

The Annual Report and Accounts are published on the Group's website 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 2020 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 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 consolidated 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, parent company's investment in subsidiaries, 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 the expected total annual earnings. The Group 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 Group and parent company have 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 Group in the form of cash and committed bank facilities as well as consideration of the Group's capital adequacy, along with a baseline plan which reflects a view of the estimated impact of the COVID-19 pandemic on the Group.

1. Basis of preparation (continued)

Going concern (continued)

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 Group'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 Group's ability to continue as a going concern.

2. Segmental information

The Directors consider that there is only one operating segment, being the operation of water and sewerage business (and peripheral commercial activities) 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. Whilst the Group 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)	**2.9**	4.4	7.1
Total revenue	**385.8**	397.8	779.2

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; these principally comprise organic energy generation and certain other activities which are peripheral and/or complementary to the Group's core water and sewerage business.

Notes to the condensed consolidated interim financial statements

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

a) Financial expenses before fair value adjustments

	Six months ended 30 September 2020 (unaudited) £m	Six months ended 30 September 2019 (unaudited) £m	Year ended 31 March 2020 (audited) £m
Financial income	**2.7**	3.2	6.2
Financial expenses			
Interest payable on bonds	**(54.2)**	(48.3)	(93.5)
Indexation on index-linked bonds	**(4.0)**	(8.2)	(36.3)
Indexation on index-linked loan	**(1.8)**	(4.6)	(6.1)
Interest payable on leases (including swaps to RPI)	**(4.7)**	(4.2)	(17.4)
Other loan interest	**(8.0)**	(7.3)	(17.6)
Other interest payable and finance costs	**(3.4)**	(3.2)	(5.6)
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
	(69.6)	(69.5)	(164.3)
Net finance cost before fair value adjustments	**(66.9)**	(66.3)	(158.1)

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 on index-linked swaps	**(65.6)**	(83.3)	(20.9)
Fair value gains/(losses) on trading derivatives	**8.6**	4.0	(5.8)
Total fair value losses on derivative financial instruments	**(68.4)**	(91.9)	(48.3)

Notes to the condensed consolidated interim financial statements

4. Financial expenses (continued)

b) Fair value losses on derivative financial instruments (continued)

Derivative financial instruments are held for economic hedging purposes although they do not qualify as accounting hedges. Consequently, the Group's interest rate and index-linked swaps are fair valued at each balance sheet date with the net loss or gain 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. As at 30 September 2020 the notional value of the interest rate swap was £192m (March 2020: £192m) and the notional value of the index-linked swaps was £1,435m (March 2020: £1,435m).

5. Taxation

	Six months ended 30 September 2020 (unaudited) £m	Six months ended 30 September 2019 (unaudited) £m	Year ended 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	-	-	1.4
Total current tax	-	0.2	2.0

	Six months ended 30 September 2020 (unaudited) £m	Six months ended 30 September 2019 (unaudited) £m	Year ended 31 March 2020 (audited) £m
Deferred tax			
Origination and reversal of timing differences	**25.0**	19.7	29.9
Adjustment in respect of prior periods	**0.1**	-	(1.6)
Effect of tax rate change	**-**	-	(23.2)
Total deferred tax	**25.1**	19.7	5.1
Taxation	**25.1**	19.9	7.1

Analysis of amounts charged to the Statement of Comprehensive Income and Revaluation Reserve	Six months ended 30 September 2020 (unaudited) £m	Six months ended 30 September 2019 (unaudited) £m	Year ended 31 March 2020 (audited) £m
Defined benefit pension scheme	**(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	**(10.8)**	(4.7)	(0.2)
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	**7.7**	13.9	52.1

5. Taxation (continued)

Tax reconciliation	Six months ended 30 September 2020 (unaudited) £m	Six months ended 30 September 2019 (unaudited) £m	Year ended 31 March 2020 (audited) £m
Loss before taxation	**(134.8)**	(119.3)	(175.9)
Loss before taxation multiplied by the corporation tax in the UK of 19% (comparatives: 19%)	**25.6**	22.7	33.4
Effects of:			
Adjustments in respect of prior years	**0.1**	-	(0.1)
Other permanent differences	**(0.6)**	(0.5)	(0.9)
Effect of pension payment in excess of service charge	**-**	0.1	1.6
Effect of changing rate for deferred taxes from 17% to 19%	**-**	-	(23.2)
Difference in standard rate of corporation tax (19%) and rate used for deferred tax (17%)	**-**	(2.4)	(3.7)
	25.1	19.9	7.1

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 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 (audited) £m
Revaluation reserve at start of period	**1,203.7**	1,189.5	1,189.5
Revaluation of assets to RCV	**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	**1,202.1**	1,224.7	1,203.7

Notes to the condensed consolidated interim financial statements

7. Property, plant and equipment

	Freehold land and buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Valuation					
At 1 April 2020	43.1	2,632.4	4,578.6	276.8	7,530.9
Revaluation	-	-	-	-	-
Additions	(0.1)	49.3	95.2	1.8	146.2
Disposal	-	-	-	(0.3)	(0.3)
At 30 September 2020	**43.0**	**2,681.7**	**4,673.8**	**278.3**	**7,676.8**
Accumulated depreciation					
At 1 April 2020	23.0	1.9	1,472.8	270.9	1,768.6
Revaluation	-	(18.3)	(22.3)	-	(40.6)
Charge for the period	0.7	33.2	120.6	3.3	157.8
Released on disposal	-	-	-	(0.3)	(0.3)
At 30 September 2020	**23.7**	**16.8**	**1,571.1**	**273.9**	**1,885.5**
Net book value					
At 30 September 2020 (unaudited)	**19.3**	**2,664.9**	**3,102.7**	**4.4**	**5,791.3**
At 31 March 2020 (audited)	20.1	2,630.5	3,105.8	5.9	5,762.3
At 30 September 2020 (unaudited) - historic cost basis	***19.3***	***1,934.5***	***2,350.9***	***4.4***	***4,309.1***

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 £366m. While only a portion of this amount has been formally contracted for as at 30 September 2020, the Group is effectively committed to the total as part of its overall capital investment programme.

8. Trade and other receivables

	30 September 2020 (unaudited) £m	30 September 2019 (unaudited) £m	31 March 2020 (audited) £m
Current			
Trade receivables	**351.2**	370.5	558.4
Less provision for impairment of receivables	**(72.6)**	(74.5)	(81.8)
Trade receivables - net	**278.6**	296.0	476.6
Prepayments and accrued income	**100.5**	104.2	86.9
Other receivables	**15.5**	15.7	13.0
	394.6	415.9	576.5
Non-current			
Other receivables	**0.8**	0.9	0.8
Total trade and other receivables	**395.4**	416.8	577.3

Notes to the condensed consolidated interim financial statements

9. Trade and other payables

	30 September 2020 (unaudited) £m	30 September 2019 (unaudited) £m	31 March 2020 (audited) £m
Current			
Trade payables	**40.9**	42.8	52.4
Capital payables	**36.8**	36.9	46.3
Other taxation and social security	**6.0**	5.0	5.7
Accruals and deferred income	**266.9**	289.0	458.3
	350.6	373.7	562.7
Non-current			
Deferred income	**326.8**	281.3	314.4
Total trade and other payables	**677.4**	655.0	877.1

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 date may be analysed as:	30 September 2020 (unaudited) £m	30 September 2019 (unaudited) £m	31 March 2020 (audited) £m
Cash and cash equivalents	**592.7**	298.2	667.4
Debt due after one year	**(3,262.5)**	(3,097.5)	(3,272.2)
Debt due within one year	**(362.7)**	(42.6)	(374.1)
Lease liabilities	**(411.4)**	(425.2)	(424.1)
Accrued interest	**(86.1)**	(80.1)	(48.5)
	(4,122.7)	(3,645.4)	(4,118.9)
Net debt	**(3,530.0)**	(3,347.2)	(3,451.5)

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	**(3,451.5)**	(3,264.6)	(3,264.6)
Movement in net cash	**(74.7)**	(202.9)	166.3
Movement in debt arising from cash flows	**39.6**	163.5	(312.2)
Movement in net debt arising from cash flows	**(35.1)**	(39.4)	(145.9)
Movement in accrued interest	**(37.6)**	(29.1)	2.5
Indexation of index-linked debt	**(5.8)**	(12.8)	(42.4)
Other non-cash movements	**-**	(1.3)	(1.1)
Movement in net debt during the period	**(78.5)**	(82.6)	(186.9)
Net debt at end of period	**(3,530.0)**	(3,347.2)	(3,451.5)

Notes to the condensed consolidated interim financial statements

11. 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 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 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 (prices) or indirectly (derived from prices); and
- Level 3: inputs for the asset or liability not based on observable market data.

All of the Group's treasury derivatives are categorised at Level 2. In accordance with IFRS 13 an adjustment factor has been applied to the swaps based on industry standard practice to take into account credit risk. Trading derivatives relating to power price hedges are categorised as Level 2 where marked to market valuation 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. As at 30 September 2020, there fair values of derivatives were as follows:

Level 2

- assets: trading derivatives £1.2m, treasury derivatives £36.2m (March 2020: trading derivatives £0.1m, treasury derivatives £36.1m).

- liabilities: trading derivatives £nil, treasury derivatives £586.0m (March 2020: trading derivatives £1.2m, treasury derivatives £508.9m).

Level 3

- assets: trading derivatives £5.7m (March 2020: trading derivatives £0.2m).

- liabilities: trading derivatives £nil (March 2020: trading derivatives £0.9m).

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 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 of the counterparties.

Level 3 debt instrument 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 2004 (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 allegedly 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, settlement is not deemed probable and so no provision has been recognised.

Independent review report to Glas Cymru Holdings Cyfyngedig for the six month period ended 30 September 2020

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 2020 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 2020 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

11 November 2020

Appendix – definitions

Performance commitment	Definition
Water quality compliance (CRI)	A CRI score is calculated for every individual compliance failure at water supply zones, supply points and treatment works, and service reservoirs. The annual CRI for a company, for any given calendar year, is the sum of the individual CRI scores for every compliance failure reported during the year (see the DWI Compliance Risk Index guidance for further detail on the full calculations).
Water Supply Interruptions	The average number of minutes that customers are without water within our supply area (includes both planned and unplanned interruptions). It is calculated as the average number of minutes lost per customer for the whole customer base for interruptions that lasted three hours or more.
Mains Repairs	This measure includes all physical repair work to mains from which water is lost. It is reported as the number of mains repairs per thousand kilometres of the entire water main network (excluding communication and supply pipes).
Unplanned outage %	This measure is a means of assessing asset health (primarily for non-infrastructure – above ground assets), for water abstraction and water treatment activities. It is defined as the annualised unavailable flow, based on the peak week production capacity. This measure is proportionate to both the frequency of asset failure as well as the criticality and scale of the assets that are causing an outage.
Treatment works compliance %	For each water and 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 Natural Resources Wales. The measure is the % compliance against the discharge permits.
Pollution incidents (Per 10,000km of sewer)	To meet this measure we aim to reduce the number of pollution incidents (caused by blockages or collapsed sewers). Pollution incidents are categorised as category 1, 2 or 3 incidents and reported by Natural Resources Wales and the Environment Agency. Category 1 - 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.
Leakage (% reduction) – 3 year average	This measure requires us to reduce our leakage levels –the percentage reduction of 3 year average leakage in megalitres per day (Ml/d) from the 2019-20 starting baseline.
Per Capita Consumption (% reduction) – 3 year average	This measure requires us to reduce per capita consumption (PCC). Annual average PCC is defined as the sum of measured household consumption and unmeasured household consumption divided by the total household population. This measure is reported as a % reduction of our 3 year average PCC.
C-MeX	C-MeX is a customer measure of experience and customer satisfaction. It is comprised of two survey elements: 1. Customer Experience Survey – a customer satisfaction survey amongst a random sample of the water company's customers; and 2. Customer Service Survey – a customer satisfaction survey amongst a random sample of those customers who have contacted their water company. The scores of each of the two surveys are weighted equally to produce the combined C-MeX measure.

Appendix - definitions

D-MeX	D-MeX is a measure of customer satisfaction for Developer Services. A D-MeX score is calculated from two components that contribute equally: • qualitative D-MeX score, based on the ratings provided by developer services customers who transacted with the company throughout the reporting year to a customer satisfaction survey; and • quantitative D-MeX score, based on the company's performance against a set of selected Water UK performance metrics throughout the reporting year.
Internal sewer flooding (per 10,000 sewer connections)	The measure is calculated as the number of internal sewer flooding incidents normalised per 10,000 sewer connections including sewer flooding due to severe weather events.
Sewer collapses (Per 1,000 km of sewers)	A sewer collapse is where a structural failure has occurred to the pipe that results in a service impact to a customer or the environment and where action is taken to replace or repair the pipe to reinstate normal service. This is reported as the number of sewer collapses per 1000 kilometres of all sewers causing an impact on service to customers or the environment.
Priority Services for Customer in Vulnerable Circumstance	Priority Services register (PSR) - We provide special assistance to those customers in vulnerable circumstances who are registered on our PSR. This measure reports on the number of households on the company's PSR as a proportion of all households in the company's region.
Risk of severe restrictions in a drought %	The overall metric is the percentage of the customer population at risk of experiencing severe restrictions in a 1-in-200 year drought, on average, over 25 years.
Risk of sewer flooding in a storm %	This measure will record the percentage of the region's population at risk from internal hydraulic sewer flooding from a 1-in-50 year storm, based on modelled predictions.