Glas Cymru Holdings Cyf

Interim report and accounts

for the six months ended 30 September 2022

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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 principal trading 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

As a company without shareholders, run for the benefit of our customers, our single focus is to provide the best possible customer service, at an affordable cost. The first six months of our financial year 2022/23 has been challenging both in the context of the wider volatile economic climate and the maintenance of drinking water supplies during one of the longest driest and hottest periods on record. During this period, we have also continued to work with communities and stakeholders to ensure we respond appropriately to increased interest in, and scrutiny of, our environmental performance.

Operational Update
Providing a safe and reliable supply of water is the most vital aspect of our service to customers – never more so than during the last six months.

As a company, we normally treat and supply around 850 mega litres of drinking water a day (Ml/d) but demand often exceeded 1,000 Ml/d during the summer months of 2022. Maintaining supply to customers in light of this increased demand involved a considerable effort from colleagues, with sites operating 24/7 and over 40 tankers being used to move water around the network. We significantly increased our resource dedicated to identifying and fixing leaks as additional pressure was placed on parts of our water distribution network, not only due to record customer demand but also the need to support the Fire and Rescue Service as they dealt with a series of major wildfires in some parts of our supply area, especially during the heatwave in July.

We monitored our water resource levels closely throughout this period in line with our statutory Drought Plan. This sets out how we will deal with drought conditions within both the urban and rural parts of our supply area, and how we will monitor the effect of any actions that we take on the natural environment. When we started to become concerned about four of our water resource zones (from a total of 24), the Welsh Government's Drought Liaison Group was mobilised in July to bring together key environmental, public health, local authority and farming stakeholders to keep everyone abreast of developments. This meant that stakeholders were fully informed of the issues when we took the decision to introduce a Temporary Use Ban (otherwise known as a 'hosepipe ban') in Pembrokeshire and some adjoining parts of Carmarthenshire in August – the first such restrictions since 1989. Shortly after the introduction of these restrictions, Natural Resources Wales also declared that the whole of Wales was in 'environmental drought' status.

This was not a decision we took lightly but it was absolutely necessary to help us maintain water resource levels in the area and to protect two special Area of Conservation rivers. We worked with stakeholders to undertake an extensive and multi-faceted communication campaign to raise awareness of the restrictions and the low number of queries and complaints received is testament to the fact that most customers understood the need for these temporary measures. They applied to 4% of the three million population we serve in Wales and remained in place until 25 October and I would like to put on record our thanks to the Welsh Government and our other stakeholders as well as customers for their support during this period. It should be noted that we are still watching some of our water resource zones closely as lower than average long-term rainfall over recent months has hampered some of our key reservoirs from refilling as they normally would during the wetter autumn months. These reservoirs remain 'on watch' as we look to protect our supplies going into 2023. The prolonged dry and hot conditions we experienced over the summer months are a stark reminder of the challenges we face as a result of the impacts of climate change.

Protecting our environment
We understand the concerns of customers and stakeholders about protecting the environment and are entirely cognisant of the need to prevent untreated wastewater from entering watercourses. Rivers in Wales are generally in a better condition than much of England, with 44% of our rivers achieving good ecological status under the Water Framework Directive compared to 14% in England. However, 44% is not high enough, and we were pleased to join the First Minister's nutrient summit in July, to continue to play a key role in the Welsh Government's Better River Water Quality Taskforce to scope how we can all work together to play our part in further improving our rivers. This was a key focus for us during the hot weather over summer as the low river levels meant that we used tankers around the clock to lower peak sewerage loads on our treatment works: if we had not done this, we would have seen the potential for an increase in pollution incidents. We also have excellent bathing water quality around our coast line with over 30% of Great Britain's Blue Flags for just 15% of the total coastline and we are committed to doing what we can to maintain this.

To play our part in protecting river water quality, we are proposing to invest an extra £100 million to reduce phosphate discharges from our wastewater treatment works and to reduce the impact of Combined Storm Overflows (CSOs). River pollution from sewage works is only one contributory factor to pollution, the sources of which include industrial, urban and agricultural run-off together with private septic tanks. As the First Minister said in July, improving river quality will therefore require a joint working approach, and we are already working with third parties , and other sectors such as agriculture and local authorities to achieve the maximum level of river quality improvement. On the river Wye for example, we are working with the Wye & Usk Foundation and Hereford Council to support additional phosphorus removal using natural treatment such as low carbon wetland systems which will also enhance local biodiversity.

Chief Executive's statement (continued)

Such collaborative approaches have underpinned the development of our new Drainage and Wastewater Management Plan (DWMP) which will help ensure Wales has a drainage system to meet the growing challenges of adapting to climate change, supporting economic development, and dealing with "urban creep". Designing and investing in a drainage and wastewater system fit for the future is a challenge of significant scale and in order to inform this process we consulted customers and stakeholders over the summer and plan to publish our final DWMP in March 2023.

As I stated at the outset, we exist to serve our customers above anything else and I am therefore proud that in July we were the top-rated water company in Wales and England - and among the best in the utilities sector overall - in the latest update of the Institute of Customer Service's Satisfaction Index (UKCSI). We were also among the sector's best performers in the Consumer Council for Water's annual research for all the key measures of customer satisfaction, value for money and customer trust. We are a customer-focused company, and our non-shareholder model enables us to continue returning any financial surplus generated to benefit customers by reinvesting in the business for further performance improvements or risk reduction, or by returning the value directly to customers through our social tariffs. This amounted to £129 million between 2015 and 2020 and is likely be around £124 million during this current Asset Management Period – which is only achieved by our unique operating model for the water sector in England and Wales.

Future challenges

With over 1.3 million household customers across our supply area covering most of Wales and parts of England, some of our customers live in the most deprived communities in the UK and overall our customer base is amongst the poorest of any UK water company. Looking ahead, we are concerned that such communities are likely to be hit hardest by the current cost-of-living crisis. We are already supporting customers by building on the successful support provided to customers during Covid-19, and making available £55 million across the five years to 2025 to provide financial assistance to our customers. We are pleased that, in total, 144,000 of our customers now benefit from our financial assistance schemes - a larger number, proportionate to the company's size, than any other water company in England and Wales. We are earmarking over £12 million in 2022/23 to support our vulnerable customers who are struggling with their water bills, and this is enabling us to support an additional 50,000 low-income households. We know that we cannot do this alone and this is why we are working with over 300 local organisations (including Citizen's Advice, Welsh Government's NEST scheme to support energy efficiency improvements, Job Centre Plus, housing associations and foodbanks) to help identify and support customers who may be eligible for a discounted bill. We recognise that our average household bill is still higher than the average bill in England and Wales, reflecting the legacy of investment post privatisation (funded by customers) into improving coastal waters – a legacy shared with other water companies with long coastlines- but this has played a key role in our operating area securing a third of Great Britain's Blue Flags despite only accounting for 15% of the coastline. Working with Citizen's Advice, we plan to pilot a new scheme in early 2023 to target additional households whose outgoings exceed their income and will evaluate its findings before any further rollout.

Developing our Business Plan for 2025-30 has been a key area of focus over the past 6 months, supported by the work of the PR24 Forum in Wales which has involved Welsh Government officials, regulators and other key stakeholders. Resilient financial structures are fundamental to enable us to raise capital in order to finance the investment that is necessary to deliver our obligations and commitments to customers now and into the long term. Our strategy since Glas Cymru acquired the business of Welsh Water in 2001 has been to reduce our gearing to levels that allow us to access the most efficient level of debt funding. Current high levels of financial reserves of £2.8 billion and relatively low gearing of 58.4% are enabling us to retain our robust credit quality.

The Glas Cymru Board's oversight of the company was further strengthened in September as we confirmed the appointment of a new Non-Executive Director, Lila Thompson. Ms Thompson is currently the Chief Executive of British Water which represents the interests of UK water and wastewater supply chain companies and has over 20 years of international experience in the infrastructure, healthcare and water industries. Her expertise and experience will add considerable value to the independent scrutiny of our business and our performance.

In summary, whilst the past 6 months have placed extreme demands on colleagues, they have again risen to the challenge with selfless dedication, and with a strong health, safety and wellbeing record continuing to demonstrate the importance that colleagues place on looking after themselves and one another. We have recently completed our first in-person 'Employee Roadshow' in three years which involves inviting colleagues to meet with members of the Executive team at a series of 18 town-hall events across our operating area. These were well-attended and offered a good opportunity to say 'Diolch' (thank you) to colleagues directly for their efforts in helping us navigate what has been nothing less than an extraordinary six months.

Peter Perry
Chief Executive, Welsh Water
10 November 2022

Performance overview

Financial overview

In the six months to 30 September 2022:

- our revenue increased by 7% to £428 million (2021: £401 million), principally reflecting price increases and customer growth over the past 12 months.

- operating expenditure which includes other operating income (excluding infrastructure renewals expenditure, and depreciation) has increased by 14% to £188 million (2021: £165 million), reflecting the impact of increased chemical and energy prices together with the increased operational costs as a result of the dry weather experienced in the summer.

- infrastructure renewal expenditure (maintenance spend on our below ground network) has increased by £6 million reflecting increased activity to reduce leakage across our distribution network.

- operating profit has decreased by 17% to £33 million (2021: £40 million), reflecting the revenue, operating expenditure and infrastructure renewal expenditure movements noted above as well as a £4 million increase in the depreciation charge on our operational fixed assets.

- net interest payable in the period (excluding fair value movements on derivatives) has increased by £60 million to £127 million (2021: £67million) due to the impact of higher RPI inflation on our index linked debt.

- net capital investment totalled £167 million (2021: £153 million) and is in line to achieve our £1.9 billion AMP7 (2020 to 2025) investment programme to ensure improvements to customer service and the environment.

- the underlying loss (excluding fair value movements) for the period was £93 million (2021: £27 million) reflecting the movements summarised above.

- the fair value liability of the company's interest rate and energy price swaps has decreased by £286 million to £309 million compared to March 2022 (£595 million). This change 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 profit before tax of £137 million (2021: loss of £158 million).

- at 30 September 2022, Glas Cymru had cash, short-term deposits and undrawn syndicated bank facilities of £700 million (2021: £724 million), giving the Group a high level of financial liquidity.

- our gearing has increased to 58.4% since March 2022 (57.8%) and remains in line with the target level set by the Glas Cymru Board of around 60%.

- our credit ratings continue to be amongst the highest in the sector at A-/A3/A for senior Class B debt from Standard and Poor's, Moody's and Fitch respectively. S&P moved the outlook to negative on 1 November 2022, with the outlook from Moody's and Fitch remaining as stable. The ratings reflect the Group's strong creditworthiness and robust financial position. S&P cited the impact of inflation on the Group's inflation-linked debt portfolio and on the high level of capital expenditure as the reasons for the change, and stated that they expect the ratios to gradually recover by the end of AMP7.

- the Group's performance on environmental, social and governance (ESG) issues has been reviewed by Sustainable Fitch. Sustainable Fitch has concluded that the Group 'evidences a good ESG profile' with a score of 2 (where 1 = 'excellent', 5 = 'poor'). The full report from Sustainable Fitch can be found on the Group's Investors website.

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.

- The temporary use restrictions (or 'hosepipe ban') introduced in Pembrokeshire and parts of Carmarthenshire applied to only 4% of our entire customer base – despite us experiencing the driest year since 1976, record high temperatures and an increased demand for water as a result.

- Overall compliance with the Drinking Water Inspectorate Compliance Risk Index (CRI) has improved over the past six months at 4.12 (2021: 4.913) with a continued reduction in failures from our treatment works and service reservoirs but is higher than planned. This is largely due to a number of regulatory iron failures in our network and a failure at one of our treatment works at Pontsticill (near Merthyr Tydfil). Improving this performance is a key area of focus for the company.

- We have been working to reduce the number of occasions customers contact us about the appearance, taste or odour of drinking water. We have improved our performance for the first half of the year, having received 1.78 contacts per 1,000 customers (2021: 1.93) but there remains more to be done as this remains an area we remain off the pace in comparison to the rest of the industry.

- Our performance for the average number of minutes that a customer has their supply interrupted, is currently 8.1 minutes against our target of 4.8 minutes and has been impacted by two large diameter pipeline bursts in Newport and Penarth over the summer months.

- We are progressing our plans to build a new £500 million water treatment works to replace the three existing treatment works in South-East Wales to help improve the resilience of our water supplies.

(2) Safeguard our environment for future generations

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

- Overall treatment works compliance has improved compared to last year and remains over the past 6 months in line with our 2022-23 Business Plan commitment at 99.16%.

- It has been a difficult summer with regard to pollution. With the hot, dry summer, river levels have been at record lows and any escape of sewage has a greater environmental impact. Blockages and breakdowns do occur and our performance with regard to pollutions is behind target with 74 pollution incidents against a target of 61 up to the end of September.

- We are accelerating our investment to improve river water quality, and this includes completing the source apportionment modelling work on the 5 failing Special Areas of Conservation (SAC) rivers in Wales while also starting work on delivering phosphorous treatment schemes at an extra 8 wastewater treatment works, on top of the 14 schemes we had already planned between 2020 and 2025. These have been funded by an extra £100 million of investment and will deliver material improvements to the rivers Wye, Usk, Teifi, Cleddau and Dee. Flows are now going through our first integrated wetland on the river Lugg, developed jointly with Herefordshire Council and the Wye and Usk Foundation, the first of 5 planned wetlands to use nature based solutions to tackle phosphorus pollution.

- We are accelerating our investment to improve river water quality, in particular reducing the impact on river quality of Combined Storm Overflows which play a vital role in preventing homes being flooded following rain and storms because most of our network is a combined system that collects surface as well as wastewater. The operation of our CSOs – which mainly release surface water that enters our sewers due to rainfall – is highly regulated. Our investment in recent years has played a part in helping reduce the number of recorded spills by 10% in 2021 and so far, this year we have installed monitors on an additional 198 CSOs.

- We already have one of the widest coverage of monitors on our storm overflows, with over 99% covered and we have made the data available on our website since 2016. We aim to make this data available in real time in 2024.

- We currently generate 21% of our own energy needs through wind, hydro, solar and advanced anaerobic digestion (AAD) with the rest procured from 100% renewable energy resources. We plan to be 35% energy self-sufficient by 2025 and 100% energy self-sufficient - or energy neutral - by 2050.

(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.

- We strive to maintain excellent customer service under Ofwat's C-MeX customer satisfaction measures. After the results for Quarter 1 and Quarter 2 of 2022/23, we are in 4th position (out of 17 water companies) for C-MeX but 3rd amongst combined water and sewerage companies.

Performance overview (continued)

- We continue to focus on improving our D-MeX performance (measuring the service we provide to developer services customers). We secured our best score ever of 85.48% in Q1 2022/23 but remain in 10th position (11th position for Q1 2020/21).

- We are delivering an award-winning bespoke campaign, 'Here For You', to help raise awareness and increase the number of households benefiting from social tariffs. The number of customers now receiving support to help pay their water bills via our financial assistance schemes is at its highest number ever – 144,032.

(4) Putting things right if they go wrong

We know that we don't always get everything right for our customers first time. We have continued to focus on reducing sewer flooding, which is one of the worst service failures our customers can experience. Our Let's Stop the Block campaign is aimed at changing customer behaviour to avoid flooding incidents, both inside customers' houses and outside their property boundaries.

- We have improved our flooding performance significantly and have achieved our best ever results in the year to date on the internal measure of sewer flooding incidents at 0.39 (2021: 0.72) per 10,000 sewer connections and also in the number of external sewer flooding incidents at 2.90 (2021: 3.62) per 10,000 sewer connections.

(5) Fair bills for everyone

We know that our customers want services that provide value for money and are fair and affordable and we have worked to minimise increases in household bills in 2022/23.

- Since April, most of our household customers have seen an increase in their typical water and wastewater bills of between 3.8% and 6.6%. This increase has been due to the significant increase in the rate of inflation, in particular the rising costs of power, chemicals and the materials needed to produce drinking water and treat wastewater.

- The "average household bill" increased by only 0.1% last April - however, this figure includes social tariffs which are heavily discounted and therefore the amount of the "average" bill increase is unrepresentative of the typical increase most customers will see.

(6) Create a better future for all our communities

To deliver real value for customers and communities, we are at our best and most innovative when we combine our people and ideas with those of others. We have continued to pursue a range of partnerships over the past 6 months.

- Despite some continued restrictions on large gatherings within school halls during the early stages of the reporting year, we have scaled up our education programme delivery significantly compared to the previous year. The current year-to-date figure, approaching the October half-term, is nearly 23,000 – which has been achieved through nearly 200 school visits. Based on current demand and level of engagement from schools, we aim to meet our end of year-end target of 73,000. Partnership working, and elements of digital provision continue to be a key part of our strategy, ensuring that future generations receive the greatest benefit from, and access to, our education support.

- The focus of the Water Resilient Communities project has shifted to areas of West Newport. This place-based project, which targets some of Wales' most deprived communities using a highly collaborative approach, seeks to add value to what we do. Activities have, to date, included the despatch of free water saving devices, customer appointments to fix toilet leaks, events to support customers who may be struggling with their bill, on the spot face-to-face support for customers in arrears, proactive sewer investigations and curriculum-led education sessions. We have discussed with external partners ways of maximising community benefit from our intervention within the project area.

(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 uses two 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 Ofwat target for both of these measures.

(8) Developing our people

We need to maintain an informed, engaged and safe workforce to help us deliver the best possible service to customers.

- After the impact of Covid-19, our health and safety training courses are now back to full capacity. A couple of courses are still being delivered via video conference rather than in person, as it works well and feedback and outcomes have been positive. The other courses are face to face in the classroom. 87% of our colleagues are trained to be fully competent for their role (2021/22 end of year figure: 88%), the remaining 13% of colleagues not defined as "fully competent" largely reflects new starters who are beginning development into their roles, and those refreshing their skills.

- Our last annual Employee Engagement Survey received an 85% completion return and a 69% overall engagement score.

- We are continuing our "Journey to Zero" for RIDDOR Injuries (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations). This year to date (end of September 2022) we have had 1 RIDDOR injury (compared to 6 to September 2021) and our Water Services have not recorded a RIDDOR injury in the last 7 years.

Common performance commitments

The table shows our performance for the six months ended 30 September 2022 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 Board differ to the Final Determination target set by Ofwat. The Board has independently set stretching but achievable targets that are based on sector benchmarks.

Common Performance Commitments	Actual performance 6 months to 30/09/22	Actual vs profiled target Tracker	Actual Performance 6 months to 30/09/21	Target Performance 6 months to 30/09/22
Water quality compliance (CRI) **C**	4.12	X	4.91	2.10
Water Supply Interruptions (minutes : seconds)	08.05	X	9:55	04:48
Mains Repairs (per 1000km of water network)	79.4	X	62.6	65.4
Unplanned outage %	0.30	√	0.39	1.00
Treatment works compliance % **C**	99.16	√	99.16	99.16†
Pollution incidents (Per 10,000km of sewer) **C**	25.38	X	21.79	18.21
Leakage (% reduction in 3 year average)[1]	6.6	X	6.0	8.8†
Per Capita Consumption (% reduction in 3 year average) [1]	-11.7	X	-10.4	-7.9†
Internal sewer flooding (per 10,000 sewers connections)	0.39	√	0.72	0.79
Sewer collapses (per 1,000 km of sewers)	2.90	√	3.62	3.27
C-MeX	4th	X	3rd	Top 3
D-MeX	measured annually	n/a	measured annually	9th
Priority Services for Customer in Vulnerable Circumstances Reach %	9.1	√	6.2	7.8
Risk of severe restrictions in a drought %	measured annually	n/a	measured annually	4.5
Risk of sewer flooding in a storm %	measured annually	n/a	measured annually	25.05

C = measured from the start of the calendar year (January to September 2022). All other commitments are measured from the start of the financial year (April to September 2022). A definition of each Performance Commitment can be found in the Appendix on page 27.

[1] These performance measures are currently under review- see page 10 for further details.

Statement of Directors' responsibilities and other matters

The Directors have voluntarily complied with the Disclosure and Transparency Rules. The Group, including Dŵr Cymru Cyfyngedig has, committed to publish information about its interim results as if it were 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 and approved by the Directors in accordance with the UK adopted international accounting standards.

- 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:

Alastair Lyons (Non-Executive Chair of the Board)
Pete Perry (Chief Executive Officer)
Mike Davis (Chief Financial Officer)
Graham Edwards (Senior Independent Director)
Debra Bowen Rees (Non-Executive Director)
Tom Crick (Non-Executive Director)
Jane Hanson (Non-Executive Director)
Joanne Kenrick (Non-Executive Director)
Lila Thompson (Non-Executive Director) (appointed 6 September 2022)

Principal risks and uncertainties

The principal risks and uncertainties affecting the Group for the six months to 30 September 2022 are materially unchanged from those presented on pages 68 to 75 of the Group's published Annual Report and Accounts for the year ended 31 March 2022. 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: public concerns about environmental issues; business continuity; climate change impacts and transition risks; health and safety major incident; information security, cyber risk and risk of IT system loss; performance and cost; loss of customer trust; loss of key talent, capability and competence; and macroeconomic risk that includes the cost of living crises and inflation and access to funding.

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 two emerging risks identified include; public health (micropollutants in drinking water and plastics in wastewater) and post-covid changes in working practices. These emerging risks are also discussed in the 2021/2022 Annual Report and Accounts of Glas Cymru on page 76.

Significant matters with the potential to impact the company

Claims under the Environmental Information Regulations 2004 (EIR):

The Group is defending five separate claims brought by groups comprising individuals and entities operating personal search businesses. The claims are for the repayment of charges received for drainage and water searches, and for injunctive relief, on the basis that these charges were allegedly levied contrary to the European Information Regulations ('EIR'). The latest notified collective claimed quantum of the five claims (before claims for interest) is £3.7 million and we are not anticipating any substantive change to the total sums claimed. The Court has ordered that the claims be progressed concurrently, with issues to be determined in stages. The claims are being actively defended.

Leakage and Per Capita Consumption

Leakage and Per Capita Consumption outcomes stated throughout the Annual Report & Accounts for 2022 were noted as provisional, as the Group had initiated a third party review of interpretation of Ofwat guidance on reporting methodology for these Performance Commitments. Once the conclusions of the review are available, we will review our published outcomes for 2020/21 and 2021/22 and our baseline data from 2017/18 used for setting targets. This review may result in the restatement of our AMP7 reported performance and consequently a possible change in previously reported Outcome Delivery Incentives. Pending the conclusion of the review we have not taken the benefit of any reward applicable to our performance in 2021/22.

Ofwat and Environment Agency - Investigation into sewage treatment works

In November 2021 Ofwat and the Environment Agency announced investigations into all water and wastewater companies in England and Wales, after several water companies explained that they might not be treating as much sewage at their wastewater treatment works as they should be, and that this could be resulting in sewage discharges into the environment at times when this should not be happening. Since March 2022 Ofwat has opened enforcement cases into six water companies (we are not one of the companies facing enforcement action). However, all water and wastewater companies in England and Wales, including Welsh Water, remain subject to the ongoing investigation as Ofwat and the Environment agency continue to review the information they have gathered. The Group is cooperating fully with the investigation.

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.

We are the custodian of a long-term business and long-term viability is built into every aspect of our risk management and business planning processes. We ensure the continued robustness of our risk management controls and financial forecasting through regular Board challenge of our risk identification and assessment and our forecasting assumptions. These processes are ongoing and have been designed to monitor inherent and existing risks and to capture emerging risks at the earliest level.

The Directors have considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, and the likely effectiveness of mitigating actions that the Directors would consider undertaking. The financial plan has been subjected to a number of severe but plausible downside scenarios in order to assess the group's ability to operate within existing covenants and facilities. These scenarios consider: the potential impacts of increased totex costs, including a significant one-off totex impact arising in the assessment period; low and high inflation environments; elevated levels of bad debt; outcome delivery incentive penalties; interest rate fluctuations affecting our financial derivatives and pension scheme; and the impact of these factors materialising on a combined basis. Mitigating actions were considered to include: deferral of capital expenditure; a reduction in other discretionary totex spend; early termination of expensive debt; and an extension of revolving credit facilities.

The Directors have also assessed the potential impacts resulting from the conflict in Ukraine with primary impacts linked to cost volatility associated with energy prices and high inflation, and secondary supply chain and chemical price impacts, none of which pose a significant concern to disclose in relation to the Group's ability to continue as a going concern. Reduced cash flows would impact on key financial metrics, in particular interest cover ratios. In the extreme downside scenario, gearing and interest covers retain headroom within the trigger levels specified in borrowing covenants; and whilst the reduced cash flows weaken our financial metrics, they remain within rating agencies' guidance for our current ratings.

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.

Statement of Directors' responsibilities and other matters (continued)

By order of the Board

Nicola Williams
Company Secretary
10 November 2022

Consolidated interim income statement

	Note	Six months ended 30 September 2022 (unaudited) £m	Six months ended 30 September 2021 (unaudited) £m	Year ended 31 March 2022 (audited) £m
Revenue	*2*	**428.2**	401.4	810.2
Operating costs				
- Operational expenditure		**(190.7)**	(164.8)	(348.6)
- Other operating income		**2.6**	-	6.0
- Exceptional item	*3*	**-**	-	3.8
- Infrastructure renewals expenditure		**(37.8)**	(31.8)	(61.8)
- Depreciation and amortisation		**(169.2)**	(164.9)	(328.3)
Operating profit		**33.1**	39.9	81.3
Financial expenses				
- Financial income	*4*	**5.1**	2.1	4.1
- Financial expenses	*4*	**(131.6)**	(68.7)	(187.1)
- Fair value gains/(losses) on derivative financial instruments	*4*	**286.2**	(97.0)	(113.5)
		159.7	(163.6)	(296.5)
Profit/(loss) before taxation		**192.8**	(123.7)	(215.2)
Taxation	*5*	**(55.4)**	(34.0)	(8.4)
Profit/(loss) for the period		**137.4**	(157.7)	(223.6)

Underlying loss				
Profit/ (loss) before taxation per income statement		**192.8**	(123.7)	**(215.2)**
Adjustment for:				
- Fair value (gains)/losses on derivative financial instruments	*4*	**(286.2)**	97.0	113.5
Underlying loss for the period		**(93.4)**	(26.7)	(101.7)

The notes on pages 17 to 24 are an integral part of these condensed consolidated interim financial statements.

Consolidated interim statement of comprehensive income

	Note	Six months ended 30 September 2022 (unaudited) £m	Six months ended 30 September 2021 (unaudited) £m	Year ended 31 March 2022 (audited) £m
Profit/(loss) for the period		**137.4**	(157.7)	(223.6)
Items that will not be reclassified to profit or loss:				
Actuarial gain/(loss) recognised in the pension scheme		**130.6**	(29.9)	10.5
Related deferred tax	*5*	**(32.6)**	12.7	2.7
Revaluation of property, plant and equipment	*6*	**349.7**	184.0	448.4
Related deferred tax	*5*	**(87.4)**	(129.0)	(192.3)
Total items that will not be reclassified to profit or loss		**360.3**	37.8	269.3
Total comprehensive income/(expense) for the period		**497.7**	(119.9)	45.7

The notes on pages 17 to 24 are an integral part of these condensed consolidated interim financial statements.

Consolidated interim balance sheet

	Note	At 30 September 2022 (unaudited) £m	At 30 September 2021 (unaudited) £m	At 31 March 2022 (audited) £m
Assets				
Non-current assets				
Property, plant and equipment	*7*	**6,634.1**	5,983.9	6,275.4
Intangible assets		**189.1**	207.3	203.6
Trade and other receivables	*8*	**0.7**	0.8	0.7
Employee benefits		**52.3**	-	
Other financial assets: derivative financial instruments		**313.8**	14.8	344.0
		7,190.0	6,206.8	6,823.7
Current assets				
Inventories		**4.8**	4.3	4.3
Trade and other receivables	*8*	**425.8**	402.3	594.0
Cash and cash equivalents		**499.8**	524.4	515.1
Other financial assets: derivative financial instruments		**98.6**	58.7	84.1
		1,029.0	989.7	1,197.5
Total assets		**8,219.0**	7,196.5	8,021.2
Liabilities				
Current liabilities				
Trade and other payables	*9*	**(435.7)**	(369.8)	(614.1)
Provisions		**(2.9)**	(8.2)	(2.8)
Other financial liabilities:				
- borrowings		**(97.7)**	(155.4)	(85.3)
- derivative financial instruments		**(59.1)**	(48.6)	(56.7)
		(595.4)	(582.0)	(758.9)
Net current assets		**433.6**	407.7	438.6
Non-current liabilities				
Trade and other payables	*9*	**(470.9)**	(418.1)	(447.2)
Employee benefits		**(2.1)**	(121.0)	(80.7)
Provisions		**(5.2)**	(6.8)	(5.7)
Other financial liabilities:				
- borrowings		**(4,029.0)**	(3,897.4)	(3,981.2)
- derivative financial instruments		**(661.9)**	(603.2)	(966.2)
Deferred tax (net)		**(843.8)**	(620.6)	(668.3)
		(6,012.9)	(5,667.1)	(6,149.3)
Total liabilities		**(6,608.3)**	(6,249.1)	(6,908.2)
Net assets		**1,610.7**	947.4	1,113.0
Reserves		**1,610.7**	947.4	1,113.0

The condensed consolidated interim financial statements on pages 12 to 24 were approved by the Board of Directors on 10 November 2022 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 2022 (unaudited) Revaluation reserve £m	Six months ended 30 September 2022 (unaudited) Retained earnings £m	**Six months ended 30 September 2022 (unaudited) Total £m**	**Six months ended 30 September 2021 (unaudited) Total £m**	**Year ended 31 March 2022 (audited) Total £m**
Reserves at start of period		1,339.7	(226.7)	**1,113.0**	1,067.3	1,067.3
Profit/(loss) for the period		-	137.4	**137.4**	(157.7)	(223.6)
Actuarial profit/(loss) net of tax		-	98.0	**98.0**	(17.2)	13.2
Revaluation net of tax	*6*	262.3	-	**262.3**	55.0	256.1
Transfer to retained earnings	*6*	(40.0)	40.0	**-**	-	-
Reserves at end of period		1,562.0	48.7	**1,610.7**	947.4	1,113.0

The notes on pages 17 to 24 are an integral part of these condensed consolidated interim financial statements.

Consolidated interim statement of cash flows

	Six months ended 30 September 2022 (unaudited) £m	Six months ended 30 September 2021 (unaudited) £m	Year ended 31 March 2022 (audited) £m
Cash flow from operating activities			
Profit/ (loss) for the period	**137.4**	(157.7)	(223.6)
Adjustments for			
- Depreciation and amortisation	**169.2**	164.9	328.3
- Net finance (income)/charge	**(159.7)**	163.6	296.5
- Net tax charge	**55.4**	34.0	8.4
Changes in working capital			
- Decrease/(increase) in trade and other receivables	**168.0**	167.2	(24.9)
- (Decrease)/increase in trade and other payables	**(171.6)**	(167.0)	51.7
- Decrease in provisions	**(0.4)**	(0.6)	(7.1)
Cash generated from operating activities	**198.3**	204.4	429.3
Interest paid	**(37.3)**	(33.5)	(116.6)
Income tax received	**0.5**	1.1	2.3
Net cash flow from operating activities	**161.5**	172.0	315.0
Cash flow from investing activities			
Interest received	**4.3**	2.1	4.0
Purchase of property, plant and equipment	**(152.3)**	(115.3)	(237.1)
Purchase of intangible assets	**(4.6)**	(20.8)	(37.3)
Proceeds from sale of plant and equipment	**0.2**	0.2	0.8
Grants and contributions received	**23.3**	11.3	23.1
Net cash flow from investing activities	**(129.1)**	(122.5)	(246.5)
Net cash flow before financing activities	**32.4**	49.5	68.5
Cash flow from financing activities			
Bond issue	-	300.0	300.0
Bond issue costs	-	(2.0)	(2.9)
Term loan repayments	**(31.0)**	(29.1)	(55.8)
Payment of lease liabilities	**(16.7)**	(14.9)	(15.6)
Net cash flow from financing activities	**(47.7)**	254.0	225.7
Net (decrease)/ increase in cash and cash equivalents	**(15.3)**	303.5	294.2
Cash and cash equivalents at start of period	**515.1**	220.9	220.9
Cash and cash equivalents at end of period	**499.8**	524.4	515.1

The notes on pages 17 to 24 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 2022 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 2022. 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 2022.

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 2022 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 2022. 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 provisions against trade debtors and the measured income accrual related to a deterioration in cash collection.

A further source of estimation uncertainty pertains to the inflation risk premium (IRP) which is used in the setting of the inflation rate assumptions for pension benefits has been set at 0.4% for the interim reports (March 22: 0.4%). This a significant area of judgment, with a 0.1% change expected to have an impact of increasing the obligation by circa £5m.

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.

Notes to the condensed consolidated interim financial statements

1. Basis of preparation (continued)

Going concern (continued)

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.

We are the custodian of a long-term business and long-term viability is built into every aspect of our risk management and business planning processes. We ensure the continued robustness of our risk management controls and financial forecasting through regular Board challenge of our risk identification and assessment and our forecasting assumptions. These processes are ongoing and have been designed to monitor inherent and existing risks and to capture emerging risks at the earliest level.

The Directors have considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, and the likely effectiveness of mitigating actions that the Directors would consider undertaking. The financial plan has been subjected to a number of severe but plausible downside scenarios in order to assess the group's ability to operate within existing covenants and facilities. These scenarios consider: the potential impacts of increased totex costs, including a significant one-off totex impact arising in the assessment period; low and high inflation environments; elevated levels of bad debt; outcome delivery incentive penalties; interest rate fluctuations affecting our financial derivatives and pension scheme; and the impact of these factors materialising on a combined basis. Mitigating actions were considered to include: deferral of capital expenditure; a reduction in other discretionary totex spend; early termination of expensive debt; and an extension of revolving credit facilities. The Directors have also assessed the potential impacts resulting from the conflict in Ukraine with primary impacts linked to cost volatility associated with energy prices and high inflation, and secondary supply chain and chemical price impacts, none of which pose a significant concern to disclose in relation to the Group's ability to continue as a going concern.

Reduced cash flows would impact on key financial metrics, in particular interest cover ratios. In the extreme downside scenario, gearing and interest covers retain headroom within the trigger levels specified in borrowing covenants; and whilst the reduced cash flows weaken our financial metrics, they remain within rating agencies' guidance for our current ratings.

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 2022 (unaudited) £m	Six months ended 30 September 2021 (unaudited) £m	Year ended 31 March 2022 (audited) £m
Regulated revenue			
Water	**172.5**	158.8	321.6
Sewerage	**225.1**	207.0	424.2
Retail	**25.3**	30.6	55.0
Total regulated revenue	**422.9**	396.4	800.8
Other (non-regulated)	**5.3**	5.0	9.4
Total revenue	**428.2**	401.4	810.2

2. Segmental information (continued)

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.

3. Exceptional costs

In the year to 31 March 2022 we recognised an exceptional item totalling £(3.8)m. This item represents a release of the bad debt provision as a result of anticipated bad debt charges associated with the Covid-19 pandemic not materialising during the year; this is disclosed as exceptional due to its nature and with the corresponding Covid-19 charge having, in the previous year, been shown as exceptional.

4. Financial expenses

a) Financial expenses before fair value adjustments

	Six months ended 30 September 2022 (unaudited) £m	Six months ended 30 September 2021 (unaudited) £m	Year ended 31 March 2022 (audited) £m
Financial income	**5.1**	2.1	4.1
Financial expenses			
Interest payable on bonds	**(48.8)**	(47.0)	(51.1)
Indexation on index-linked bonds	**(60.7)**	(10.2)	(67.0)
Indexation on index-linked loan	**(17.3)**	(7.8)	(17.9)
Interest payable on leases (including swaps to RPI)	**(4.4)**	(2.4)	(37.9)
Other loan interest	**(8.1)**	(6.9)	(22.2)
Other interest payable and finance costs	**(3.5)**	(3.3)	(5.8)
Net interest charge on pension scheme liabilities	**(1.1)**	(0.9)	(1.6)
Capitalisation of borrowing costs under IAS 23	**12.3**	9.8	16.4
	(131.6)	(68.7)	(187.1)
Net finance cost before fair value adjustments	**(126.5)**	(66.6)	(183.0)

b) Fair value gains/ (losses) on derivative financial instruments

	Six months ended 30 September 2022 (unaudited) £m	Six months ended 30 September 2021 (unaudited) £m	Year ended 31 March 2022 (audited) £m
Fair value gains/(losses) on interest rate swaps	**88.8**	(56.4)	(158.4)
Fair value gains/(losses) on index-linked swaps	**186.2**	(59.3)	13.5
Fair value gains on trading derivatives	**11.2**	18.7	31.4
Total fair value gains/ (losses) on derivative financial instruments	**286.2**	(97.0)	(113.5)

4. Financial expenses (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 2022 the notional value of the interest rate swap was £192m (March 2022: £192m) and the notional value of the index-linked swaps was £1,769m (March 2022: £1,799m).

5. Taxation

	Six months ended 30 September 2022 (unaudited) £m	Six months ended 30 September 2021 (unaudited) £m	Year ended 31 March 2022 (audited) £m
Current tax			
Current tax on loss for the year	-	-	-
Current tax on research and development credit	-	-	(0.1)
Adjustment in respect of prior periods	-	-	0.1
Total current tax	-	-	-

	Six months ended 30 September 2022 (unaudited) £m	Six months ended 30 September 2021 (unaudited) £m	Year ended 31 March 2022 (audited) £m
Deferred tax			
Current year movement	**(32.5)**	24.1	39.5
Adjustment in respect of prior periods	**(22.9)**	-	(0.1)
Effect of tax rate change on closing deferred tax (from 19% to 25%)	-	(58.1)	(47.8)
Total deferred tax	**(55.4)**	(34.0)	(8.4)
Taxation	**(55.4)**	(34.0)	(8.4)

Analysis of amounts charged to the Statement of Comprehensive Income and Revaluation Reserve	Six months ended 30 September 2022 (unaudited) £m	Six months ended 30 September 2021 (unaudited) £m	Year ended 31 March 2022 (audited) £m
Defined benefit pension scheme	**32.6**	(5.7)	2.0
Increase in corporation tax rate – pension scheme	-	(7.0)	(4.7)
Credited to the statement of comprehensive income	**32.6**	(12.7)	(2.7)
Revaluation of fixed assets	**87.4**	35.0	85.2
Increase in corporation tax rate – revaluation of fixed assets	-	94.0	107.1
Charged to the revaluation reserve	**87.4**	129.0	192.3

Notes to the condensed consolidated interim financial statements

5. Taxation (Continued)

Tax reconciliation	**Six months ended 30 September 2022 (unaudited)**	**Six months ended 30 September 2021 (unaudited)**	**Year ended 31 March 2022 (audited)**
	£m	**£m**	**£m**
Profit/(loss) before taxation	**192.8**	(123.7)	(215.2)
Profit/(loss) before taxation multiplied by the corporation tax in the UK of 19% (comparatives: 19%)	**(36.6)**	23.5	40.9
Effects of:			
Adjustments in respect of prior years	**(22.9)**	-	(0.1)
Other permanent differences	**(1.4)**	(0.5)	(2.9)
Super deduction of plant and machinery	**1.0**	1.1	1.5
Effect of changing rate for deferred taxes from 19% to 25%	**-**	(58.1)	(47.8)
Differences between rate used in tax reconciliation (19%) and rate used to calculate deferred taxes (25%)	**4.5**	-	-
	(55.4)	(34.0)	(8.4)

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

Deferred taxes have been calculated at 25% (2021: 25%) with the exception of temporary differences with a tax value of £21m which are expected to reverse prior to 31 March 2023. These have been calculated using a corporation tax rate of 19% which will apply for the year ending 31 March 2023; after which the 25% rate will apply.

Adjustments in respect of prior years relate to movements in deferred taxes resulting from changes to the valuation of interest rate and inflation linked swaps which have arisen during the period. At 31 March 2022, we estimated that the underlying temporary difference was likely to reverse after March 2023 when the corporation tax rate would be 25%, and therefore deferred taxes were calculated using this rate. Following significant changes to the interest rates and inflation during the period, there has been a reversal in the current period in which the corporation tax rate is 19%. The additional tax charge of £22.9m has therefore been shown as a prior year item as it relates to a change in estimate made in a previous period.

A deferred tax credit of £4.5m has arisen from deferred tax movements relating to the current period which have been recognised at 25% (the tax rate for the period in which they are expected to reverse) whereas the standard rate of corporation tax for the period is 19%).

6. Revaluation reserve

	Six months ended 30 September 2022 (unaudited)	**Six months ended 30 September 2021 (unaudited)**	**Year ended 31 March 2022 (audited)**
	£m	**£m**	**£m**
Revaluation reserve at start of period	**1,339.7**	1,157.1	1,157.1
Revaluation of assets to RCV	**349.7**	184.0	448.4
Depreciation charge on revalued assets	**(53.4)**	(43.3)	(90.7)
	296.3	140.7	357.7
Deferred tax on revaluation	**(87.4)**	(129.0)	(192.3)
Deferred tax on depreciation charge	**13.4**	8.2	17.2
	(74.0)	(120.8)	(175.1)
Revaluation reserve at end of period	**1,562.0**	1,177.0	1,339.7

7. Property, plant and equipment

	Freehold land and buildings	Infrastructure assets	Operational structures	Plant, equipment, computer hardware	Total
	£m	£m	£m	£m	£m
Valuation					
At 1 April 2022	42.6	3,029.4	4,908.2	281.2	8,261.4
Revaluation		132.3			132.3
Additions	-	71.6	90.3	2.9	164.8
Disposal	-	-	-	(1.4)	(1.4)
At 30 September 2022	**42.6**	**3,233.3**	**4,998.5**	**282.7**	**8,557.1**
Accumulated depreciation					
At 1 April 2022	25.0	-	1,688.0	273.0	1,986.0
Revaluation	-	(34.2)	(183.2)	-	(217.4)
Charge for the period	0.4	34.2	119.8	1.4	155.8
Released on disposal	-	-	-	(1.4)	(1.4)
At 30 September 2022	**25.4**	**-**	**1,624.6**	**273.0**	**1,923.0**
Net book value					
At 30 September 2022 (unaudited)	**17.2**	**3,233.3**	**3,373.9**	**9.7**	**6,634.1**
At 31 March 2022 (audited)	17.6	3,029.4	3,220.2	8.2	6,275.4
At 30 September 2022 (unaudited) - historic cost basis	***17.2***	***2,168.1***	***2,358.4***	***9.7***	***4,553.4***

The net book value of fixed assets includes £106.9m (March 2022: £96.5m) of capitalised interest. The Board has approved capital expenditure for the year to 31 March 2023 of £457m. While only a portion of this amount has been formally contracted for as at 30 September 2022, the Group is effectively committed to the total as part of its overall capital investment programme.

8. Trade and other receivables

	30 September 2022 (unaudited)	30 September 2021 (unaudited)	31 March 2022 (audited)
	£m	£m	£m
Current			
Trade receivables	**372.1**	366.5	558.4
Less provision for impairment of receivables	**(71.2)**	(78.2)	(69.5)
Trade receivables – net	**300.9**	288.3	488.9
Prepayments and accrued income	**115.9**	107.2	94.9
Other receivables	**9.0**	6.8	10.2
	425.8	402.3	594.0
Non-current			
Other receivables	**0.7**	0.8	0.7
Total trade and other receivables	**426.5**	403.1	594.7

9. Trade and other payables

	30 September 2022 (unaudited) £m	30 September 2021 (unaudited) £m	31 March 2022 (audited) £m
Current			
Trade payables	**47.4**	50.8	50.2
Capital payables	**34.0**	14.4	38.4
Other taxation and social security	**3.8**	3.4	3.8
Accruals and deferred income	**350.5**	301.2	521.7
	435.7	369.8	614.1
Non-current			
Deferred income	**470.9**	418.1	447.2
Total trade and other payables	**906.6**	787.9	1,061.3

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 2022 (unaudited) £m	30 September 2021 (unaudited) £m	31 March 2022 (audited) £m
Cash and cash equivalents	**499.8**	524.4	515.1
Debt due after one year	**(3,610.7)**	(3,525.5)	(3,567.5)
Debt due within one year	**(59.8)**	(57.0)	(55.6)
Lease liabilities	**(379.0)**	(396.1)	(395.6)
Accrued interest	**(77.4)**	(74.2)	(47.8)
	(4,126.9)	(4,052.8)	(4,066.5)
Net debt	**(3,627.1)**	(3,528.4)	(3,551.4)

b) The movement in net debt during the period may be summarised as:	30 September 2022 (unaudited) £m	30 September 2021 (unaudited) £m	31 March 2022 (audited) £m
Net debt at start of period	**(3,551.4)**	(3,534.0)	(3,534.0)
Movement in net cash	**(15.3)**	303.5	294.2
Movement in debt arising from cash flows	**47.2**	(253.9)	(227.1)
Movement in net debt arising from cash flows	**31.9**	49.6	67.1
Movement in accrued interest	**(29.6)**	(26.0)	0.4
Indexation of index-linked debt	**(78.0)**	(18.0)	(84.9)
Movement in net debt during the period	**(75.7)**	5.6	(17.4)
Net debt at end of period	**(3,627.1)**	(3,528.4)	(3,551.4)

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 2022. 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 2022, the fair values of derivatives were as follows:

Level 2

- assets: trading derivatives £38.8m, treasury derivatives £362.1m (March 2022: trading derivatives £17.1m, treasury derivatives £389.0m).

- liabilities: trading derivatives £nil, treasury derivatives £721.0 (March 2022: trading derivatives £nil, treasury derivatives £1,022.9m).

Level 3

- assets: trading derivatives £11.5m (March 2022: trading derivatives £22.0m).

- liabilities: trading derivatives £nil (March 2022: trading derivatives £nil).

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

Level 2 debt 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.

Independent review report to Glas Cymru Holdings Cyfyngedig for the six month period ended 30 September 2022

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 2022 which comprises Consolidated interim income statement, Consolidated interim statement of comprehensive income, Consolidated interim balance sheet, Consolidated interim statement of changes in reserves, 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 2022 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity ("ISRE (UK) 2410") issued 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.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of conclusion section of this report, nothing has come to our attention that causes us to believe that the Directors have inappropriately adopted the going concern basis of accounting, or that the Directors have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern, and the above conclusions are not a guarantee that the group will continue in operation.

Directors' responsibilities

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

The annual financial statements of the group are prepared in accordance with UK-adopted international accounting standards.

The Directors are responsible for preparing the condensed set of financial statements included in the half-yearly report in accordance with IAS 34 as adopted for use in the UK.

In preparing the condensed set of financial statements, the Directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

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. Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

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.

Independent review report to Glas Cymru Holdings Cyfyngedig for the six month period ended 30 September 2022 (continued)

James Ledward
for and on behalf of KPMG LLP
Chartered Accountants
3 Assembly Square
Britannia Quay
Cardiff
CF10 4AX

10 November 2022

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.