



Interim report and accounts  
for the six months ended 30 September 2016

## Chief Executive's Statement

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**As the sole provider of water and wastewater services to over three million people in Wales, Herefordshire and parts of Deeside, I am pleased to report that we have delivered a strong performance - both financially and operationally - in the first half of the year.**

Our unique not-for-profit ownership model in the water industry, together with our vision to “earn the trust of customers every day” means everybody at Welsh Water is focussed on providing the best possible customer service at the most affordable cost. This is reflected in seven years of below-RPI inflation price rises for our customers, on course for a decade of such protection, and a relentless focus on improving our water and wastewater services.

These results for the first six months of 2016-17 are testament to the customer-led way of working that is now a fundamental part of our operating model. Our efforts in putting customers first mean they are now given a greater say in how we should be developing and delivering our levels of service. The progress we've made is borne out in a number of encouraging independent reports, which show we are consistently reaching the highest standards of customer satisfaction in our industry. Our challenge now is to not only maintain these standards, but improve on them, so we are fully meeting our customers' expectations.

This effort has been supported by the, pioneering way we have engaged with our customers over the summer. Our 'Have Your Say' consultation in the summer invited Welsh Water customers to influence how the value generated by our not-for-profit model is used in the future – and the 12,000 responses we received represents a very encouraging level of engagement.

We face significant challenges including; the legacy of older cast iron water mains in some parts of our network which cause discoloured drinking water; and for a small number of customers - repeat sewer flooding. This is why we are investing further in these areas.

This year we adopted much more robust debt collection methods which led to an increase in written complaints numbers but I am pleased to say a comprehensive plan to address these issues is already having an effect, with a significant reduction in the latter part of this period - though there is still more work to do.

We remain committed to becoming more innovative in the way we provide our services, through schemes such as our RainScape programme, a sustainable urban drainage scheme designed to reduce the amount of surface water entering our sewer network. This demonstrates that we are directly addressing the significant long-term challenges for our business of changing weather patterns and climate change. This commitment is enshrined in our 2050 vision to be a truly world class, resilient and sustainable water service for the benefit of future generations of customers.

This long term vision means that we still have a lot more work to do. However, I am confident that that our unique, not-for-profit ownership model, combined with our record £1.7 billion investment over the five years ending 2020, will enable us to deliver further service improvements for our customers whilst enhancing our environment for the benefit of the communities we serve.



Chris Jones  
**Chief Executive, Welsh Water**

4 November 2016

## Performance Overview

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We know that many of the decisions we take today will have a major impact on our customers, the environment and the economy for years to come. We know how important it is to be clear about our objectives and how they are to be achieved; and also to be clear and open with our customers in reporting the progress we are making towards achieving those goals.

After consulting extensively with our customers about their priorities, we plan and measure our performance around eight key customer ‘outcomes’. This offers a consistent and transparent platform for measuring our operational, environmental, financial, and customer service performance. This latest set of interim financial results covers the period from 1 April to 30 September 2016 (although it should be noted that our operational performance is generally regulated on the calendar year so far, that is from January to September 2016).

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

Welsh Water is continuing to deliver its AMP6 financial pledge to make substantial levels of capital investment whilst also reducing the average household customer bill in real terms: we can do this by making continued efficiency improvements in the way we operate and finance the business. In the six months to 30 September 2016:

- our revenue rose slightly, to £375 million (2015: £368 million). This reflects the price adjustment of 1.1% allowed by Ofwat.
- customer debt recovery has remained a big challenge but we are making good headway in improving our collections performance, and the bad debt charge has fallen by over £1m. We are balancing our focus on debt collection with our ongoing development of customer assistance tariffs in order to help those customers who genuinely struggle to pay their bills but could, we believe, afford to do so.
- operating costs (excluding depreciation and infrastructure renewals expenditure) have risen slightly, to £152 million (2015: £142 million): our water and sewerage contract costs have increased and we are investing in the transition of our information and communication technology (ICT) contract to a new provider. We remain on track to deliver our cost efficiency targets for AMP6.
- in the prior period, we recognised an exceptional operating cost credit of £20 million, being a refund of historical business rates following our challenge of the 2005 water network assessment.
- net interest payable in the period (excluding fair value movements) was £56 million (2015: £48 million). This increase is mainly due to the impact of higher Retail Prices Index movements on our index-linked debt.
- £161 million has been invested in capital projects that will bring improvements to customer service, environmental quality and drinking water quality and we are planning to invest up to a further £200 million during the second half of the year.
- underlying profit as shown on page 8 was £1 million (2015: £25 million), with the reduction due to increases in operational expenditure, infrastructure renewals expenditure, depreciation and interest charges. After allowing for the (non-cash, and market-driven) movement in the fair value of financial instruments, the group reported a total loss before tax of £127 million (2015: profit of £131 million).
- a taxation credit principally reflects the loss for the period together with movements in deferred tax following the reduction in the rate of UK corporation tax, from 18% to 17%. No corporation tax is payable due to the accumulated tax losses of the company, reflecting the size of the company’s capital investment programme.
- the prudent financing policies followed by the company mean that its bonds continue to trade well relative to those of similar companies. Credit rating agencies Standard and Poor’s and Fitch Ratings have recently reaffirmed their ‘A’ grade (outlook stable) ratings of the senior bonds, Moody’s currently rate the Corporate Family Rating for Welsh Water at A3, outlook positive. This all reflects the quality of the company’s creditworthiness.
- as at 30 September 2016, Glas Cymru had cash, short-term deposits and undrawn syndicated bank facilities of £382 million (2015: £369 million), giving the group a high level of financial liquidity.
- our regulatory gearing has fallen to 56%, compared to 57% in March 2016 and 93% on the acquisition of Welsh Water in May 2001. The Board’s policy is to maintain regulatory gearing at around 60%.

## **(2) Excellent customer service**

As a company owned on behalf of its customers, our vision is to earn the trust of our customers every day by providing the best service at an affordable price.

In the first six months of the financial year:

- Consumer Council for Water (CCWater) research (June 2016) confirmed a 99% customer satisfaction rate with our water services and 96% with our sewerage services – higher than the industry average (93% and 91% respectively).
- separate CCWater research (October 2016) showed business customers in Wales were significantly more likely to say they are satisfied with all aspects of their water supply compared to those in England, as well as showing significantly higher levels of trust. The levels of support amongst business customers for actively promoting their supplier were far higher in Wales than for English business customers, with a “net promoter” score of 30 in Wales, compared to a score of 2 on average in England.
- we are currently in third place (from the 10 water and sewerage companies) after the first two waves of Ofwat’s customer satisfaction surveys (SIM).
- the total number of written complaints increased significantly in early 2016 (2016: 4,334; 2015: 2,818), largely due to the introduction of a more robust process when chasing debt from customers who have not paid their bill. Steps were immediately taken to address the issues and written complaints levels have already fallen by over a third (April 2016 941: September 2016: 602).
- More customers are also contacting us by email or online after we made changes to our website to make it easier for customers to contact us this way. Whilst this has led to an increase in written complaints, we have seen a reduction in telephone complaints compared to last year.
- over 900 colleagues, capital partners and contractors have been nominated by customers or colleagues since April 2016 as part of our scheme to recognise great customer service, ‘diolch’ (Welsh for ‘thank you’).

## **(3) High quality drinking water**

We want our customers to have confidence that their drinking water supply is safe, reliable and tastes good. We have over 27,000km of water mains and 63 water treatment works. Against this asset base, we invested £65 million in our drinking water network over the past six months and plan to invest a further £61 million for the rest of the financial year.

Our investment includes large-scale single assets such as Bryn Cowlyd Water Treatment Works in the Conwy Valley, North Wales (a £30 million investment which will serve around 90,000 customers and will be completed in 2018) and £46 million to address discolouration and interruption to supplies in some of our worst-performing areas in Ceredigion, Pembrokeshire and Flintshire.

Between January and September 2016 (as noted above, some operational measures are reported to the regulator on a calendar year basis, therefore performance figures below are reported for the first nine months of the year):

- overall compliance with water quality standards remained high at 99.99%.
- the average time of interruption to supply was reduced to 5.50 minutes, less than half that of last year (2015: 11.45 minutes).
- leakage levels have continued to improve (2016: 172.01 megalitres per day & 2015: 182.30 megalitres per day).
- the level of customer complaints regarding discolouration or taste issues is 2.37 per 1,000 customers (2015: 2.5), despite a series of operational incidents during the period. We are seeking to further reduce this level through innovative and targeted water mains replacement and cleansing activities.
- we successfully completed a number of large-scale remedial works on some of our key assets, using new techniques to improve drinking water supplies.
- we continued to develop the next stage of our campaign to protect water catchment areas. ‘PestSmart’, in partnership with the Welsh Government and Natural Resources Wales. This follows the success of our award-winning ‘Weed Wiper’ trials last year and will involve offering a pesticide amnesty to user groups.

## **(4) Protecting the environment**

We want to play our part in ensuring a sustainable environment for generations to come. With enough sewer to stretch to Australia and back – around 30,000km – our wastewater services, which also includes over 800 wastewater treatment works, have performed well.

Between January and September 2016 (the calendar year to date, above note):

- our wastewater treatment sites achieved 99.30% compliance with discharge permits (which regulate the quality and amount of wastewater we can discharge into rivers and coastal waters) - slightly better than last year (2015: 99.13%).

- the number of pollution incidents is at its lowest-ever level at 79 (2015: 98).
- we were disappointed that the number of properties suffering from internal flooding, the very worst customer service failing, increased to 128 compared to the same time last year (2015:101). This is largely caused by overloaded or blocked sewers and we are continuing with our Let's Stop the Block behavioural change campaign to help educate customers about the sewer blockages that are caused when the wrong things are flushed down the toilet.
- the number of customers on the 'at risk' register (where our service has fallen short in terms of repeated odours or sewer flooding) has increased to 72 in the first six months of the year (2015: 65).
- we have continued to install telemetry across our network of 2,500 Combined Sewer Overflows (CSOs) so that we can better understand how these assets are performing and impacting on the environment. We share this data with our regulators and publish it voluntarily on our website.
- a record 44 Blue Flags were awarded to beaches in Wales with 'excellent' water quality (compared to 41 in 2015 and 68 for the whole of England in 2016).

## **(5) Responding to climate change**

Climate change is a major challenge to our business that can impact our assets and service to our customers – as well as the environment. This is why we have continued to invest in efficient, low-carbon assets and processes which in turn reduces our carbon footprint and our costs.

Between April and September 2016:

- our Combined Heat and Power energy generation continued to increase its output, generating 22 GWh – enough to power 7,100 homes.
- development of the organic waste treatment centre adjacent to our wastewater site in Cardiff has progressed and is nearing completion. The treatment centre, developed in cooperation with and operated by Kelda Water Services, will generate 10 GWh per annum of green energy – enough to power 3,250 homes or meet 40% of the wastewater site's electricity import.
- our Energy Park project at our largest site in North Wales (Five Fords Wastewater Treatment Works, near Wrexham) is progressing well and we are successfully integrating multiple renewable generation technologies. The bio-methane ("gas-to-grid") plant is now fully operational and has generated enough gas in the first half of this year to meet 50% of our total demand.
- over 4,750 solar panels have been installed on seven different Welsh Water sites in the last nine months. These solar panels, if laid end-to-end, would cover six kilometres and they generate 1.1 GWh of electricity per year – enough to power 350 homes.
- in September we erected our first wind turbine at Swansea Wastewater Treatment Works. The turbine will generate enough renewable electricity to offset over a quarter of the energy needed to run the works – enough to power 600 homes. We are currently constructing a larger turbine at our Nash Wastewater Treatment Works in Newport, which is due to be commissioned in March 2017.

## **(6) Affordable bills**

We want to ensure our services represent good value for money for our customers and that we continue to provide an effective range of help for those customers who struggle to pay their bills.

As a result:

- our annual price increase in 2016-17 was below the rate of inflation for the seventh consecutive year.
- we remain on track to deliver a decade of below-inflation price increases by 2020.
- we now help nearly 60,000 customers who genuinely struggle to pay their water bills and aim to help 100,000 customers by 2020.
- we have continued to pursue those customers who can pay, but won't pay, their water and wastewater charges through our revised and robust procedures for collecting debt; this has led to an increase in cash collection which plays a key part in helping us reduce our bad debt charge.

## **(7) Looking after our assets**

A good service relies on well-maintained assets – the pipes, pumps, works, equipment and buildings that allow our business to operate. At the same time, we need to be proactive, identify poorly-performing assets and prioritise remedial work efficiently. This enables us to deliver greater levels of value and to do the right things for our customers.

As part of our work over the past six months:

we have invested £161 million to improve the water service and to protect the environment and to improve the resilience of our network.

- we held successful annual Developer Services forums, with events in North and South Wales attended by over 100 delegates from a range of commercial and house-building organisations.
- we launched our new Big Data strategy to help ensure our data is used to improve business performance, customer service and underpin compliance.
- we played a key role in leading Water UK's 21st Century Drainage Programme which explored how the UK should invest in the sewer network over the next 30 years.

### **(8) Developing our people**

We aim to develop a team of people who will provide a great service to our customers. We also believe nothing is as important as the safety of our 3,000 colleagues and 3,500 contractors.

Between April and September 2016:

- we continued to focus on the safety of our colleagues – including holding our 10<sup>th</sup> annual Health and Safety conference with over 300 colleagues and contractors – which has led to a decrease in the number of RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) injuries - eight, compared to 12 in the same period last year
- our in-house Capital Engineering team and wider Capital Alliance partners have achieved a RoSPA 'Gold' level award for their health and safety management systems
- a total of 11 craft apprentices, six trainee distribution inspectors, six trainee sewerage operators and 12 graduates joined the company, whilst all 20 of our 2012 apprentices completed their four-year programme and moved into substantive posts within the company
- the company has won several awards during the year including the Large Employer of the Year at the Apprenticeship Awards Cymru 2016 and also became an official supporter of the charities Chwarae Teg (promoting fairness and equality in the workplace) and Cynnal Cymru (promoting sustainable development)

## Key Performance Measures

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

Measures of Success	30 Sept 2016	30 Sept 2015	Better or worse than last year
* A1a Safety of Drinking Water (% compliance)	99.99%	99.99%	√
* A1b Safety of Drinking Water (% Mean zonal compliance)	99.96%	99.93%	√
* A2 Customer acceptability (contacts per 1,000 population)	2.37	2.50	√
** A3 Reliability of Supply (average customer minutes lost)	5.50mins	11.45mins	√
* B1 Abstraction for water for use (% compliance)	100%	100%	√
* B2 Treating wastewater (% compliance)	99.30%	99.13%	√
* B3a Preventing pollutions (categories 1,2 & 3) (number)	79	98	√
* B3b Preventing pollutions (category 3 only) (number)	78	97	√
** C1 Responding to climate change (surface water removal- expressed in number of properties equivalent)	1,532	58	√
** C2 Carbon footprint (renewable energy generation)	44.31	41.50	√
** D1 SIM (customer services score (out of 100))	83	82	√
** D2 At Risk Customers (number of customers on our at risk register)	400	420	√
** D3 Properties flooded in the year (number)	128	101	X
** D4a Business Customer Satisfaction (% very satisfied & satisfied)	91.15%	88.65%	√
** D4b Non Household Customer Satisfaction (average customer score out of 5 converted to a %)	89.60%	87.00%	√
** D5 Earning the Trust of Customers (%)	N/A	82.00%	-
** E1 Affordable Bills (% below inflation)	1% below inflation	1% below Inflation	√
** E2 Help for Disadvantaged Customers (number of customers benefitting from social tariffs)	59,314	56,308	√
** F1 Asset Serviceability (assessment of either stable/marginal or deteriorating)	Stable(x4)	Stable(x4)	√
** F2 Leakage (megalitres per day)	172.01 ml/d	182.30 ml/d	√
** F3 Asset Resilience (% of critical assets that are resilient against a set of criteria- % figures shown separately for water and wastewater assets)	83.00% 73.60%	83.60% 74.80%	X
** G1 RIDDOR (number of reportable injuries)	8	12	√
** G2 Competence for Role (%)	89.00%	86.00%	√
** H2 Financing Efficiency (credit rating by S&P, Moody's and Fitch)	A/A3/A	A/A3/A	√

A definition of each Measure of Success can be found in Appendix 1 on page 20.

\* Measured from the start of the calendar year (January to September 2016)

\*\* Measured from the start of the financial year (April to September 2016)

## Statement of directors' responsibilities and other matters

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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

Robert Ayling, stepped down from the Board on 8 July 2016.

Alastair Lyons joined the Board of Glas Cymru as Non-Executive Director on 1 May 2016 and became Chairman of the Board on 8th July 2016.

The following directors are responsible for the preparation of these half yearly reports:

Chris Jones - Chief Executive

Peter Bridgewater - Finance Director

### Principal risks and uncertainties

The principal risks and uncertainties affecting the group for the six months to 30 September 2016 are materially unchanged from those presented on pages 59 to 62 of the group's published Annual Report and Accounts for the year ended 31 March 2016. The Annual Report and Accounts are published on the group's website, [www.dwrcymru.com](http://www.dwrcymru.com), and are available from the Company Secretary on request. These key risks faced by the group are as follows: health and safety major incident; major public health incident; failure to deliver the outcomes and efficiencies in our Business Plan for 2015-2020; failure to deliver the retail customer service plan, including management of bad debt; failure to adapt to the challenges and opportunities of sector change; increased focus on the environmental regulation; failure to earn the trust and confidence of customers; loss of key talent, capability and competence; ICT risk; and future funding risk and relationships with investors.

### Going concern

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

By order of the Board



Nicola Williams  
Company Secretary, Welsh Water

4 November 2016



## Consolidated interim income statement

		Six months ended 30 September 2016 (unaudited) £m	Six months ended 30 September 2015 (unaudited) £m	Year ended 31 March 2016 (audited) £m
Revenue	2	374.6	367.8	743.2
<b>Operating costs</b>				
- Operational expenditure		(151.8)	(142.2)	(297.3)
- Exceptional items	3	-	20.0	20.0
- Infrastructure renewals expenditure		(40.1)	(30.7)	(58.0)
- Depreciation and amortisation		(125.6)	(122.0)	(247.1)
<b>Operating profit</b>		<b>57.1</b>	<b>92.9</b>	<b>160.8</b>
<b>Financing costs</b>				
- Finance costs payable and similar charges	4a	(58.1)	(52.0)	(128.7)
- Finance income receivable	4a	2.1	3.9	5.6
- Fair value (losses)/gains on derivative financial instruments	4b	(128.3)	86.0	39.3
		<b>(184.3)</b>	<b>37.9</b>	<b>(83.8)</b>
<b>(Loss)/profit before taxation</b>		<b>(127.2)</b>	<b>130.8</b>	<b>77.0</b>
Taxation credit/(charge)	5	34.1	(26.2)	8.9
<b>(Loss)/profit for the period</b>		<b>(93.1)</b>	<b>104.6</b>	<b>85.9</b>

<b>Underlying profit</b>				
(Loss)/profit before taxation per income statement		(127.2)	130.8	77.0
Adjustment for:				
- Fair value losses /(gains) on derivative financial instruments		128.3	(86.0)	(39.3)
- Exceptional items		-	(20.0)	(20.0)
<b>Underlying profit for the period</b>		<b>1.1</b>	<b>24.8</b>	<b>17.7</b>

The notes on pages 13 to 18 are an integral part of these condensed consolidated interim financial statements.

## Consolidated interim statement of comprehensive income

	Six months ended 30 September 2016 (unaudited) £m	Six months ended 30 September 2015 (unaudited) £m	Year ended 31 March 2016 (audited) £m
(Loss)/ profit for the period	(93.1)	104.6	85.9
<b>Items that will not be reclassified to profit or loss:</b>			
Actuarial loss recognised in the pension scheme	(88.4)	(19.0)	(24.6)
Movement on deferred tax asset relating to the pension scheme	5 14.4	3.7	3.7
Revaluation of property, plant and equipment	113.6	1,152.0	1,247.8
Related deferred tax	(6.8)	(230.4)	(224.6)
Total items that will not be reclassified to profit or loss	<u>32.8</u>	<u>906.3</u>	<u>1,002.3</u>
<b>Total comprehensive (expense)/ income for the period</b>	<u><u>(60.3)</u></u>	<u><u>1,010.9</u></u>	<u><u>1,088.2</u></u>

The notes on pages 13 to 18 are an integral part of these condensed consolidated interim financial statements

## Consolidated interim statement of changes in reserves

	Six months ended 30 September 2016 (unaudited) Revaluation reserve £m	Six months ended 30 September 2016 (unaudited) Retained earnings £m	Six months ended 30 September 2016 (unaudited) Total £m	Six months ended 30 September 2015 (unaudited) Total £m	Year ended 31 March 2016 (audited) Total £m
<b>Reserves/(deficit) at start of period</b>	977.9	103.9	<b>1,081.8</b>	(6.4)	(6.4)
Revaluation net of tax	6	106.8	<b>106.8</b>	921.6	1,023.2
(Loss)/ profit for the period	-	(93.1)	<b>(93.1)</b>	104.6	85.9
Actuarial loss	-	(74.0)	<b>(74.0)</b>	(15.3)	(20.9)
Transfer to retained earnings	(24.3)	24.3	-	-	-
<b>Reserves/(deficit) at end of period</b>	<u>1,060.4</u>	<u>(38.9)</u>	<b><u>1,021.5</u></b>	<u>1,004.5</u>	<u>1,081.8</u>

The notes on pages 13 to 18 are an integral part to these condensed consolidated interim financial statement

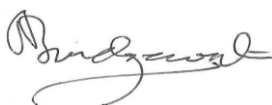
## Consolidated interim balance sheet

		At 30 September 2016 (unaudited) £m	At 30 September 2015 (unaudited) £m	At 31 March 2016 (audited) £m
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	7	4,968.3	4,716.5	4,841.3
Intangible assets		109.9	97.6	105.7
Financial assets: derivative financial instruments		0.5	-	0.2
		<u>5,078.7</u>	<u>4,814.1</u>	<u>4,947.2</u>
<b>Current assets</b>				
Trade and other receivables	8	373.8	336.6	544.2
Inventory		2.3	1.9	2.1
Financial assets: derivative financial instruments		3.6	3.7	3.6
Cash and cash equivalents		253.0	270.5	135.1
		<u>632.7</u>	<u>612.7</u>	<u>685.0</u>
<b>Total assets</b>		<u>5,711.4</u>	<u>5,426.8</u>	<u>5,632.2</u>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables	9	(337.0)	(329.7)	(527.4)
Financial liabilities:				
- Borrowings		(133.2)	(144.8)	(73.5)
- Derivative financial instruments		(27.6)	(22.6)	(24.0)
Provisions for liabilities and charges		(1.6)	(6.1)	(3.2)
		<u>(499.4)</u>	<u>(503.2)</u>	<u>(628.1)</u>
<b>Net current assets</b>		<b>133.3</b>	109.5	56.9
<b>Non-current liabilities</b>				
Trade and other payables	9	(187.3)	(118.5)	(159.2)
Financial liabilities:				
- Borrowings		(2,937.3)	(2,944.9)	(2,869.7)
- Derivative financial instruments		(518.8)	(317.2)	(393.8)
Post employment benefits		(145.0)	(50.6)	(56.5)
Provisions for liabilities and charges		(11.9)	(15.2)	(11.3)
Deferred tax (net)		(390.2)	(472.7)	(431.8)
		<u>(4,190.5)</u>	<u>(3,919.1)</u>	<u>(3,922.3)</u>
<b>Net assets</b>		<u>1,021.5</u>	<u>1,004.5</u>	<u>1,081.8</u>
<b>Reserves</b>		<u>1,021.5</u>	<u>1,004.5</u>	<u>1,081.8</u>

The condensed consolidated interim financial statements on pages 8 to 18 were approved by the Board of Directors on 4 November 2016 and were signed on its behalf by:



Chris Jones  
Chief Executive



Peter Bridgewater  
Finance Director

## Consolidated interim statement of cash flows

	Six months ended 30 September 2016 (unaudited) £m	Six months ended 30 September 2015 (unaudited) £m	Year ended 31 March 2016 (audited) £m
<b>Cash flows from operating activities</b>			
(Loss)/profit for the period	(93.1)	104.6	85.9
Adjustments for			
- Depreciation and amortisation	125.6	122.0	247.1
- Net finance cost/(credit)	184.3	(37.9)	83.8
- Net tax (credit)/charge	(34.1)	26.2	(8.9)
Changes in working capital			
- Decrease/(increase) in trade and other receivables	169.2	197.5	(11.8)
- (Increase)/decrease in inventory	(0.2)	0.1	(0.1)
- Decrease in trade and other payables	(191.2)	(205.2)	(12.4)
- Pension contributions above service cost	(0.7)	(0.8)	(1.6)
- Decrease in provisions	(1.0)	(6.3)	(13.1)
<b>Cash generated from operating activities</b>	<b>158.8</b>	<b>200.2</b>	<b>368.9</b>
Interest paid	(29.6)	(42.6)	(128.9)
Income tax (paid)/received	(0.1)	-	0.2
<b>Net cash from operating activities</b>	<b>129.1</b>	<b>157.6</b>	<b>240.2</b>
<b>Cash flows from investing activities</b>			
Interest received	2.1	3.9	5.6
Purchases of property, plant and equipment	(103.2)	(93.0)	(195.0)
Purchase of intangible assets	(14.2)	(4.7)	(25.0)
Grants and contributions received	8.1	7.0	16.7
<b>Net cash out flows used in investing activities</b>	<b>(107.2)</b>	<b>(86.8)</b>	<b>(197.7)</b>
<b>Net cash flow before financing activities</b>	<b>21.9</b>	<b>70.8</b>	<b>42.5</b>
<b>Cash flows from financing activities</b>			
Long term loans received	70.0	-	-
Bank overdraft movement	38.1	(33.3)	(80.4)
Term loan repayments	(12.1)	(39.5)	(46.6)
Finance lease principal payments	-	-	(51.4)
Other loan repayments	-	-	(0.2)
<b>Net cash flows from/ (used in) financing activities</b>	<b>96.0</b>	<b>(72.8)</b>	<b>(178.6)</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>117.9</b>	<b>(2.0)</b>	<b>(136.1)</b>
Cash and cash equivalents at start of period	135.1	272.5	271.2
<b>Cash and cash equivalents at end of period</b>	<b>253.0</b>	<b>270.5</b>	<b>135.1</b>

The notes on pages 13 to 18 are an integral part of these condensed consolidated interim financial statements.

# Notes to the condensed consolidated interim financial statements

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## 1. Basis of preparation

A new company called Glas Cymru Holdings Cyfyngedig ('GCHC') was incorporated in December 2015. This company is a company limited by guarantee. The Members of Glas Cymru Cyfyngedig are now Members of Glas Cymru Holdings Cyfyngedig. Accordingly, GCHC is now the ultimate parent company of the Glas Group.

For the purposes of these interim financial statements, as there has been no change in the overall ownership of the Group, the Group has been able to utilise Section 611 of the Companies Act (Group reconstruction relief), alongside the 'Common Control' exemptions within EU-IFRS to prepare the accounts on the basis that the current structure always existed.

The comparatives included within these accounts for the Year Ended 31 March 2016 and Interim Period Ended 30 September 2015, were those published for the previous Glas Cymru Cyfyngedig Group, meaning that these financial statements presented for the period ended 30 September 2016, show a comparable view of the Group.

The principal accounting policies adopted in the preparation of these condensed consolidated interim financial statements are consistent with those of the previous set of published Annual Report and Accounts for the year ended 31 March 2016.

No changes to standards, interpretations and amendments have been issued and there are no new standards that impact on the reporting period.

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

These condensed consolidated interim financial statements are unaudited but have been formally reviewed by the auditors and their report is set out on page 19. 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 2016 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. No events or transactions took place during the current interim period which are material to ones 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 expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2016, with the exception of changes in estimates that are required in determining the provision for income taxes and valuation of property plant and equipment.

The group has reviewed assets held for any indications of impairment and, none having been noted, has not performed a full impairment review.

Taxes on income in the interim period are accrued using the tax rate that would be applicable to expected total annual earnings.

### Going concern

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

## Notes to the condensed consolidated financial statements cont'd

### 2. Segmental information

The directors consider that there is only one operating segment, being the operation of water and sewerage business in the UK. As the group has only domestic activities there is also only one geographical segment; therefore, the disclosures for this segment have also already been given in these financial statements.

### 3. Exceptional items

During the period to 30 September 2015, a business rates refund of £20 million was received relating to the 2005 water network assessment. This was treated as exceptional due to its size and not by nature of the item.

### 4. Financing costs

	Six months ended 30 September 2016 (unaudited) £m	Six months ended 30 September 2015 (unaudited) £m	Year ended 31 March 2016 (audited) £m
<b>a) Financing cost before fair value (losses)/gains</b>			
Interest payable on bonds	(44.7)	(43.6)	(87.7)
Indexation on index - linked bonds	(2.5)	2.2	(13.1)
Indexation on index - linked loan	(2.9)	(1.3)	(1.4)
Interest payable on finance leases	(3.5)	(2.9)	(14.4)
Other loan interest	(6.3)	(7.3)	(12.7)
Other loan interest payable and finance costs	(1.0)	(0.7)	(2.3)
Net interest charge on pension scheme liabilities	(1.0)	(0.5)	(1.0)
Capitalisation of borrowing costs under IAS 23	3.8	2.1	3.9
	<u>(58.1)</u>	<u>(52.0)</u>	<u>(128.7)</u>
Interest receivable	2.1	3.9	5.6
Net finance income before fair value adjustments	<u>(56.0)</u>	<u>(48.1)</u>	<u>(123.1)</u>
<b>b) Fair value (losses)/gains on derivative financial instruments</b>			
	Six months ended 30 September 2016 (unaudited) £m	Six months ended 30 September 2015 (unaudited) £m	Year ended 31 March 2016 (audited) £m
Fair value (losses)/ gains on interest rate swaps	(19.1)	30.6	15.2
Fair value (losses)/gains on index-linked swaps	<u>(109.2)</u>	<u>55.4</u>	<u>24.1</u>
Total fair value (losses)/gains on derivative financial instruments	(128.3)	86.0	39.3
Deferred tax effect of fair value (losses)/gains	<u>21.8</u>	<u>(17.1)</u>	<u>(7.9)</u>
Net of tax impact of fair value (losses)/gains	<u>(106.5)</u>	<u>68.9</u>	<u>31.4</u>

Whilst the group employs an economically effective policy using interest rate and index-linked swaps, the hedge accounting criteria of IAS 39 are not satisfied. Consequently, the group's interest rate and index-linked swaps are fair valued at each balance sheet date with the movement (net gain or loss) disclosed in the income statement. Over the life of these swaps, if held to maturity, these fair value adjustments will reverse and reduce to zero. The notional value of the interest rate swaps is £192 million (2016: £192 million) and the index-linked swaps £642 million (2015: £650 million).

## Notes to the condensed consolidated financial statements cont'd

### 5. Taxation

	30 September 2016 (unaudited) £m	30 September 2015 (unaudited) £m	31 March 2016 (audited) £m
<b>Current tax</b>			
Current tax on profits for the year	(0.1)	-	(0.1)
Current tax on research and development credit	-	-	(0.2)
Adjustment in respect of prior periods	-	-	0.4
	(0.1)	-	0.1
<b>Deferred tax</b>			
Current year movements	41.5	(252.9)	(211.8)
Adjustment in respect of prior periods	0.3	-	(0.3)
	41.8	(252.9)	(212.1)
<b>Taxation credit/(charge)</b>	41.7	(252.9)	(212.0)
<b>Analysed as:</b>			
Credited/(charged) to income statement	34.1	(26.2)	8.9
Credited to statement of comprehensive income	14.4	3.7	3.7
Charged to revaluation reserve	(6.8)	(230.4)	(224.6)
	41.7	(252.9)	(212.0)
(Loss)/profit before tax	(127.2)	130.8	77.0
(Loss)/profit before tax multiplied by the corporation tax in the UK of 20% (six months to 30 September 2015: 20%)	(25.5)	26.2	15.4
<b>Effects of:</b>			
Adjustments in respect of prior years	(0.3)	-	(0.2)
Other permanent differences	-	0.1	0.1
Effect of pension payments in excess of service charge	(0.1)	(0.1)	(0.1)
Effect of tax rate change - deferred tax	(20.4)	-	(48.0)
Movement on deferred tax asset relating to revaluation reserve	20.4	230.4	249.6
Movement on deferred tax asset relating to pension scheme	(15.8)	(3.7)	(4.8)
	(41.7)	252.9	212.0

The company does not expect to pay corporation tax on its trading profits for the current year due to accumulated trading losses of over £216 million as at 30 September 2016 (2015: £225m) and the availability of capital allowances on its investment programme.

Deferred tax has been calculated at 17% (30 Sept 2015: 20%; 31 March 2016 18%). This is based on the tax rate enacted at the reporting date effective from 01 April 2020. A small proportion of the temporary difference may reverse prior to 2020 at 18% or 17% but the impact on the overall deferred tax balance is not significant.



## Notes to the condensed consolidated financial statements cont'd

### 6. Revaluation reserve

Revaluation reserve movement	30 September 2016 (unaudited) £m
<b>Revaluation reserve as at 1 April 2016</b>	<b>977.9</b>
Revaluation of assets	113.6
Depreciation charge on revalued assets	(29.3)
	84.3
Deferred tax on revaluation	(6.8)
Deferred tax on depreciation charge	5.0
	(1.8)
<b>Revaluation reserve as at 30 September 2016</b>	<b>1,060.4</b>

### 7. Property, plant and equipment

	Freehold land & buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
<b>Valuation</b>					
At 1 April 2016	41.6	2,090.1	3,681.9	262.4	6,076.0
Revaluation	-	28.5	-	-	28.5
Additions	-	51.1	77.6	2.1	130.8
At 30 September 2016	41.6	2,169.7	3,759.5	264.5	6,235.3
<b>Accumulated depreciation</b>					
At 1 April 2016	19.8	-	955.2	259.7	1,234.7
Revaluation	-	(21.1)	(64.0)	-	(85.1)
Charge for the period	0.4	21.1	95.2	0.7	117.4
At 30 September 2016	20.2	-	986.4	260.4	1,267.0
<b>Net book value</b>					
At 30 September 2016 (unaudited)	21.4	2,169.7	2,773.1	4.1	4,968.3
At 31 March 2016 (audited)	21.8	2,090.1	2,726.7	2.7	4,841.3
At 30 September 2016 (unaudited)- historic cost basis	21.4	1,609.2	2,057.1	3.7	3,691.4

The net book value of fixed assets includes £38.5 million (March 2016: £35.7 million) of capitalised interest. The board has approved capital expenditure for the year of £353 million. While only a portion of this amount has been formally contracted for as at 30 September 2016, the group is effectively committed to the total as part of its overall capital expenditure programme approved by its regulator.

### 8. Trade and other receivables

	30 September 2016 (unaudited) £m	30 September 2015 (unaudited) £m	31 March 2016 (audited) £m
<b>Amounts falling due within one year</b>			
Trade receivables	339.4	315.0	537.0
Less provision for impairment of receivables	(72.0)	(72.7)	(85.3)
Trade receivables - net	267.4	242.3	451.7
Prepayments and accrued income	103.5	86.3	82.0
Other receivables	2.9	8.0	10.5
	373.8	336.6	544.2

## Notes to the condensed consolidated financial statements cont'd

### 9. Trade and other payables

	30 September 2016 (unaudited) £m	30 September 2015 (unaudited) £m	31 March 2016 (audited) £m
<b>Current</b>			
Trade payables	35.2	36.0	37.1
Capital payables	44.4	36.1	41.3
Other taxation and social security	4.3	5.8	4.0
Accruals and deferred income	253.1	251.8	445.0
	<u>337.0</u>	<u>329.7</u>	<u>527.4</u>
<b>Non-current</b>			
Deferred income	187.3	118.5	159.2

### 10. Analysis and reconciliation of net debt

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

	30 September 2016 (unaudited) £m	30 September 2015 (unaudited) £m	31 March 2016 (audited) £m
Cash and cash equivalents	253.0	270.5	135.1
Debt due after one year	(2,440.6)	(2,400.5)	(2,376.4)
Debt due within one year	(100.4)	(110.9)	(63.4)
Finance lease obligation	(455.8)	(507.2)	(455.8)
Accrued interest	(73.7)	(71.1)	(47.6)
	<u>(3,070.5)</u>	<u>(3,089.7)</u>	<u>(2,943.2)</u>
<b>Net debt</b>	<u>(2,817.5)</u>	<u>(2,819.2)</u>	<u>(2,808.1)</u>

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

	30 September 2016 (unaudited) £m	30 September 2015 (unaudited) £m	31 March 2016 (audited) £m
Net debt at start of period	(2,808.1)	(2,878.9)	(2,878.9)
Movement in net cash	117.9	(2.0)	(136.1)
Movement in debt arising from cash flows	(96.0)	72.9	178.6
<b>Movement in net debt arising from cash flows</b>	<u>21.9</u>	<u>70.9</u>	<u>42.5</u>
Movement in accrued interest	(26.1)	(12.4)	11.2
Indexation of index-linked debt	(5.4)	0.9	(14.5)
Bond indexation adjustment	-	-	31.2
Other non-cash movements	0.2	0.3	0.4
<b>Movement in net debt during the period</b>	<u>(9.4)</u>	<u>59.7</u>	<u>70.8</u>
<b>Net debt at end of period</b>	<u>(2,817.5)</u>	<u>(2,819.2)</u>	<u>(2,808.1)</u>

## Notes to the condensed consolidated financial statements cont'd

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### 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 as at 31 March 2016. There have been no changes in the risk management approach 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 asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

All of the groups trading and treasury derivatives are categorised at Level 2 and as at 30 September 2016 were valued as follows:

- Assets: Trading derivatives £0.5 million, Treasury derivatives £3.6 million. (31 March 2016: Trading derivatives £0.0 million, Treasury derivatives £3.7 million); and
- Liabilities: Trading derivatives £14.2m, Treasury derivatives £539.0 million. (31 March 2016: Trading derivatives £9.4m million, Treasury derivatives £408.2 million).

Trading derivatives relate to power price hedges and treasury derivatives relate to interest rate swap contracts and are recorded on the balance sheet at fair value. These have all been assessed as Level 2.

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.

The fair values of derivative financial instruments are provided by swap counterparties. The Bloomberg financial dataset platform allows management to perform an independent valuation of these contracts which is then compared to the counterparty confirmations. The total balance sheet liability at 30 September 2016 amounted to £542.3 million (31 March 2016: £414.0 million). These are not readily tradeable instruments and as such the marked to market valuation provided by the swap counterparties is deemed to be the carrying value of the swap.

# Independent review report to Glas Cymru Holdings Cyfyngedig for the six month period ended 30 September 2016

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## Introduction

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 2016 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. We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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.

## 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 group are prepared in accordance with IFRSs 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 *Interim Financial Reporting* 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.

## 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.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) 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.

## Conclusion

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 2016 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU.



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

*Chartered Accountants*  
3 Assembly Square  
Britannia Quay  
Cardiff  
CF10 4AX

4 November 2016

## Appendix 1

Measures of Success		Definition
A1a	Safety of drinking water (% compliance)	Provide safe drinking water that meets the Drinking Water Inspectorate's standards. The percentage of the sample tests that are compliant with the standards. We take over 250,000 sample tests per year at our water treatment works, service reservoirs and at customer taps.
A1b	Safety of drinking water (Mean Zonal Compliance)	Mean Zonal Compliance (MZC) is published annually in the Drinking Water Inspectorate (DWI) report. The MZC covers 39 different parameters, such as iron, lead and aluminium, which are tested to establish the quality of water as received by customers. MZC is calculated as the average of the compliance levels for each parameter in each of our 87 water quality zones, which range in size from 11 to around 40,000 properties.
A2	Customer acceptability	The number of contacts received from customers in the year regarding the appearance, taste or odour of drinking water, expressed as a rate per 1,000 customers.
A3	Reliability of supply	The average number of minutes that customers are without water within our supply area (includes both planned and unplanned interruptions).
B1	Abstraction for water for use	The percentage compliance with our abstraction licences, as issued by regulators.
B2	Treating wastewater	For each of our wastewater treatment works there is a permit which regulates the quality of wastewater the company is allowed to discharge into rivers and coastal waters, which is regulated by the NRW. The measure is the % compliance against the discharge permits.
B3a	Preventing pollutions (categories 1, 2 and 3)	Reduce the number of pollution incidents (caused by blockages or collapsed sewers). Pollution incidents are categorised as category 1, 2 or 3 incident and reported by Natural Resources Wales and the Environment Agency. Category 1 are the most severe and have a major or serious impact on the environment, people or property. Category 2 - significant impact or effect on the environment, people or property. Category 3 - minor or minimal impact on the environment, people or property.
B3b	Preventing pollutions (category 3 only)	As above but only category 3 pollution incidents (minor or minimal impact on the environment, people or property).
C1	Responding to climate change	Reduce the amount of rainwater entering our sewers. The measure is the volume of surface water removed from the system, expressed as the number of equivalent properties.
C2	Carbon footprint	To generate more renewable energy and therefore to offset our carbon emissions and the cost of imported energy (GWh hours per year).
D1	SIM	Service incentive mechanism (SIM) is a measure introduced by the Regulator Ofwat to monitor and report customer service information across all water & wastewater companies as a comparative measure.
D2	At-risk customer service	The number of customers who are on our "at risk" register.. They are deemed to be "at risk" because their service has repeatedly fallen short in one of the following five areas: discolouration of water, interruptions to supply, low pressure, odour from wastewater assets and sewer flooding.
D3	Properties flooded in the year	The number of properties affected by internal sewer flooding per year.
D4a	Business customer satisfaction % satisfied	Business customer satisfaction as measured by either satisfied or very satisfied in the six monthly survey undertaken.
D4b	Non-household customer satisfaction	Business customer satisfaction as measured by the average customer score out of a total of five then converted to a percentage.

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