Glas Cymru Holdings Cyf

Interim report and accounts

for the six months ended
30 September 2021

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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 Group's principal trading company.

(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

2021 marks the twentieth anniversary of Glas Cymru's acquisition of the business of Welsh Water under its 'not-for-shareholder' ownership model. Our core purpose is simple – to provide high-quality and better-value drinking water and environmental services, so as to enhance the wellbeing of our customers and the communities we serve, both now and for generations to come. We know that the part we play in minimising our impact on the environment goes to the heart of enhancing the wellbeing of our customers and communities.

After announcing in June our plans to reach net zero carbon emissions or better by 2040, I am pleased that we are making significant progress towards our target to self-generate all the energy we need for our operations from renewable sources by 2050. So far this year, we have secured a 6% increase in the energy we generate from our extensive renewable portfolio (compared to 2020), utilising key assets such as the £36 million energy park in Wrexham, North East Wales and our £50 million state-of-the-art Advanced Anaerobic Digestion (AAD) facility at Cog Moors Wastewater Treatment Works in the Vale of Glamorgan. We will invest a further £21 million to be 35% energy self-sufficient by 2025 and aim to reduce total carbon emissions by 90% by 2030.

More generally, the last six months have continued to present an array of challenges for the company as we navigate the complexities of delivering essential services whilst protecting our people during difficult times.

HEALTH, SAFETY, AND WELLBEING:

With the ongoing impact of Covid-19, our first priority continues to be the health, safety, and well-being of our colleagues. Our decision to retain our adapted working practices and procedures for operational colleagues, as well as continuing to enable home-working where possible, has allowed us to keep colleagues safe. After our best ever Health and Safety performance in 2020-21 we have seen a slight increase in incidents during the first six months of this year, mostly minor injuries. Our focus currently is on preparing for winter conditions whilst maintaining our Covid-19 related precautions. As an Executive team, we communicate early and often with all colleagues to ensure clear and consistent messaging and have continued to ensure the availability of dedicated resources (Wellbeing Champions, Employee Assistance Programme) to offer support and guidance when needed. Our latest Wellbeing Survey (the fourth survey since May 2020) reported that colleagues felt well supported by the company, building on the positive feedback we mostly received during the previous three survey outcomes.

WORKING WITH COMMUNITIES:

Our contribution to the communities we serve goes beyond providing water and wastewater services. Our Community Fund continues to offer financial support to charities and third sector organisations, and we are proud once again this year to have donated £1,000 to each of over 100 different Trussell Trust foodbanks which operate across Wales and Herefordshire. We are also pleased to have re-opened in June our newly refurbished and extended visitor and water sports centre in Llys-y-Frân (Pembrokeshire) having benefited from a £4 million investment. The site has attracted record numbers of visitors during the summer months, and we are also progressing our plans to restore water-based recreation at the refurbished Llanishen and Lisvane reservoirs in Cardiff. Working closely with the local Reservoir Action Group and wider community, we hope to open the new visitor centre there in 2023.

FINANCIAL:

Despite the ongoing impact of the pandemic, we remain in a strong financial position as detailed below in the Financial Overview. With our credit ratings amongst the highest in our sector, we continue to invest around £1 million a day in maintaining and improving our services. With customer expectations increasing even more stringent operational targets, we need to ensure that we continue to balance this required investment against the need to keep bills affordable. Our continued focus on transparent reporting includes being open and honest about our financing arrangements, and we are proud that in July we became the first company in Wales to secure the Fair Tax Mark.

OPERATIONAL AND CUSTOMER SERVICE PERFORMANCE:

Over the past 6 months, we have faced pressure across many of our performance measures. In Water Services, we continue to provide high quality drinking water although there remain significant challenges and there are multi-year improvement programmes in train. Discolouration of drinking water remains a key focus in some areas, attributable to a combination of cast iron mains and upland raw water sources. Our leakage performance has been impacted by the increased levels of demand placed on the network by the high number of tourists who have visited Wales this year. However, we are putting in additional measures to help us reach our year-end target. We have also faced significant pressure to meet our supply interruptions targets, in part due to two significant burst water mains in south Wales, and we know that we need to improve performance in this area. In Wastewater Services, while we have investigated more potential pollution incidents this year with more customers reporting issues to us and our regulators, we have continued to meet our targets for ensuring that wastewater we release into the environment complies with our environmental permits. We are also achieving our targets for sewage flooding which can be the worst service failure experienced by our customers.

This performance has been achieved against a background of a testing summer period with a combination of hot weather (the Met Office issued its first ever Amber Hot Weather warning for most of Wales in July) and unprecedented levels of 'staycation' tourism in our coastal areas resulting in water demand peaking at 1042 megalitres a day (a 20% increase above average demand levels). Water resource and storage levels remained healthy but we faced difficulties in some areas (Herefordshire, mid and south west Wales) to get enough water through our mains network. The response from colleagues across the business was first class, with our tanker fleet working day and night to maintain water supplies in these areas.

In addition, the high number of tourists in some locations also impacted on our Wastewater Services resulting in significantly increased amounts of effluent being treated at our treatment works. Despite this, colleagues worked hard to ensure that we complied with our environmental permits. With the 'staycation' trend likely to continue, we are now working with planning authorities and tourist sites to review any lessons that can be learnt and encouraging owners to upgrade their own infrastructure to help mitigate any future impact on our networks.

There has been substantial external interest in our environmental performance over the past 6 months, with political and media stakeholders focusing in particular on the role of our Combined Storm Overflows (CSOs). These are a key part of our network and they operate to prevent homes and communities from flooding during periods of intense rainfall. The water which enters our network of sewers has to go somewhere if it exceeds the capacity of our sewage works and with climate change such rainfall is becoming more frequent and more intense. Whilst CSOs are mainly operating as designed and permitted, we recognise that with environmental legislation tightening and customer expectations changing, more needs to be done. We have recently released an additional £20 million funding to improve river water quality, including the performance of some of our CSOs. However, removing all these CSOs and retrofitting our network would take decades and we estimate could cost around £9-£14 billion. We need to work with other local agencies – including local authorities who are responsible for highway drainage – to explore how we, and they, can work together to prevent surface water from overloading our network. We are also exploring innovative nature-based solutions to managing excess sewer flows.

With such an extensive environmental footprint, things can sometimes go wrong. We were fined £180,000 in June after a pollution incident at our Five Fords Energy Park in Wrexham which occurred in September 2018. When we do encounter issues, our emphasis is on fixing the problem and minimising the impact on the environment. Our work to minimise the impact of our operations was recognised when in July 2021 we secured the top 4* rating by Natural Resources Wales and the Environment Agency in their Environmental Performance Assessment for water companies in England and Wales, having successfully met or exceeded targets set for our environmental performance during 2020.

RISKS AND PLANNING:

The past 6 months has presented a number of particular concerns for the water sector more generally. This has included not only the impact of some chemical shortages but also a lack of HGV drivers which affected some of our contractors. I was pleased to be appointed to the UK Government's Cabinet Office Resilience Forum which will provide the opportunity to participate in considering industry-led options to resolve these issues and successfully mitigate any risks. Nonetheless, we remain very alive to, and plan to mitigate, the potential impact of supply chain issues as with other threats such as cyber security which presents an ongoing concern for the water sector and other critical infrastructure sectors. We have made several key appointments over the past 6 months to ensure that we operate at a high-level of cyber security maturity.

Despite the day-to-day demands of leading the delivery of the essential services that we provide, it's important that we continue to plan for the future. This has been a key focus for us in the leadership team and we are already working with stakeholders in preparation for the next price review (PR24). We have begun work on updating the 2050 strategic plan, "Welsh Water 2050" which we published in 2016 to ensure that our strategic thinking reflects the distinct priorities of customers across our supply area and those of Welsh Government as evidenced in its 'Future Wales; the national plan 2040'. Future planning has also involved a focus on the actions we need to take to meet our commitment to reaching "net carbon zero" by 2040.

Finally, I am immensely proud of the way the business, colleagues, and our supply chain have continued to respond to ongoing challenges we have faced over the past 6 months. With solid preparation, careful risk management, and rapid adaptation to changing circumstances, we have continued to deliver our critical services.

Peter Perry
Chief Executive, Welsh Water
4 November 2021

PERFORMANCE OVERVIEW

FINANCIAL OVERVIEW

In the six months to 30 September 2021:

• Our revenue increased by 4% to £401 million (2020: £386 million), principally reflecting a recovery from the negative impact of Covid-19 on revenues last year, as well as price increases and customer growth in the last six months.

• Operating expenditure (excluding exceptional items, infrastructure renewals expenditure, and depreciation) has increased by 7% to £165 million (2020: £154 million), reflecting the impact of the hot weather and staycation holidays during the summer period on tankering, pumping and increased treatment costs. Covid related costs have been reported as operating expenditure in the period as these are now considered to be ongoing costs – in this regard Covid related costs in the period were £2 million of bad debt charges and £1 million of operational costs.

• Infrastructure renewal expenditure (maintenance spend on our below ground network) has decreased by £15 million reflecting a high charge last year due to the impact of atypical weather and Covid-19 and a change in the mix of work being completed.

• Operating profit has increased to £40 million (2020: £1 million), reflecting the revenue, operating expenditure and infrastructure renewal expenditure movements noted above as well as a £3 million decrease in the depreciation charge on our operational fixed assets (some have now been fully depreciated) and taking into account the exceptional costs of £17 million incurred last year.

• Net interest payable in the period (excluding fair value movements on derivatives) remained stable at £67 million (2020: £67 million): a decrease in interest payable resulting from financing activity has been offset by the impact of higher RPI inflation on our index-linked debt.

• Net capital investment totalled £153 million (2020: £187 million), in line to achieve our £1.8 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 £27 million (2020: loss of £66 million) reflecting the movements summarised above.

• The fair value liability of the company's interest rate and energy price swaps has increased by £97 million to £578 million compared to March 2021 (£481 million). This is driven by financial market movements – and this type of fluctuation is not uncommon. If held to maturity, which is the Company's intention, the fair value of these instruments will be zero. After allowing for this (non-cash) movement, the Group reported a total loss before tax of £124 million (2020: loss of £135 million).

• At 30 September 2021, Glas Cymru had cash, short-term deposits and undrawn syndicated bank facilities of £724 million (2020: £773 million), giving the Group a high level of financial liquidity.

• Our regulatory gearing has decreased to 58.8% since March 2021 (60.2%) 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 from Standard and Poor's, Moody's and Fitch respectively and reflect the Group's creditworthiness and robust financial position.

OUR PERFORMANCE

Many of the decisions we take today will have a major impact on our customers, the environment, and the economy for years to come. After consulting with our customers on their priorities we made eight key promises to our customers and colleagues in our business plan for AMP7 (2020-25) and there are in total 56 targets that we want to achieve by 2025 that will benefit our customers, communities, and our environment. In this document, we report our progress on a selection of the most significant of these 56 performance commitments including Ofwat's common performance commitments which apply to all water companies across England and Wales.

At the time of publishing, the Covid-19 pandemic continues to impact the UK. Our aim is to continue to do all that we can to deliver on our commitments to our customers and the environment despite the challenges it presents. However, the pandemic is impacting to some degree our ability to meet the following operational targets:

• Visitors to recreational facilities – we faced difficulties opening during the Spring during the easing of lockdown restrictions and therefore, do not expect to recover the full year target.

• Community education – we have been similarly constrained in operating our education centres and accessing schools, although development of a remotely-delivered lesson will assist.

• Bad debt – we anticipate that the economic impact of the pandemic will cause more of our customers to have difficulty paying their bills. Although we will aim to support them where appropriate through our social tariffs and financial assistance schemes, it is still likely that the proportion of our customer debt that is deemed irrecoverable will increase.

OUR CUSTOMER PROMISES

(1) Clean Safe Water for All

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

• Overall compliance with the Drinking Water Inspectorate Compliance Risk Index (CRI) remains higher at 3.07 (2020: 2.11) than our business plan target of 2.90. (This figure is subject to Drinking Water Inspectorate classification at the end of the calendar year.) The CRI is a risk calculation and a perfect score is zero, indicating no failure of any standard within the entire water supply system.

• A key priority for the company is reducing interruptions to supply. This is calculated as the average number of minutes lost per customer for the whole customer base from interruptions that lasted three hours or more. This increased in the first six months of this year to 9 minutes 55 seconds from 5 minutes 9 seconds over the same period in 2020. The increase was in part caused by significant burst water mains over the summer/early Autumn in Port Talbot and Penarth in South Wales which together accounted for 4.13 minutes (00:04:08) of this total. As a consequence, we do not expect to meet either the Final Determination target for the full year of 6 minutes 8 seconds set by Ofwat for the full year or our 2021-22 business plan commitment of 10 minutes 24 seconds.

• We have been working to reduce the number of occasions customers contact us about the appearance, taste or odour of drinking water. As at September 2021, we had improved our performance for the first half of the year, having received 1.95 contacts per 1,000 customers (2020: 2.23). We are continuing to make improvements at our water treatment works and in managing our networks to improve drinking water quality.

(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 year to date remains in line with our 2021-22 business plan commitment at 99.16% albeit slightly lower than last year (2020: 99.50%).

• We remain committed to reducing the number of times we cause pollutions incidents. In the 9 calendar months to September, we had a total of 79 pollution incidents (category 1, 2 and 3), which is equivalent to 21.79 per 10,000km of sewer (December 2020 calendar year measure: 21.46) which is better than our target of 23.72.

• In line with our commitment to Natural Resources Wales to install event and duration monitors (EDM) on all our Combined Storm Overflows (CSOs), we now have EDMs on 99% of our CSOs. Using the data from these monitors, combined with our river water quality models, we are targeting £101 million to improve water quality as part of a wider £765 million investment in our wastewater assets during our current investment plan (2020-25). We are also working with regulators and stakeholders to address the issues of pollution coming from septic tanks, agriculture, urban run-off and where improvements need to be made in reducing phosphates in discharges from wastewater treatment works.

• We currently generate 23% of our own energy needs through wind, hydro, solar and advance 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.

• The latest research by the Consumer Council for Water (CCW), (July 2021), shows how customers reported higher levels of trust and satisfaction in Wales – where Welsh Water is the largest provider – for water, sewerage and customer services, as well as value for money, compared to the sector in England and Wales more generally.

• We strive to maintain excellent customer service under Ofwat's C-MeX and D-MeX and Business customer satisfaction measures. After the results for Quarter 1 and Quarter 2, we are in 3rd position (out of 17 water companies).

• We continue to focus on improving our D-MeX performance (measuring the service we provide to developer services customers). We are currently in 10th position after Q1 2021/22 (12th position for Q1 2020/21). Our performance against level of service measures (the quantitative component for D-MeX) has improved significantly this year to 2nd position compared to 11th position for the same period in 2020/21. The reaction of developers in Wales to the different legislative arrangements for the provision of water/wastewater infrastructure in Wales has a material impact on the qualitative element of our D-MeX performance.

• We have again increased the number of vulnerable customers registered on our Priority Services Register to 425,364 including 337,810 added on a temporary basis during the Covid-19 pandemic.

(4) Putting things right if they go wrong

We know that we don't always get everything right for our customers first time. This is why we have continued to focus on 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 within their property boundaries.

Over the past six months, we have experienced a number of intense rainfall events – accelerated by climate change – which can cause internal and external flooding as combined sewer networks and highway drainage systems become overwhelmed. We improved our performance in the year to date on the internal measure of sewer flooding at 0.72 (2020: 0.81) and also in the number of external sewer flooding incidents which decreased slightly to 11.3 (2020: 11.49) per 10,000 connections.

(5) Fair bills for everyone

Keeping bills affordable is fundamental to earning and maintaining the trust of our customers. Based on our published charges for 2021/22, the average household bill is forecast to decrease by 1% compared to a 0.6% increase in the consumer price index (including housing costs), and CPIH measure of inflation at the time our charges were set. Since becoming a not-for-shareholder company in 2001, our record on customer bills is the best in the sector. Between 2000 and now, the average household bill has increased at a lower rate than the relevant measures of inflation during that period. Our combined average household bill for water and wastewater services remains higher than the average household bill in England & Wales – driven by past investment in our wastewater assets to protect the second longest coastline in the industry.

• Given the relatively high levels of deprivation in Wales, we know that many customers in the communities we serve live in what's called 'water poverty' – i.e., they are spending 5% of more of their income on water and sewerage bills. We are leading the UK's water sector in the number of people we support to pay their bills. As at September 2021, there are 147,450 (2020: 139,728) customers benefitting from our range of support.

(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 from the outside world. This is why we have continued to pursue a range of partnerships over the past 6 months including:

• School Covid-19 measures continue to impact the number of pupils taking part in our education outreach programme. We have resumed face-to-face school outreach visits following a successful period of live, virtual session delivery. The current year-to-date figure stands at 12,324 pupils but it is unlikely that we will meet our end of year target of 72,000. Our total year to date figure does not include additional education activities undertaken over the past 6 months such our 360° virtual learning platform (viewed by nearly 6,000 pupils) and the use of other online electronic learning resources.

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

(7) Resilience

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

• Ofwat use 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 new measures.

(8) Developing our people

Our people are our most important assets as continue to navigate the challenges of maintaining our services during the ongoing Covid-19 pandemic.

• Covid-19 has reduced the number of training courses we have been able to run in person, although where possible courses are being delivered remotely. Despite this 88% of our colleagues are trained to be fully competent for their role (2020-21 end of year figure: 85%), the remaining 12% of colleagues not defined as "fully competent" largely reflects new starters who are beginning development into their roles.

• We are continuing our "Journey to Zero" for RIDDOR Injuries (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations). We ended the 2020-2021 financial year with our lowest ever number with a total of 6 RIDDORs. This year to date (end of September 2021) we have had 6 RIDDOR injuries. 2 were injuries to employees and 4 were in our wider supply chain. 5 of the injuries were due to slips, trips and falls and our winter safety campaign will focus on prevention of these types of incidents.

• Our employee awards scheme, known as Diolch ('thank you' in English), is our way of saying thank you to our employees for doing a great job or going the extra mile. Now in its fifth year, customers and colleagues can nominate employees for demonstrating our values and behaviours. Over the past 6 months, we have received 824 nominations and given 168 'Diolch' awards.

COMMON PERFORMANCE COMMITMENTS

The table shows our performance as at 30 September 2021 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.

Overall, our operational performance is at or just below target for most measures at the half year. For Leakage reduction and Pollution incidents, the figures given are provisional only for the half year, and may be subject to change.

COMMON PERFORMANCE COMMITMENTS	ACTUAL PERFORMANCE AT 30 SEPTEMBER 2021	2021-22 BUSINESS PLAN PROFILED TARGET	ACTUAL VS PROFILED IBP TARGET	2021-22 BUSINESS PLAN ANNUAL TARGET	2021-22 FD ANNUAL TARGET
Water quality compliance (CRI) C	3.07	2.10	X	2.90	0
Water Supply Interruptions (minutes)	9:55	5.12	X	10:24	6:08
Mains Repairs (per 1000km of water network)	76.2	66.5	X	133.0	137.0
Unplanned outage %	0.39	1.00	√	1.50	2.34
Treatment works compliance % C	99.16	99.16	√	99.16	100
Pollution incidents (per 10,000km of sewer) C	21.79	18.21	X	23.72	23.74
Leakage (% reduction in 3 year average)	2.8	3.9	X	4.2	4.2
Per Capita Consumption (% reduction in 3 year average)	(8.4)	1.4	X	1.4	2.0
Internal sewer flooding (per 10,000 sewer connection)	0.72	0.79	√	1.60	1.63
Sewer collapses (per 1,000 km of sewer connection)	3.62	3.56	X	7.18	7.20
C-MeX	3rd	Top 3	√	Top 3	n/a
D-MeX	11th	9th	X	9th	n/a
Priority Services for Customer in Vulnerable Circumstances Reach %	6.2	6.5	X	7.2	5.0
Risk of severe restrictions in a drought %	measured annually			4.5	4.5
Risk of sewer flooding in a storm %	measured annually			30.38	30.38

C = measured from the start of the calendar year (January to September 2021). All other commitments are measured from the start of the financial year (April to September 2021).

A definition of each Performance Commitment can be found in the Appendix on page 30.

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)
Debra Bowen Rees (Non-Executive Director)
Tom Crick (Non-Executive Director)
Graham Edwards (Non-Executive Director)
Jane Hanson (Non-Executive Director)
Joanne Kenrick (Non-Executive Director)

John Warren (Non-Executive Director) – retired from the Board on 2 July 2021.
No appointments were made during the period.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties affecting the Group for the six months to 30 September 2021 are materially unchanged from those presented on pages 68 to 72 of the Group's published Annual Report and Accounts for the year ended 31 March 2021, save that there is a heightened focus on supply chain risk which has become a more significant risk across the sector. The Annual Report and Accounts are published on the Group's website, www.dwrcymru.com, and are available from the Company Secretary on request. These key risks faced by the Group are as follows: health, safety and wellbeing (serious injury) of employees, customers or members of the public; loss of trust from our customers or key stakeholder groups; failure to achieve performance and cost targets; information security, cyber and IT system loss; resilience and business continuity (both generally and in response to Covid-19 and EU exit situations); impact of severe recession (Covid-19 and Brexit); adapting to and mitigating the effects of climate change; and changes in environmental regulation.

Emerging risks which could affect the Group's ability to achieve its 2020-25 business plan or longer-term strategic goals are also closely monitored. The current such risks identified include occupational health issues; public health micropollutants; public concern about environmental issues, and approach to agile working. These emerging risks are also discussed in the 2020-2021 Annual Report and Accounts of Glas Cymru on page 73.

STATEMENT OF DIRECTORS' RESPONSIBILITIES AND OTHER MATTERS (CONTINUED)

SIGNIFICANT DISPUTES WITH THE POTENTIAL TO IMPACT THE COMPANY

Claims under the Environmental Information Regulations 2004 (EIR):

The Company 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, on the basis that these charges were allegedly levied contrary to the EIR, and injunctive relief. The latest notified collective claimed quantum of the five claims (before claims for interest) is £3.7 million. The Company is seeking some clarification on the quantum claimed but it is not anticipated that this will result in any substantive variance to the total sums claimed. The Court has ordered that the claims be progressed concurrently and with issues to be determined in stages. There is a further case management conference in September 2022, with a first stage trial expected to be listed thereafter. At this stage, settlement is not deemed probable and so no provision has been recognised. The company has continued actively to defend the proceedings.

Infraction proceedings in relation to the Loughor Estuary:

In March 2014, the UK Government was informed of an infraction case alleging breaches of the Urban Wastewater Treatment Directive around the UK, including at the Gowerton and Llanelli catchments in the Loughor Estuary. There has been a programme of investment in the area, including sustainable urban drainage systems, which was welcomed by the European Commission, and which was planned to be completed by the end of 2020. We have continued to provide updates to Welsh Government on the progress of the investment, which they have incorporated into their briefings for DEFRA and the Commission. Construction work has been completed, although the commissioning period at the two sites was further extended as a result of the restrictions relating to the current Covid-19 pandemic but is still expected to have been completed by the end of December 2021.

GOING CONCERN

The financial statements have been prepared on the going concern basis as the Directors have a reasonable expectation that the Group and parent company have adequate resources for a period of at least 12 months from the date of their approval and that there are no material uncertainties to disclose.

In assessing the appropriateness of the going concern basis of accounting the Directors have reviewed the resources available to the Group in the form of cash and committed bank facilities as well as consideration of the Group's capital adequacy, along with a business plan which reflects a view of the estimated impact of the Covid-19 pandemic on the Group.

The business plan reflects a gradual lifting of restrictions relating to the pandemic with unemployment peaking in the current year and recovering to pre-pandemic levels by 2025. CPIH fell to a low in late 2020, is expected to peak this year and is then assumed to gradually recover to the government's long-term target of 2% by 2024. This is considered to be a prudent assumption since higher inflation increases the value of the Company's regulatory capital value and lowers its level of regulatory gearing. Some pressure on the Company's bad debt charge is expected during the current year and next as a consequence of rising unemployment.

Our Covid-19 impact modelling is informed by external reports including those by the Office for Budget Responsibility (OBR) which has published a number of updated coronavirus analyses, the latest being the Economic and Fiscal Outlook released on 27 October 2021. Our performance to date is broadly in line with our business plan, and this latest update from the OBR does not materially impact those forecasts.

The business plan has also been subject to an extreme downside stress scenario, which assumes an additional drop in CPIH of 4% (from 1% to -3%, recovering by March 2023), unemployment at around 12% as well as additional Covid-19 -related revenue reductions and cost pressures. Reduced cash flows would impact on key financial metrics, in particular interest cover ratios. In this extreme downside scenario, gearing and interest covers retain significant headroom within the trigger levels specified in borrowing covenants.

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

By order of the Board

Nicola Williams
Company Secretary
4 November 2021

CONSOLIDATED INTERIM INCOME STATEMENT

	Note	**Six months ended 30 September 2021 (unaudited)**	Six months ended 30 September 2020 (unaudited)	Year ended 31 March 2021 (audited)
		£m	£m	£m
Revenue	2	**401.4**	385.8	778.3
Operating costs				
– Operational expenditure		**(164.8)**	(153.6)	(329.0)
– Exceptional item	3	**-**	(16.8)	(33.5)
– Infrastructure renewals expenditure		**(31.8)**	(47.1)	(74.4)
– Depreciation and amortisation		**(164.9)**	(167.8)	(334.1)
Operating profit		**39.9**	0.5	7.3
Financial expenses				
– Financial income	4	**2.1**	2.7	4.8
– Financial expenses	4	**(68.7)**	(69.6)	(126.1)
– Fair value losses on derivative financial instruments	4	**(97.0)**	(68.4)	(6.8)
		(163.6)	(135.3)	(128.1)
Loss before taxation		**(123.7)**	(134.8)	(120.8)
Taxation	5	**(34.0)**	25.1	21.9
Loss for the period		**(157.7)**	(109.7)	(98.9)
Underlying loss				
Loss before taxation per income statement		**(123.7)**	(134.8)	(120.8)
Adjustment for:				
– Fair value losses on derivative financial instruments	4	**97.0**	68.4	6.8
Underlying loss for the period		**(26.7)**	(66.4)	(114.0)

The notes on pages 18 to 28 are an integral part of these condensed consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 September 2021 (unaudited)	Six months ended 30 September 2020 (unaudited)	Year ended 31 March 2021 (audited)
	Note	**£m**	£m	£m
Loss for the period		**(157.7)**	(109.7)	(98.9)
Items that will not be reclassified to profit or loss:				
Actuarial loss recognised in the pension scheme		**(29.9)**	(56.6)	(1.3)
Related deferred tax	5	**12.7**	10.8	0.3
Revaluation of property, plant and equipment	6	**184.0**	40.6	28.6
Related deferred tax	5	**(129.0)**	(7.7)	(5.4)
Total items that will not be reclassified to profit or loss		**37.8**	(12.9)	22.2
Total comprehensive expense for the period		**(119.9)**	(122.6)	(76.7)

The notes on pages 18 to 28 are an integral part of these condensed consolidated interim financial statements.

CONSOLIDATED INTERIM BALANCE SHEET

	Note	**Six months ended 30 September 2021 (unaudited)**	Six months ended 30 September 2020 (unaudited)	Year ended 31 March 2021 (audited)
	Note	**£m**	£m	£m
Assets				
Non-current assets				
Property, plant and equipment	7	**5,983.9**	5,791.3	5,821.2
Intangible assets		**207.3**	195.4	204.0
Trade and other receivables	8	**0.8**	0.8	0.8
Other financial assets: derivative financial instruments		**14.8**	2.8	3.3
		6,206.8	5,990.3	6,029.3
Current assets				
Inventories		**4.3**	4.0	4.4
Trade and other receivables	8	**402.3**	394.6	570.7
Cash and cash equivalents		**524.4**	592.7	220.9
Other financial assets: derivative financial instruments		**58.7**	40.3	32.6
		989.7	1,031.6	828.6
Total Assets		**7,196.5**	7,021.9	6,857.9
Liabilities				
Current liabilities				
Trade and other payables	9	**(369.8)**	(350.6)	(540.8)
Provisions		**(8.2)**	(6.4)	(8.5)
Other financial liabilities:				
– Borrowings		**(155.4)**	(421.8)	(78.3)
– Derivative financial instruments		**(48.6)**	(25.5)	(39.2)
		(582.0)	(804.3)	(666.8)
Net current assets		**407.7**	227.3	161.8

CONSOLIDATED INTERIM BALANCE SHEET (CONTINUED)

	Note	**Six months ended 30 September 2021 (unaudited)**	Six months ended 30 September 2020 (unaudited)	Year ended 31 March 2021 (audited)
		£m	£m	£m
Non-current liabilities				
Trade and other payables	9	**(418.1)**	(326.8)	(401.9)
Employee benefits		**(121.0)**	(143.6)	(89.9)
Provisions		**(6.8)**	(5.7)	(7.1)
Other financial liabilities:				
– Borrowings		**(3,897.4)**	(3,700.9)	(3,676.6)
– Derivative financial instruments		**(603.2)**	(560.5)	(478.0)
Deferred tax (net)		**(620.6)**	(458.7)	(470.3)
		(5,667.1)	(5196.2)	(5,123.8)
Total liabilities		**(6,249.1)**	(6,000.5)	(5,790.6)
Net assets		**947.4**	1,021.4	1,067.3
Reserves		**947.4**	1,021.4	1,067.3

The condensed consolidated interim financial statements on pages 12 to 28 were approved by the Board of Directors on 4 November 2021 and were signed on its behalf by:

Peter Perry
Chief Executive Officer

Mike Davis
Chief Financial Officer

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN RESERVES

		Six months ended 30 September 2021 (unaudited)	Six months ended 30 September 2021 (unaudited)	**Six months ended 30 September 2021 (unaudited)**	Six months ended 30 September 2020 (unaudited)	Year ended 31 March 2021 (audited)
	Note	Revaluation reserve £m	Retained earnings £m	**Total £m**	Total £m	Total £m
Reserves at start of period		1,157.1	(89.8)	**1,067.3**	1,144.0	1,144.0
Loss for the period		-	(157.7)	**(157.7)**	(109.7)	(98.9)
Actuarial loss net of tax		-	(17.2)	**(17.2)**	(45.8)	(1.0)
Revaluation net of tax	6	55.0	-	**55.0**	32.9	23.2
Transfer to retained earnings	6	(35.1)	35.1	**-**	-	-
Reserves at end of period		1,177.0	(229.6)	**947.4**	1,021.4	1,067.3

The notes on pages 18 to 28 are an integral part of these condensed consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Six months ended 30 September 2021 (unaudited)	Six months ended 30 September 2020 (unaudited)	Year ended 31 March 2021 (audited)
	£m	£m	£m
Cash flow from operating activities			
Loss for the period	**(157.7)**	(109.7)	(98.9)
Adjustments for:			
– Depreciation and amortisation	**164.9**	167.8	334.2
– Net finance cost	**163.6**	135.3	128.1
– Net tax credit	**34.0**	(25.1)	(21.9)
Changes in working capital			
– Decrease in trade and other receivables	**167.2**	179.4	4.0
– (Decrease)/increase in trade and other payables	**(167.0)**	(202.4)	3.3
– Decrease in provisions	**(0.6)**	(3.9)	(0.4)
Cash generated from operating activities	**204.4**	141.4	348.4
Interest paid	**(33.5)**	(32.5)	(110.7)
Income tax received	**1.1**	2.5	2.5
Net cash flow from operating activities	**172.0**	111.4	240.2
Cash flow from investing activities			
Interest received	**2.1**	2.9	5.1
Purchase of property, plant and equipment	**(115.3)**	(138.3)	(277.8)
Purchase of intangible assets	**(20.8)**	(16.9)	(44.6)
Proceeds from sale of plant and equipment	**0.2**	0.1	0.2
Grants and contributions received	**11.3**	6.0	18.2
Net cash flow from investing activities	**(122.5)**	(146.2)	(298.9)
Net cash flow before financing activities	**49.5**	(34.8)	(58.7)
Cash flow from financing activities			
Bond issue	**300.0**	-	-
Bond issue costs	**(2.0)**	-	-
Bond repayment	**-**	-	(325.0)
Term loan repayments	**(29.1)**	(27.0)	-
Payment of lease liabilities	**(14.9)**	(12.8)	(49.9)
Other loan repayments	**-**	(0.1)	(12.9)
Net cash flow before financing activities	**254.0**	(39.9)	(387.8)
Net increase/ (decrease) in cash and cash equivalents	**303.5**	(74.7)	(446.5)
Cash and cash equivalents at start of period	**220.9**	667.4	667.4
Cash and cash equivalents at end of period	**524.4**	592.7	220.9

The notes on pages 18 to 28 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 2021 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 2021. 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 2021.

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 2021 have been extracted from the Group's statutory accounts for that financial year but presented in a different format. 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 2021. The significant judgements and estimates relate to the provision for impairment of trade receivables, pension benefits, parent company's investment in subsidiaries, fair value estimation and capitalisation with the exception of changes in estimates that are required in determining the provision for income taxes. Taxes on income in the interim period are accrued using the tax rate that would be applicable to the expected total annual earnings. The Group has reviewed assets held for any indications of impairment and has made additional provisions against trade debtors and the measured income accrual in expectation of Covid-19 related deteriorations in cash collection.

A further source of estimation uncertainty pertains to the inflation risk premium (IRP) used to determine pension scheme liabilities and which has been set at 0.4% for the interim reports, compared with 0.6% in our March 2021 financial statements. The impact of the change in the IRP applied represents a significant area of judgment, with the change expected to have an impact of increasing the obligation by circa £19m.

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, along with a business plan which reflects a view of the estimated impact of the Covid-19 pandemic on the Group.

The business plan reflects a gradual lifting of restrictions relating to the pandemic with unemployment peaking in the current year and recovering to pre-pandemic levels by 2025. CPIH fell to a low in late 2020, is expected to peak this year and is then assumed to gradually recover to the government's long-term target of 2% by 2024. This is considered to be a prudent assumption since higher inflation increases the value of the Company's regulatory capital value and lowers its level of regulatory gearing. Some pressure on the Company's bad debt charge is expected during the current year and next, as a consequence of rising unemployment.

Our Covid-19 impact modelling is informed by external reports including those by the Office for Budget Responsibility (OBR) which has published a number of updated coronavirus analyses, the latest being the Economic and Fiscal Outlook released on 27 October 2021. Our performance to date is broadly in line with our business plan, and this latest update from the OBR does not materially impact those forecasts.

The business plan has also been subject to an extreme downside stress scenario, which assumes an additional drop in CPIH of 4% (from 1% to -3%, recovering by March 2023), unemployment at around 12% as well as additional Covid-related revenue reductions and cost pressures. Reduced cash flows would impact on key financial metrics, in particular interest cover ratios. In the extreme downside scenario, gearing and interest covers retain significant headroom within the trigger levels specified in borrowing covenants.

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

2. SEGMENTAL INFORMATION

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

	Six months ended 30 September 2021 (unaudited)	Six months ended 30 September 2020 (unaudited)	Year ended 31 March 2021 (audited)
	£m	£m	£m
Regulated revenue			
Water	**158.8**	161.6	323.1
Sewerage	**207.0**	201.6	399.8
Retail	**30.6**	19.7	49.1
Total regulated revenue	**396.4**	382.9	772.0
Other (non-regulated)	**5.0**	2.9	6.3
Total revenue	**401.4**	385.8	778.3

Regulated revenue relates to the provision of water, sewerage and related retail services operating under Dŵr Cymru Cyfyngedig's licence as part of the water industry in England and Wales, regulated by the Water Services Regulation Authority (Ofwat).

2. SEGMENTAL INFORMATION (CONTINUED)

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

During the period to September 2020 and for the year to 31 March 2021 the company incurred significant additional costs as a direct result of the Covid-19 pandemic; due to their size and nature these costs, amounting to £16.8m and £29.4m respectively were disclosed in aggregate as an exceptional item on the face of the income statement. In addition, a further £4.1m of restructuring costs in the year to 31 March 2021 were disclosed as exceptional following a reassessment of the level of restructuring provision, taking into account delays to the restructuring plans as a result of the Covid-19 pandemic which is included in manpower.

During the period to September 2021, costs relating to the Covid-19 pandemic have been reported as operating expenditure in the period as these are now considered to be ongoing costs. As a result, £2 million of bad debt charges and £1 million of operational costs incurred in the period are reported within operating expenditure.

4. FINANCIAL EXPENSES

a) Financial expenses before fair value adjustments

	Six months ended 30 September 2021 (unaudited)	Six months ended 30 September 2020 (unaudited)	Year ended 31 March 2021 (audited)
	£m	£m	£m
Financial income	**2.1**	2.7	4.8
Financial expenses			
Interest payable on bonds	**(47.0)**	(54.2)	(75.6)
Indexation on index-linked bonds	**(10.2)**	(4.0)	(21.2)
Indexation on index-linked loan	**(7.8)**	(1.8)	(3.2)
Interest payable on leases (including swaps to RPI)	**(2.4)**	(4.7)	(11.6)
Other loan interest	**(6.9)**	(8.0)	(16.8)
Other interest payable and finance costs	**(3.3)**	(3.4)	(7.0)
Net interest charge on pension scheme liabilities	**(0.9)**	(1.0)	(2.0)
Capitalisation of borrowing costs under IAS 23	**9.8**	7.5	11.3
	(68.7)	(69.6)	(126.1)
Net finance cost before fair value adjustments	**(66.6)**	(66.9)	(121.3)

4. FINANCIAL EXPENSES (CONTINUED)

b) Fair value losses on derivative financial instruments

	Six months ended 30 September 2021 (unaudited)	Six months ended 30 September 2020 (unaudited)	Year ended 31 March 2021 (audited)
	£m	£m	£m
Fair value losses on interest rate swaps	**(56.4)**	(11.4)	(18.8)
Fair value (losses)/gains on index-linked swaps	**(59.3)**	(65.6)	2.5
Fair value gains on trading derivatives	**18.7**	8.6	9.5
Total fair value losses on derivative financial instruments	**(97.0)**	(68.4)	(6.8)

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 2021 the notional value of the interest rate swap was £192m (March 2021: £192m) and the notional value of the index-linked swaps was £1,718m (March 2021: £1,435m).

5. TAXATION

	Six months ended 30 September 2021 (unaudited)	Six months ended 30 September 2020 (unaudited)	Year ended 31 March 2021 (audited)
	£m	£m	£m
Current tax			
Current tax on loss for the year	**-**	-	-
Current tax on research and development credit	**-**	-	(0.2)
Adjustment in respect of prior periods	**-**	-	0.4
Total current tax	**-**	-	0.2

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

5. TAXATION (CONTINUED)

	Six months ended 30 September 2021 (unaudited)	Six months ended 30 September 2020 (unaudited)	Year ended 31 March 2021 (audited)
	£m	£m	£m
Deferred tax			
Current year movement	**24.1**	25.0	22.3
Adjustment in respect of prior periods	**-**	0.1	(0.6)
Effect of tax rate change on closing deferred tax (from 19% to 25%)	**(58.1)**	-	-
Total deferred tax	**(34.0)**	25.1	21.7
Taxation	**(34.0)**	25.1	21.9

Analysis of amounts charged to the Statement of Comprehensive Income and Revaluation Reserve	**Six months ended 30 September 2021 (unaudited)**	Six months ended 30 September 2020 (unaudited)	Year ended 31 March 2021 (audited)
	£m	£m	£m
Defined benefit pension scheme	**(5.7)**	(10.8)	(0.3)
Reallocation of tax from income statement – pension payments in excess of service charge	**-**	-	-
Increase in corporation tax rate – pension scheme	**(7.0)**	-	-
Credited to the statement of comprehensive income	**(12.7)**	(10.8)	(0.3)
Revaluation of fixed assets	**35.0**	7.7	5.4
Increase in corporation tax rate – revaluation of fixed assets	**94.0**	-	-
Charged to the revaluation reserve	**129.0**	7.7	5.4

5. TAXATION (CONTINUED)

	Six months ended 30 September 2021 (unaudited)	Six months ended 30 September 2020 (unaudited)	Year ended 31 March 2021 (audited)
	£m	£m	£m
Tax reconciliation			
Loss before taxation	**(123.7)**	(134.8)	(120.8)
Loss before taxation multiplied by the corporation tax in the UK of 19% (comparatives: 19%)	**23.5**	25.6	22.9
Effects of:			
Adjustments in respect of prior years	**-**	0.1	(0.1)
Other permanent differences	**(0.5)**	(0.6)	(0.9)
Super deduction of plant and machinery	**1.1**	-	-
Effect of changing rate for deferred taxes from 19% to 25%	**(58.1)**	-	-
	(34.0)	25.1	21.9

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

In the March 2021 Budget, the Chancellor announced that a super deduction of 130% would apply to qualifying plant and machinery expenditure which is contracted for and incurred between 1 April 2021 and 31 March 2023. A tax credit of £1.1m has arisen in respect of qualifying expenditure incurred in the 6 months ended 30 September 2021.

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

Deferred tax has been calculated at 25% for the current period which is the rate that will apply from 1 April 2023, with the exception of temporary differences totalling £83m which are expected to reverse prior to April 2023. Deferred tax has been calculated at 19% for these differences and they comprise £15.8m (£83m x 19%) of the total deferred tax provision.

6. REVALUATION RESERVE

	Six months ended 30 September 2021 (unaudited)	Six months ended 30 September 2020 (unaudited)	Year ended 31 March 2021 (audited)
	£m	£m	£m
Revaluation reserve at start of period	**1,157.1**	1,203.7	1,203.7
Revaluation of assets to RCV	**184.0**	40.6	28.6
Depreciation charge on revalued assets	**(43.3)**	(42.6)	(86.2)
	140.7	(2.0)	(57.6)
Deferred tax on revaluation	**(129.0)**	(7.7)	(5.4)
Deferred tax on depreciation charge	**8.2**	8.1	16.4
	(120.8)	0.4	11.0
Revaluation reserve at end of period	**1,177.0**	1,202.1	1,157.1

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 2021	43.0	2,798.1	4,750.6	278.4	7,870.1
Additions	-	60.3	69.8	1.0	131.1
Disposal	(0.4)	-	-	(0.9)	(1.3)
At 30 September 2021	**42.6**	**2,858.4**	**4,820.4**	**278.5**	**7,999.9**
Accumulated depreciation					
At 1 April 2021	24.1	57.4	1,695.7	271.7	2,048.9
Revaluation	-	(85.6)	(98.4)	-	(184.0)
Charge for the period	0.4	32.8	117.6	1.3	152.1
Released on disposal	(0.2)	-	-	(0.8)	(1.0)
At 30 September 2021	**24.3**	**4.6**	**1,714.9**	**272.2**	**2,016.0**
Net book value					
At 30 September 2021 (unaudited)	**18.3**	**2,853.8**	**3,105.5**	**6.3**	**5,983.9**
At 31 March 2021 (audited)	18.9	2,740.7	3,054.9	6.7	5,821.2
At 30 September 2021 (unaudited) – historic cost basis	**18.3**	**2,059.3**	**2,332.7**	**6.3**	**4,416.6**

The net book value of fixed assets includes £92.0m (March 2021: £85.0m) of capitalised interest. The Board has approved capital expenditure for the year to 31 March 2022 of £287m. While not all of this amount has been formally contracted for as at 30 September 2021, the Group is effectively committed to the total as part of its overall capital investment programme.

8. TRADE AND OTHER RECEIVABLES

	Six months ended 30 September 2021 (unaudited)	Six months ended 30 September 2020 (unaudited)	Year ended 31 March 2021 (audited)
	£m	£m	£m
Current			
Trade receivables	**366.5**	351.2	551.7
Less provision for impairment of receivables	**(78.2)**	(72.6)	(77.8)
Trade receivables – net	**288.3**	278.6	473.9
Prepayments and accrued income	**107.2**	100.5	87.9
Other receivables	**6.8**	15.5	8.9
	402.3	394.6	570.7
Non-current			
Other receivables	**0.8**	0.8	0.8
Total trade and other receivables	**403.1**	395.4	571.5

9. TRADE AND OTHER PAYABLES

	Six months ended 30 September 2021 (unaudited)	Six months ended 30 September 2020 (unaudited)	Year ended 31 March 2021 (audited)
	£m	£m	£m
Current			
Trade payables	**50.8**	40.9	46.6
Capital payables	**14.4**	36.8	18.0
Other taxation and social security	**3.4**	6.0	3.5
Accruals and deferred income	**301.2**	266.9	472.7
	369.8	350.6	540.8
Non-current			
Deferred income	**418.1**	326.8	401.9
Total trade and other payables	**787.9**	677.4	942.7

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

10. ANALYSIS AND RECONCILIATION OF NET DEBT

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

a) Net debt at the balance sheet date may be analysed as:	Six months ended 30 September 2021 (unaudited)	Six months ended 30 September 2020 (unaudited)	Year ended 31 March 2021 (audited)
	£m	£m	£m
Cash and cash equivalents	524.4	592.7	220.9
Debt due after one year	(3,525.5)	(3,262.5)	(3,242.7)
Debt due within one year	(57.0)	(362.7)	(52.8)
Lease liabilities	(396.1)	(411.4)	(411.2)
Accrued interest	(74.2)	(86.1)	(48.2)
	(4,052.8)	(4,122.7)	(3754.9)
Net debt	(3,528.4)	(3,530.0)	(3,534.0)

b) The movement in net debt during the period may be summarised as:	Six months ended 30 September 2021 (unaudited)	Six months ended 30 September 2020 (unaudited)	Year ended 31 March 2021 (audited)
	£m	£m	£m
Net debt at start of period	(3,534.0)	(3,451.5)	(3,451.5)
Movement in net cash	303.5	(74.7)	(446.5)
Movement in debt arising from cash flows	(253.9)	39.6	388.1
Movement in net debt arising from cash flows	49.6	(35.1)	(58.4)
Movement in accrued interest	(26.0)	(37.6)	0.3
Indexation of index-linked debt	(18.0)	(5.8)	(24.4)
Movement in net debt during the period	5.6	(78.5)	(82.5)
Net debt at end of period	(3,528.4)	(3,530.0)	(3,534.0)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

11. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2021. 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 2021, the fair values of derivatives were as follows:

Level 2

– Assets: trading derivatives £4.4m, treasury derivatives £47.1m (March 2021: trading derivatives £3.9m, treasury derivatives £28.1m).

– Liabilities: trading derivatives £nil, treasury derivatives £651.8m (March 2021: trading derivatives £nil, treasury derivatives £517.2m).

Level 3

– Assets: trading derivatives £22.0m (March 2021: trading derivatives £3.9m).

– Liabilities: trading derivatives £nil (March 2021: 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 2021

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 2021 which comprises the consolidated interim income statement, consolidated interim statement of comprehensive income, consolidated interim statement of changes in reserves, consolidated interim balance sheet, consolidated interim statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30 September 2021 is not prepared, in all material respects, in accordance with the recognition and measurement requirements of IAS 34 Interim Financial Reporting.

SCOPE OF REVIEW

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

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

DIRECTORS' RESPONSIBILITIES

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

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

OUR RESPONSIBILITY

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

THE PURPOSE OF OUR REVIEW WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

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

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

4 November 2021

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.
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.