Glas Cymru Holdings Cyf

Interim report and accounts

for the six months ended 30 September 2023

Contents

Notes:

(1) References to Glas Cymru and the Group in this document refer, respectively, to Glas Cymru Holdings Cyfyngedig and the group of companies of which it is the parent; references to Welsh Water relate to Dŵr Cymru Cyfyngedig, the principal trading company in the Group.

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

Chief Executive's statement

It has been 22 years since Dŵr Cymru Welsh Water was acquired by Glas Cymru and established as a not-for-profit company, where any financial surplus is used to accelerate investment service improvements, keep bills lower than they otherwise would be and to provide financial support to customers who are struggling to pay – in all £570 million has been applied to these over the 22 year period. This ownership model, unique in the water sector in the UK, has also underpinned our financial position, reducing gearing from 93% in 2001 to 59% today and providing us with sector-leading credit ratings, putting us in a strong financial position for the next investment period, AMP8 (2025-2030). Our ownership model directly supports our purpose-driven focus to provide high quality and better value drinking water and environmental services, so as to enhance the well-being of our customers and the communities we serve, both now and for generations to come.

Some aspects of our current performance are, however, not meeting the standards our customers and regulators expect or those that we expect of ourselves. We have not shied away from these challenges, continue to be open and transparent in our response, and have put in place strong plans to address the underlying issues. It may, however, take us a number of years to regain our position on some key measures such as the as the amount of time customers experience interruptions to water supplies or levels of leakage.

Over the past couple of years, the sector has been under considerable scrutiny, especially on its environmental performance, and the public has been clear in its desire to see significant improvement in pollution and river water quality in particular. We are very clear as to this imperative and are committed to playing our part to derive that improvement, using our unique ownership model to support that work and accelerate investment where possible (e.g. our investing an additional £100m in 2022/3 towards river water quality improvements over and above the revenues granted by Ofwat in the AMP7 determination). The performance challenges we face are being compounded by more volatile and extreme weather conditions, increasing customer expectations, the cost-of-living crisis and wider economic uncertainty.

In the first six months of 2023/24 levels of customer trust and customer satisfaction remain high compared to the rest of the sector, albeit somewhat lower than we have historically achieved, our support for customers in vulnerable circumstances has remained sector leading, we received amongst the highest level of customer support for our AMP8 Business Plan.

Despite the many challenges we face, our foundations, company ethos and people remain strong and fully committed to maintaining a resilient business, delivering environmental improvements across our communities, providing the levels of service expected by our customers.

Our service to customers

Providing a safe and reliable supply of water is the most vital aspect of our service to customers. Where our performance has deteriorated in recent years, we are making good progress against our recovery plans. This includes accelerating our investment to replace old water mains thereby reducing leakage and implementing a detailed review of our operational structure and response to supply interruptions. In terms of water resources, we went into the Spring in a strong position, helped by Wales receiving 108% of its expected rainfall between January and April 2023, including the wettest March in 40 years. However, the Met Office recorded the second driest May on record, and following a prolonged dry spell in June and July, we had to monitor some of our water resource zones carefully albeit that, by reconfiguring our network and utilising our tanker fleet, we did not need to impose any restrictions on the use of water (hosepipe bans). Again, the volatility in the weather patterns is yet a further example of how our climate is changing.

In terms of wastewater services, while we're slightly behind some of our key targets (treatment works compliance, pollution incidents and internal sewer flooding), we will do everything we can to recover to meet our end of year targets. In July, Natural Resources Wales gave us a two star rating under their 2022 Environmental Performance Assessment (EPA) primarily reflecting the 5 pollution incidents they had assessed as serious during the year. We remain committed to return to 4-star Environmental Performance Assessment as evidenced in our recovery plans and our AMP8 draft Business Plan for 2025-30 building on our already excellent position on bathing water quality, avoidance of drought permits, and 'green' initiatives such as treatment wetlands (which will act as carbon sinks, and provide natural, additional filtration to our wastewater treatment processes). The predominantly wet summer and the resulting incidence of storm overflows operating saw an increase in the public awareness of our proactive coastal bathing alerts and whilst we expect bathing water results for 2023 to remain broadly similar to the positive results secured in 2022, this serves as another illustration of the new level of scrutiny faced by the industry. We are very conscious of the public reaction to those of our sewage works, such as Cardigan, that do not currently process the required level of flow through the works. We have always been completely transparent as to where this is occurring and have plans agreed with our environmental regulator as to the action we need to take, and the timescales for delivery, across our affected works.

We are disappointed with ourselves that Ofwat's recent performance of water companies published in September placed us in the "lagging" category. Work is already underway to tackle those areas where we are behind the pace, supported by detailed investment plans in this current regulatory cycle as well as in 2025-30. Whilst we did outperform on a number of metrics (e.g. customer service and internal sewer flooding) we recognise that more needs to be done to recover performance on some key measures, and have detailed plans to achieve such a recovery. The £24m of penalties we incurred in respect of our 22/23 performance are largely due to the supply interruptions during the freeze thaw of Christmas 2022 and the restatement of our leakage data that we have previously announced. In May, we announced that every Welsh Water customer would receive a £10 rebate after an internal review of our leakage and per capita consumption reporting (i.e. the amount of water used per customer) concluded that elements of our calculations for these key measures for the years 2020-2022 did not comply with regulatory requirements. Our internal assurance process had identified this issue which we then reported to Ofwat. We are now investing an additional £54 million over the next 2 years to improve our leakage performance.

Working with customers and communities

We recognise the ongoing cost-of-living challenges facing our customers and have increased the sector-leading support we provide to 131,446 customers in vulnerable circumstances (2022: 126,756), deploying funding made possible by our not-for-profit status. Given that we serve some of the most deprived communities in the UK, we were pleased to roll out our new social tariff in July, called Cymuned. This financial support, which is offered in partnership with Citizens Advice, Warm Wales and StepChange Debt Charity, helps working households who are struggling to afford their water bills and is a key part of the offering from our *Vulnerable Customer* Community Team.

Preparing for the future

A key focus for the past 6 months has been finalising our Business Plan for 2025-30 which was submitted to Ofwat in early October. This plan, governed by the need for it to be deliverable, affordable and financeable, has been driven by the strategic steers determined by the PR24 Forum in Wales, chaired by the Welsh Government and including the Welsh water companies, our environmental, economic and water quality regulators, and our independent Challenge Group. The work of this Group has ensured that our plan reflects a societal view of priorities, rather than just our own perspective. I would like to thank everyone who has contributed to the Plan which if approved by Ofwat, will result in our biggest ever investment programme, worth £3.5 billion investment over the five years, equivalent to a 68% increase on the investment in progress between 2020 and 2025. A key focus of the Plan is to adopt a collaborative approach to reducing our impact on the environment, in particular playing our part in helping improve river water quality. We are committing to invest nearly £2 billion in the environment for 2025 to 2030 – 84% more than during 2020-25.

We have been open and honest with customers and explained that the average monthly bill will increase by £5 in 2025, rising to £10 by 2030. It was therefore reassuring that our research has shown that, whilst many regret the bill increase, 84% of customers find the overall plan to be acceptable, and that our customers feel that the substantial increase in investment in our wastewater business in particular should not be postponed.

We are already taking steps to ensure that we are fully ready to implement this new Plan from its outset in 2025. Internally, we are reviewing organisational and workforce arrangements to ensure its successful delivery. Externally, we are working with our supply chains to give them clear visibility of the projects we have planned to ensure that they have sufficient capacity to fulfil our procurement requirements and can do their own preparatory work ahead of time. This will help ensure a smooth transition into this next investment period (2025-30).

Our stakeholders and colleagues

Our performance as a company as well as the wider sector continues to be scrutinised closely by stakeholders and we have welcomed the opportunity to discuss our performance and plans with the First Minister (Mark Drakeford MS) and the Minister for Climate Change (Julie James MS). We are often described as an 'anchor' company here in Wales given the scale and economic impact of our operations and this was substantiated in July by Cardiff University's Welsh Economy Research Unit describing us an 'anchor to the anchor companies'. We contribute more than £1 billion to the Welsh economy each year and now support more than 9,100 jobs across Wales, directly and indirectly, 50% more than in 2013. Our Gross Value Added contribution (GVA - a measure of the true 'worth' of economic activity to Wales) has also increased more than 20% over the last decade.

The world in which we operate may be changing but our determination to do what's best for our customers remains unchanged. This is driven by our colleagues' desire to 'earn the trust of customers every day'. Our last annual Employee Engagement Survey received an 84% completion return and a 75% overall engagement score, up from 69% in 2022. The safety of colleagues remains paramount, and following our best ever Health and Safety performance in 2022-23, we have had 3 RIDDOR injuries in the year to date (compared to 1 RIDDOR between April 2022 and March 2023) which we much regret and have fully investigated their causes and how to avoid their reocurrence. We operate in a hazardous industry and remain committed to our "Journey to Zero" for RIDDOR Injuries (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations).

Chief Executive’s statement (continued)

The Glas Cymru Board continues to play a key role in helping guide the company and providing the challenge and oversight required to ensure that we remain sustainable, resilient and purpose driven amidst ongoing macroeconomic uncertainty. I want to take this opportunity to thank Graham Edwards OBE, Senior Independent Director and Chair of the Quality and Safety Committee (QSC), who retired at our AGM in July. Graham joined the Board in 2013 and his sound advice and knowledge of the wider utilities sector have been invaluable.

As a non-shareholder company, we are a commercial organisation but very much with a social purpose. I outlined at the outset how this operating model continues to deliver more for our customers, communities and stakeholders than if we also had shareholders to consider. The last 6 months has again presented difficult challenges but with a clear single purpose, our model allows us to focus on the fundamentals and navigate these challenges while also thinking ahead for the long term to ensure that we, and the services we provide, remain resilient and fit for purpose for future generations.

Peter Perry
Chief Executive, Welsh Water
10 November 2023

Performance overview

Financial overview

In the six months to 30 September 2023:

- our revenue increased by 8% to £464 million (1H 2022: £428 million), principally reflecting price increases, consumption rises and customer growth over the past 12 months.

- operating expenditure (excluding impairment of trade and other receivables, infrastructure renewals expenditure, and depreciation) has increased slightly by 2% to £182 million (2022: £179 million) with a rise in employment costs and chemical prices caused by inflation, along with increased IT Cloud contracts, consultancy fees and sludge treatment offset by a reduction in capitalised employment costs and leakage spend reported as infrastructure renewal expenditure.

- infrastructure renewal expenditure (maintenance spend on our below ground network), is £11m higher than last year, reflecting leakage spend, consistent with our accounting policy. General increases in volumes of reactive maintenance and leakage repairs also contributed to this increase.

- operating profit has increased by 12% to £37 million (2022: £33 million), reflecting movements noted above as well as a non-cash related £18 million increase in the depreciation charge on our operational fixed assets mainly caused by the valuation of our fixed assets increasing by c.8% compared to September 2022.

- net interest payable in the period (excluding fair value movements on derivatives) has decreased slightly by £3 million to £124 million (2022: £127 million) reflecting mainly higher deposit rates increasing interest received.

- net capital investment totalled £201 million (2022: £167 million) and is in line to achieve our £2.0 billion AMP7 (2020 to 2025) investment programme of improvements to customer service and the environment.

- the underlying loss (excluding fair value movements) for the period was £86 million (2022: £93 million) reflecting the movements summarised above.

- the fair value liability of the company's interest rate and energy price swaps has decreased by £66 million to £369 million compared to March 2023 (£435 million). This change is driven by financial market movements which is as expected considering the macro-economic environment. If held to maturity, which is the Company's intention, the fair value of these instruments will be zero.

- the Group reported a total loss before tax of £17 million (2022: profit of £137 million).

- at 30 September 2023, Glas Cymru had cash, short-term deposits and undrawn syndicated bank facilities of £525 million (March 2023: £579 million), giving the Group a high level of financial liquidity.

- our gearing has increased to 59.2% since March 2023 (58.1%) and remains in line with the target level set by the Glas Cymru Board of around 60%.

- our credit ratings continue to be amongst the highest in the sector at A-/A3/A for senior Class B debt from Standard and Poor's, Moody's and Fitch respectively. Fitch affirmed our senior and junior debt ratings during the year, both with a stable outlook. We are awaiting present year credit rating reviews from both Moody's and S&P.

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

Our Customer Promises

(1) Water: 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) this calendar year at 6.88 is adverse to target (3.38) (2022: 4.12). This is largely due to another failure at our largest treatment works at Felindre where we are undertaking £16m of maintenance to maintain good water quality standards. We have also had a number of iron failures and improving our performance in terms of discolouration and customer acceptability of drinking water (i.e. taste, odour and appearance) across our network is a key area of focus for the company.

- The average number of minutes that a customer has their supply interrupted is currently 10.53 minutes against our target of 4.24 minutes (2022: 8.14). This has been impacted by large diameter pipeline bursts in Cardiff, Newport and Haverfordwest over the summer months.

- In terms of leakage, this remains behind our target which is expressed as a 3-year average: on this basis we have outturned an increase in Leakage of 14.3% compared to our target of a 10.4%. increase. We've experienced a number of large trunk main failures referenced above and also repeated mains failures in rural locations, particularly in South West Wales where it can be difficult to locate and access burst mains. We remain optimistic that our Leakage Recovery Plan will provide performance improvements and we have proposed a major programme of mains replacement as part of our PR24 submission.

(2) Environment: We take our responsibility for the environment every bit as seriously as our commitments to customers.

- Overall treatment works compliance at 98.16% was slightly below target (99.16%) due to a challenging start to the year, with a number of works suffering operational problems in the dry spring. Performance has stabilised over summer and into the autumn.

  Our performance in relation to internal sewer flooding at 0.75 (per 10,000k of sewer connections) is slightly behind our target of 0.68. This commitment in significantly influenced by the weather and recent storm weather events such as in Wrexham in July have impacted this measure.

- Whilst as mentioned above we recorded 5 serious pollution incidents up to September 2023, compared to 5 during the whole of 2022, we remain amongst the best performers in the water industry in terms of total pollution incidents, with the number of such incidents having halved over the past 10 years.

- We currently generate 25% of our own energy needs through wind, hydro, solar and advanced anaerobic digestion (AAD) with the rest procured from 100% renewable energy resources. We anticipate this to be the case across the remainder of the financial year and plan to be 35% energy self-sufficient by 2025. Our proactivity in switching to self-generation of renewables is a key component of our plan to be 100% energy self-sufficient - or energy neutral - by 2050.

(3) Customers: 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.

- Having secured 4th place ranking out of all the 17 companies in the water sector (and 3rd from amongst the water and sewerage companies) in the end of year 2022/3 C-MeX results, we were in 5th position for the first half of 2023/24. We are currently implementing actions plans to help recover our customer service performance.

- We continue to focus on improving our performance to developers and hosted our twelfth Developer Services forum in 2023, updating developers on our unique and comprehensive Developer Service Customer Commitment, which sees us make automatic goodwill payments to customers where we fail to deliver services on time. In the last financial year (2022/23), we undertook almost 23,000 transactions with only 0.002% (58) of these failing to achieve the required timescale.

- Since April, most of our household customers have experienced an increase in their typical combined water and wastewater bills of between 8% and 9.4%. This rise was due to the significant increase in the rate of inflation, in particular affected by the price of energy and chemicals, reflecting the well-publicised global and national factors affecting the economy towards the end of last year and in early 2023. We absorbed as much of these costs as possible but we are not immune to these cost pressures.

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

Performance overview (continued)

- Building on last year's school engagement success, our team of seconded, qualified teachers have since undertaken over 300 school visits - delivering curriculum-led content to 33,000 pupils to the end of September 2023. This involved spending over 450 hours with pupils in classrooms – ensuring this free provision continues to be meaningful and highly valued by schools. We are confident that we can meet our target to support 74,000 pupils by the end of the year. Partnership working and digital delivery also continue to be a key part of our strategy, ensuring that future generations receive the greatest benefit from, and access to, our education support.

- Under our Water Resilient Communities Project (a place-based approach aimed at bringing together colleagues from different teams - vulnerable customer, education, career, debt, water efficiency and wastewater network – to provide targeted support in a certain area), our Education Team joined forces with the Literacy Trust and the Eden Gate Centre to support adults with learning difficulties to improve their reading and spelling, thus making it easier for them to access support services.

- We were also pleased to have the Welsh Government's Deputy Minister for Mental Health and Wellbeing, Lynne Neagle, and Senedd Member for Cardiff North Julie Morgan formally open our new Visitor Centre at Lisvane and Llanishen reservoirs (Cardiff) in September. The community has been long concerned about the site being developed for housing but having secured the long term lease of the site in 2016 and refilled both reservoirs, we have worked closely with partners and the local community over recent years and are proud to have created a hub for health and well-being offering a range of water activities whilst protecting the site's biodiversity.

Common performance commitments

The table shows our performance for the six months ended 30 September 2023 for Ofwat's performance commitments These performance measures are measured throughout the year (unlike some other measures which are measured annually) thereby allowing us to provide in year updates. These performance measures are common to all water and sewerage companies in England and Wales. In some instances, the business plan targets shown below, 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.

C = measured from the start of the calendar year (January to September 2023). All other commitments are measured from the start of the financial year (April to September 2023). A definition of each Performance Commitment can be found in the Appendix on page 28.

Performance Commitments		Actual performance 6 months to 30/09/2023	Actual Performance 6 months to 30/09/2022	Target Performance 6 months to 30/09/23
Water quality compliance (CRI) **C**		6.88	4.12	3.38
Water Supply Interruptions (minutes : seconds)		10:53	08:14	04:24
Mains Repairs (per 1000km of water network)		69.5	68.7	65.3
Unplanned outage %		0.29	0.3	0.75
Treatment works compliance % **C**		98.16	99.16	99.16
Pollution incidents (Per 10,000km of sewer) **C**		18.48	25.38	16.83
Per Capita Consumption * (reduction in 3 year average)	% reduction	-5.5	-12	-2.6
	l/hd/d	153.8	163.2	149.5
Leakage * (reduction in 3 year average)	% reduction	-14.3	-8.1	-10.4
	Ml/d	248.1	234.6	239.6
Internal sewer flooding (per 10,000 sewers connections)		0.75	0.39	0.68
Sewer collapses (per 1,000 km of sewers)		2.53	2.9	3.26
C-MeX		5th	4th	Top 3
Priority Services for Customer in Vulnerable Circumstances Reach %		11	9.1	7.8

"*" negative values reflect an increase in the period in these measures.

The actual performance figures for the six months to 30 September 2022 for Water Supply Interruptions, Mains Repairs and Leakage % reduction have changed from those reported in the Interim Report and Accounts to 30 September 2022. Those figures reported were based on the best data available at that time, and have been amended following subsequent review and as part of year end reporting, when all measures are fully audited and assured.

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 IAS 34 as contained in UK adopted IFRS.

- the interim management report includes a true and 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)
Jane Hanson (Non-Executive Director)
Joanne Kenrick (Non-Executive Director)
Lila Thompson (Non-Executive Director)
Barbara Moorhouse (Non-Executive Director)

Principal risks and uncertainties

The principal risks and uncertainties affecting the Group for the six months to 30 September 2023 are materially unchanged from those presented on pages 90 to 99 of the Group's published Annual Report and Accounts for the year ended 31 March 2023. The Annual Report and Accounts are published on the Group's website, www.dwrcymru.com, and are available from the Company Secretary on request. These key risks faced by the Group are as follows: public concerns about environmental issues; business continuity; climate change impacts and transition risks; health and safety major incident; information security, cyber risk and risk of IT system loss; performance and cost; loss of customer trust; loss of key talent, capability and competence; and macroeconomic risk that includes the cost of living crises and inflation and access to funding.

Emerging risks which could affect the Group's ability to achieve its 2020-25 business plan or longer-term strategic goals are also closely monitored. The current two emerging risks identified include; public health (micropollutants in drinking water and plastics in wastewater) and legislative divergence (increased costs from compliance with obligations that may diverge in England and Wales). These emerging risks are also discussed in the 2022/23 Annual Report and Accounts of Glas Cymru on page 98.

Significant matters with the potential to impact the company

Leakage and Per Capita Consumption
As reported in 2022/23 our internal assurance processes found that for the two financial years 2020/21 and 2021/22 we misstated the leakage from our networks. On 25 May 2023 Ofwat announced an investigation into our reporting. We have shared with Ofwat the findings of our internal investigations, the remedial actions we have taken and our customer redress proposals. We have already actioned £15 million of customer rebates and proposed to Ofwat that we voluntarily forego recovery of that element of regulatory overspend during 2020/21 and 2021/22 that is attributable to leakage expenditure, amounting to £14 million. We believe this is an appropriate package of customer redress for our regulatory misreporting in 2020/21 and 2021/22. However, the final decision rests with Ofwat and will not be known until their investigation is completed, the timing of which is uncertain.

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

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

In assessing the appropriateness of the going concern basis of accounting the Directors have reviewed the resources available to the Group in the form of cash and committed bank facilities headroom which stands at £525m at 30 September 2023, comprising cash of £325m and revolving credit facilities of £200m, as well as consideration of the Group's capital adequacy. In doing so, the Directors have extended the going concern period beyond 12 months to identify any material debt repayments that may arise. The Group is due to repay £251m of finance leases late in November 2024, which when combined with other debt and interest payments, together with the expiry of the existing revolving credit facilities (RCFs), is projected to use up the Group's liquidity headroom at that time. The £200m of RCFs all have expiry dates at the end of November 2024.

The Board has approved a Treasury refinancing strategy which sets out the approach to be followed to meet the Company's financing needs for the next 6 years. The Group has evaluated the present market environment and considered our AMP 8 refinancing requirement, where we will refinance over £3bn, with the intention to increase and extend the revolving credit facilities and take out a short-term loan by May 2024 to alleviate any forecast liquidity issues in the short-term. The implementation of this strategy is underway. The Group has held meetings with a number of its relationship banks and other lenders, with positive engagement and has received offers with indicative terms, subject to credit approval, which are well in excess of the required financing amount. The Group's strategy to increase the revolving credit facilities to c.£400m and raise at least £100m in term loans would provide access to projected cash and committed bank facilities of c.£400m in November 2024 when the lease repayments fall due, and of £365m by March 2025.

The Group has maintained active relationships with a number of lenders and also monitors market trends, being aware of the regular, well-subscribed debt issuances in the sector. Considering the Group's credit ratings being among the highest in the industry, the Directors are confident in the Group's ability to raise the required funds, in a timely manner and at a competitive rate, with various alternative options available such as early issuance of our AMP 8 refinancing, private placements and term loans.

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

The Directors have considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, and the likely effectiveness of mitigating actions that the Directors would consider undertaking. The financial plan has been subjected to a number of severe but plausible downside scenarios in order to assess the group's ability to operate within existing covenants and facilities. These scenarios consider: the potential impacts of increased totex costs, including a significant one-off totex impact arising in the assessment period; low and high inflation environments; elevated levels of bad debt; outcome delivery incentive penalties; and the impact of these factors materialising on a combined basis. Mitigating

Statement of Directors’ responsibilities and other matters (continued)

actions were considered to include: deferral of capital expenditure; a reduction in other discretionary totex spend; and the extension of revolving credit facilities.

The Directors have also assessed the potential impacts resulting from the cost-of-living crisis and interest rates presently affecting the UK, and although they generate a negative impact on our financials, none of these factors pose a significant concern to disclose in relation to the Group’s ability to continue as a going concern once our debt plan has been executed. Reduced cash flows would impact on key financial metrics, in particular interest cover ratios. In the extreme downside scenario, gearing and interest covers retain headroom within the trigger levels specified in borrowing covenants; and whilst the reduced cash flows weaken our financial metrics, they remain within rating agencies’ guidance for our current ratings.

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

By order of the Board

Nicola Foreman
Company Secretary
10 November 2023

Condensed income statement for the six months ended 30 September 2023

	Note	Six months ended 30 September 2023 (unaudited) £m	Six months ended 30 September 2022 (unaudited) £m	Year ended 31 March 2023 (audited) £m
Revenue	*2*	**464.3**	428.2	843.8
Operating costs				
- Operational expenditure		**(181.6)**	(179.0)	(376.1)
- Impairment of trade and other receivables		**(12.2)**	(11.7)	(24.8)
- Other operating income		**2.4**	2.6	5.3
- Exceptional item	*3*	**-**	-	(30.8)
- Infrastructure renewals expenditure		**(48.8)**	(37.8)	(78.0)
- Depreciation and amortisation		**(186.9)**	(169.4)	(346.8)
Operating profit/(loss)		**37.2**	32.9	(7.4)
Profit on disposal of fixed assets		**0.3**	0.2	0.3
Profit/(loss) before interest		**37.5**	33.1	(7.1)
Financial expenses				
- Financial income	*4*	**10.8**	5.1	14.9
- Financial expenses	*4*	**(134.5)**	(131.6)	(318.5)
- Fair value gains on derivative financial instruments	*4*	**65.7**	286.2	160.2
		(58.0)	159.7	(143.4)
(Loss)/profit before taxation		**(20.5)**	192.8	(150.5)
Taxation	*5*	**3.9**	(55.4)	25.8
(Loss)/profit for the period		**(16.6)**	137.4	(124.7)

Underlying loss				
(Loss)/profit before taxation per income statement		**(20.5)**	192.8	(150.5)
Adjustment for:				
- Fair value (gains) on derivative financial instruments	*4*	**(65.7)**	(286.2)	(160.2)
Underlying loss for the period		**(86.2)**	(93.4)	(310.7)

The notes on pages 17 to 25 are an integral part of these condensed consolidated interim financial statements.

Condensed statement of other comprehensive income for the six months ended 30 September 2023

	Note	Six months ended 30 September 2023 (unaudited) £m	Six months ended 30 September 2022 (unaudited) £m	Year ended 31 March 2023 (audited) £m
(Loss)/profit for the period		**(16.6)**	137.4	(124.7)
Items that will not be reclassified to profit or loss:				
Actuarial gain recognised in the pension scheme		**43.4**	130.6	124.5
Related deferred tax	*5*	**(16.7)**	(32.6)	(31.1)
Revaluation of property, plant and equipment	*6*	**168.7**	349.7	593.4
Related deferred tax	*5*	**(42.2)**	(87.4)	(148.4)
Total items that will not be reclassified to profit or loss		**153.2**	360.3	538.4
Total comprehensive income for the period		**136.6**	497.7	413.7

The notes on pages 17 to 25 are an integral part of these condensed consolidated interim financial statements.

Condensed balance sheet as at 30 September 2023

		At 30 September 2023 (unaudited)	At 30 September 2022 (unaudited) Restated	At 31 March 2023 (audited) Restated
Assets	*Note*	**£m**	**£m**	**£m**
Non-current assets				
Property, plant and equipment	*7*	**7,178.7**	6,634.1	6,970.2
Intangible assets		**197.2**	189.1	202.6
Trade and other receivables	*8*	**0.7**	0.7	0.7
Employee benefits		**38.0**	52.3	12.0
Other financial assets: derivative financial instruments		**5.3**	8.3	4.1
		7,419.9	6,884.5	7,189.6
Current assets				
Inventories		**6.3**	4.8	5.3
Trade and other receivables	*8*	**463.0**	425.8	648.6
Cash and cash equivalents		**324.8**	499.8	379.4
Other financial assets: derivative financial instruments		**1.3**	42.5	5.8
		795.4	972.9	1,039.1
Total assets		**8,215.3**	7,857.4	8,228.7
Liabilities				
Current liabilities				
Trade and other payables	*9*	**(450.9)**	(435.7)	(685.8)
Provisions		**(2.9)**	(2.9)	(17.8)
Other financial liabilities:				
- borrowings		**(123.2)**	(97.7)	(94.7)
		(577.0)	(536.3)	(798.3)
Net current assets		**218.4**	436.6	240.8
Non-current liabilities				
Trade and other payables	*9*	**(601.6)**	(470.9)	(540.8)
Employee benefits		**(2.4)**	(2.1)	-
Provisions		**(5.4)**	(5.2)	(5.4)
Other financial liabilities:				
- borrowings		**(4,133.4)**	(4,029.0)	(4,090.9)
- derivative financial instruments		**(375.5)**	(359.4)	(444.5)
Deferred tax (net)		**(856.7)**	(843.8)	(822.1)
		(5,975.0)	(5,710.4)	(5,903.7)
Total liabilities		**(6,552.0)**	(6,246.7)	(6,702.0)
Net assets		**1,663.3**	1,610.7	1,526.7
Revaluation reserve		**1,768.6**	1,562.0	1,692.0
Retained earnings		**(105.3)**	48.7	(165.3)
Reserves		**1,663.3**	1,610.7	1,526.7

The condensed consolidated interim financial statements on pages 12 to 25 were approved by the Board of Directors on 10 November 2023 and were signed on its behalf by:

Peter Perry
Chief Executive Officer

Mike Davis
Chief Financial Officer

The comparators for derivative financial instruments have been restated. There is no impact on overall net assets. More information is available under note 1 to these financial statements.

Condensed statement of changes in reserves for the six months ended 30 September 2023

	Note	Six months ended 30 September 2023 (unaudited) Revaluation reserve £m	Six months ended 30 September 2023 (unaudited) Retained earnings £m	**Six months ended 30 September 2023 (unaudited) Total £m**	**Six months ended 30 September 2022 (unaudited) Total £m**	**Year ended 31 March 2023 (audited) Total £m**
Reserves at start of period		1,692.0	(165.3)	**1,526.7**	1,113.0	1,113.0
(Loss)/profit for the period		-	(16.6)	**(16.6)**	137.4	(124.7)
Actuarial gain net of tax		-	26.7	**26.7**	98.0	93.4
Revaluation net of tax	*6*	126.5	-	**126.5**	262.3	445.0
Transfer to retained earnings		(49.9)	49.9	**-**	-	-
Reserves at end of period		1,768.6	(105.3)	**1,663.3**	1,610.7	1,526.7

The notes on pages 17 to 25 are an integral part of these condensed consolidated interim financial statements.

Condensed statement of cash flows for the six months ended 30 September 2023

	Six months ended 30 September 2023 (unaudited) £m	Six months ended 30 September 2022 (unaudited) £m	Year ended 31 March 2023 (audited) £m
Cash flow from operating activities			
(Loss)/profit for the period	**(16.6)**	137.4	(124.7)
Adjustments for			
- Depreciation and amortisation	**186.6**	169.2	346.5
- Net finance charge/(income)	**58.0**	(159.7)	143.4
- Net tax (credit)/charge	**(3.9)**	55.4	(25.8)
Changes in working capital			
- Decrease/(increase) in trade and other receivables	**182.3**	168.5	(54.6)
- (Increase) in inventories	**(1.0)**	(0.5)	(1.0)
- (Decrease)/increase in trade and other payables	**(211.7)**	(171.6)	50.8
- (Decrease)/increase in provisions	**(14.9)**	(0.4)	14.7
- Exceptional item – pension increase	**-**	-	30.8
Cash generated from operating activities	**178.8**	198.3	380.1
Interest paid	**(37.8)**	(37.3)	(149.6)
Income tax received	**0.5**	0.5	0.6
Net cash flow from operating activities	**141.5**	161.5	231.1
Cash flow from investing activities			
Interest received	**10.4**	4.3	13.4
Purchase of property, plant and equipment	**(167.9)**	(152.3)	(296.6)
Purchase of intangible assets	**(16.7)**	(4.6)	(38.6)
Proceeds from sale of plant and equipment	**0.3**	0.2	0.4
Grants and contributions received	**12.7**	23.3	30.5
Net cash flow from investing activities	**(161.2)**	(129.1)	(290.9)
Net cash flow before financing activities	**(19.7)**	32.4	(59.8)
Cash flow from financing activities			
Term loan repayments	**(34.9)**	(31.0)	(58.4)
Payment of lease liabilities	**-**	(16.7)	(17.5)
Net cash flow from financing activities	**(34.9)**	(47.7)	(75.9)
Net decrease in cash and cash equivalents	**(54.6)**	(15.3)	(135.7)
Cash and cash equivalents at start of period	**379.4**	515.1	515.1
Cash and cash equivalents at end of period	**324.8**	499.8	379.4

The notes on pages 17 to 25 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 2023 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 2023. 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. For details of future changes to accounting standards and how these will impact on the Group please refer to the published Annual Report and Accounts for the year ended 31 March 2023. No new IFRS standards have been issued or come into effect since 31 March 2023.

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 2023.

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 2023 are not the Group's statutory accounts for that financial year. Those accounts have been reported on by the Group's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. No events or transactions took place during the current interim period which are material to one's understanding of these financial statements.

The Company is limited by guarantee and does not have any share capital. In the event of the Company being wound up, the liability of its members is limited to £1 each.

Estimates and judgements

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenditure. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period were the same as those that applied to the consolidated financial statements for the year ended 31 March 2023. The significant judgements and estimates relate to the provision for impairment of trade receivables, pension benefits, parent company's investment in subsidiaries, fair value estimation and capitalisation with the exception of changes in estimates that are required in determining the provision for income taxes. Taxes on income in the interim period are accrued using the tax rate that would be applicable to the expected total annual earnings. The Group has reviewed assets held for any indications of impairment and has made provisions against trade debtors and the measured income accrual related to a deterioration in cash collection.

A further source of estimation uncertainty pertains to the inflation risk premium (IRP) which is used in the setting of the inflation rate assumptions for pension benefits has been set at 0.4% for the interim reports (March 23: 0.4%). This a significant area of judgment, with a 0.1% change expected to have an impact of increasing the obligation by circa £5m.

Going concern

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

Notes to the condensed consolidated interim financial statements

1. Basis of preparation (continued)

Going concern (continued)

In assessing the appropriateness of the going concern basis of accounting the Directors have reviewed the resources available to the Group in the form of cash and committed bank facilities headroom, as well as consideration of the Group's capital adequacy.

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

The Directors have considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, and the likely effectiveness of mitigating actions that the Directors would consider undertaking. The financial plan has been subjected to a number of severe but plausible downside scenarios in order to assess the group's ability to operate within existing covenants and facilities. These scenarios consider: the potential impacts of increased totex costs, including a significant one-off totex impact arising in the assessment period; low and high inflation environments; elevated levels of bad debt; outcome delivery incentive penalties; and the impact of these factors materialising on a combined basis. Mitigating actions were considered to include: deferral of capital expenditure; a reduction in other discretionary totex spend; and an extension of revolving credit facilities. The Directors have also assessed the potential impacts resulting from the cost-of-living crisis and interest rates presently affecting the UK, and although they generate a negative on our financials, none of these factors pose a significant concern to disclose in relation to the Group's ability to continue as a going concern.

Reduced cash flows would impact on key financial metrics, in particular interest cover ratios. In the extreme downside scenario, gearing and interest covers retain headroom within the trigger levels specified in borrowing covenants; and whilst the reduced cash flows weaken our financial metrics, they remain within the investment grade credit rating and in compliance with our borrowing covenants. This is based on the judgement our revolving credit facilities will be renewed by the latest November 2024 next year, co-insiding with the next forecasted debt repayment, which will provide the Group sufficient cash headroom. Discussions are ongoing with lenders with favourable indicators this will not present any material uncertainties to the determination of the Group continuing as a going concern.

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.

Restatement

The balance sheet comparators for 30 September 2022 and 31 March 2023 have been restated for the presentation of derivative financial instruments. Derivative financial instruments are now presented as a single unit of account, whereas previously multiple units of account were applied to each instrument. This has resulted in changes to the balance sheet total amounts for non-current assets, current assets, current liabilities and non-current liabilities. There is no impact on the total balance of derivative financial instruments or on overall net assets.

2. Revenue

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:

2. Revenue (continued)

	Six months ended 30 September 2023 (unaudited) £m	Six months ended 30 September 2022 (unaudited) £m	Year ended 31 March 2023 (audited) £m
Regulated revenue			
Water	**184.7**	172.5	330.6
Sewerage	**247.7**	225.1	457.3
Retail	**25.7**	25.3	46.9
Total regulated revenue	**458.1**	422.9	834.8
Other (non-regulated)	**6.2**	5.3	9.0
Total revenue	**464.3**	428.2	843.8

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

Other (non-regulated) revenue relates to income streams which are not subject to Ofwat's price control; these principally comprise organic energy generation and certain other activities which are peripheral and/or complementary to the Group's core water and sewerage business.

3. Exceptional costs

There were no exceptional costs in the 6 months to 30 September 2023. In the year to 31 March 2023, we recognised an exceptional item totalling £30.8 million. This item represents award of pension increases above a 5% cap. Under a 'best endeavours' clause in our pension scheme rules full RPI increases could only be awarded if certain criteria were met. In the year to 31 March 2023 awards above a 5% cap were paid by the pension scheme and, as the scheme is now in surplus, these conditions are expected to be paid in the future. Therefore, the expense in the year to 31 March 2023 represents the additional awards given. In the future it is expected that changes to this assumption will be presented in Other Comprehensive Income as required under IAS19. This is disclosed as exceptional in FY23 as the accounting treatment of these increases through the profit and loss account will only occur this year, it is of a significant value, and it does not closely reflect day-to-day operational expenditure. For the avoidance of doubt management will make consideration of the 'best endeavours' clause in all future periods and as such any movement in estimate will be presented as Other Comprehensive Income as required under IAS19.

4. Financial expenses

a) Financial expenses before fair value adjustments

	Six months ended 30 September 2023 (unaudited) £m	Six months ended 30 September 2022 (unaudited) £m	Year ended 31 March 2023 (audited) £m
Financial income	**10.8**	5.1	14.9
Financial expenses			
Interest payable on bonds	**(51.4)**	(48.8)	(54.8)
Indexation on index-linked bonds	**(59.5)**	(60.7)	(161.4)
Indexation on index-linked loan	**(9.7)**	(17.3)	(30.3)
Interest payable on leases (including swaps to RPI)	**(11.6)**	(4.4)	(66.3)
Other loan interest	**(11.0)**	(8.1)	(24.9)
Other interest payable and finance costs	**(3.5)**	(3.5)	(7.0)
Net interest charge on pension scheme liabilities	**0.3**	(1.1)	(2.1)
Capitalisation of borrowing costs under IAS 23	**11.9**	12.3	28.3
	(134.5)	(131.6)	(318.5)
Net finance cost before fair value adjustments	**(123.7)**	(126.5)	(303.6)

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

	Six months ended 30 September 2023 (unaudited) £m	Six months ended 30 September 2022 (unaudited) £m	Year ended 31 March 2023 (audited) £m
Fair value gains on interest rate swaps	**11.0**	**88.8**	32.1
Fair value gains on index-linked swaps	**60.5**	**186.2**	157.2
Fair value (losses)/gains on trading derivatives	**(5.8)**	**11.2**	(29.1)
Total fair value gains on derivative financial instruments	**65.7**	**286.2**	160.2

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 2023 the notional value of the interest rate swap was £192m (March 2023: £192m) and the notional value of the index-linked swaps was £1,682m (March 2023: £1,769m).

Notes to the condensed consolidated interim financial statements

5. Taxation

	Six months ended 30 September 2023 (unaudited) £m	Six months ended 30 September 2022 (unaudited) £m	Year ended 31 March 2023 (audited) £m
Current tax			
Current tax on loss for the year	-	-	-
Current tax on research and development credit	-	-	(0.1)
Adjustment in respect of prior periods	-	-	0.1
Total current tax	-	-	-

	Six months ended 30 September 2023 (unaudited) £m	Six months ended 30 September 2022 (unaudited) £m	Year ended 31 March 2023 (audited) £m
Deferred tax			
Current year movement	**3.8**	(32.5)	46.1
Adjustment in respect of prior periods	**0.1**	(22.9)	(20.3)
Total deferred tax	**3.9**	(55.4)	25.8
Taxation credit/(charge)	**3.9**	(55.4)	25.8

Analysis of amounts charged to the Statement of Comprehensive Income and Revaluation Reserve	Six months ended 30 September 2023 (unaudited) £m	Six months ended 30 September 2022 (unaudited) £m	Year ended 31 March 2023 (audited) £m
Defined benefit pension scheme	**16.7**	32.6	31.1
Credit to the statement of comprehensive income	**16.7**	32.6	31.1
Revaluation of fixed assets	**42.2**	87.4	148.4
Charged to the revaluation reserve	**42.2**	87.4	148.4

5. Taxation (Continued)

Tax reconciliation	Six months ended 30 September 2023 (unaudited) £m	Six months ended 30 September 2022 (unaudited) £m	Year ended 31 March 2023 (audited) £m
(Loss)/profit before taxation	**(20.5)**	192.8	(150.5)
(Loss)/profit before taxation multiplied by the corporation tax in the UK of 25% (comparatives: 19%)	**5.1**	(36.6)	28.6
Effects of:			
Adjustments in respect of prior years	**0.1**	(22.9)	(20.2)
Other permanent differences	**(1.3)**	(1.4)	(1.9)
Expenses not deductible for tax purposes	**-**	-	(0.1)
Super deduction of plant and machinery	**-**	1.0	2.8
Differences between rate used in tax reconciliation (19%) and rate used to calculate deferred taxes (25%)	**-**	4.5	16.6
Tax credit/(charge)	**3.9**	(55.4)	25.8

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

The 'super-deduction' regime for plant and machinery expenditure ended on 31 March 2023. Therefore, there is no tax credit in the current period.

Deferred taxes have been calculated at 25% except for the temporary difference relating to the pension scheme surplus which has been calculated using a tax rate of 35% which applies to pension scheme surpluses. For the 6 month period ended 30 September 2022 deferred taxes were calculated using a tax rate of 25%, with the exception of temporary differences with a tax value of £21m which were expected to reverse prior to 31 March 2023. They were calculated using a corporation tax rate of 19% which applied to the year ended 31 March 2023.

6. Revaluation reserve

	Six months ended 30 September 2023 (unaudited) £m	Six months ended 30 September 2022 (unaudited) £m	Year ended 31 March 2023 (audited) £m
Revaluation reserve at start of period	**1,692.0**	1,339.7	1,339.7
Revaluation of assets to RCV	**168.7**	349.7	593.4
Depreciation charge on revalued assets	**(66.6)**	(53.4)	(114.5)
	102.1	296.3	478.9
Deferred tax on revaluation	**(42.2)**	(87.4)	(148.4)
Deferred tax on depreciation charge	**16.7**	13.4	21.8
	(25.5)	(74.0)	(126.6)
Revaluation reserve at end of period	**1,768.6**	1,562.0	1,692.0

7. Property, plant and equipment

	Freehold land and buildings £m	Infrastructure assets £m	Operational structures £m	Plant, equipment, computer hardware £m	Total £m
Valuation					
At 1 April 2023	42.0	3,445.3	5,123.9	278.8	8,890.0
Revaluation	-	43.5	-	-	43.5
Adjustment	-	-	(5.5)	5.5	-
Additions	-	107.6	100.5	3.5	211.6
Disposal	-	-	-	(2.2)	(2.2)
At 30 September 2023	**42.0**	**3,596.4**	**5,218.9**	**285.6**	**9,142.9**
Accumulated depreciation					
At 1 April 2023	25.2	-	1,621.4	273.2	1,919.8
Revaluation	-	(38.7)	(86.5)	-	(125.2)
Charge for the period	0.3	38.7	131.1	1.7	171.8
Released on disposal	-	-	-	(2.2)	(2.2)
At 30 September 2023	**25.5**	**0.0**	**1,666.0**	**272.7**	**1,964.2**
Net book value					
At 30 September 2023 (unaudited)	**16.5**	**3,596.4**	**3,552.9**	**12.9**	**7,178.7**
At 31 March 2023 (audited)	16.8	3,445.3	3,502.5	5.6	6,970.2
At 30 September 2023 (unaudited) - historic cost basis	***16.5***	***2,357.7***	***2,426.4***	***12.9***	***4,813.5***

The net book value of fixed assets includes £127.7m (March 2023: £118.0m) of capitalised interest. The Board has approved capital expenditure for the year to 31 March 2024 of £436m. While only a portion of this amount has been formally contracted for as at 30 September 2023, the Group is effectively committed to the total as part of its overall capital investment programme.

8. Trade and other receivables

	30 September 2023 (unaudited) £m	30 September 2022 (unaudited) £m	31 March 2023 (audited) £m
Current			
Trade receivables	**399.0**	372.1	597.1
Less provision for impairment of receivables	**(75.9)**	(71.2)	(73.2)
Trade receivables – net	**323.1**	300.9	523.9
Prepayments	**30.0**	28.7	22.1
Accrued income	**101.8**	87.2	87.5
Other receivables	**8.1**	9.0	15.1
	463.0	425.8	648.6
Non-current			
Other receivables	**0.7**	0.7	0.7
Total trade and other receivables	**463.7**	426.5	649.3

9. Trade and other payables

	30 September 2023 (unaudited) £m	30 September 2022 (unaudited) £m	31 March 2023 (audited) £m
Current			
Trade payables	**55.3**	47.4	64.6
Capital payables	**32.9**	34.0	56.1
Other taxation and social security	**4.1**	3.8	3.6
Accruals	**346.2**	341.4	549.1
Deferred income	**12.4**	9.1	12.4
	450.9	435.7	685.8
Non-current			
Deferred income	**601.6**	470.9	540.8
Total trade and other payables	**1,052.5**	906.6	1,226.6

10. Analysis and reconciliation of net debt

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

a) **Net debt at the balance sheet date may be analysed as:**	30 September 2023 (unaudited) £m	30 September 2022 (unaudited) £m	31 March 2023 (audited) £m
Cash and cash equivalents	**324.8**	499.8	379.4
Debt due after one year	**(3,713.3)**	(3,610.7)	(3,668.7)
Debt due within one year	**(78.5)**	(59.8)	(88.5)
Lease liabilities	**(378.1)**	(379.0)	(378.1)
Accrued interest	**(86.7)**	(77.4)	(50.3)
	(4,256.6)	(4,126.9)	(4,185.6)
Net debt	**(3,931.8)**	(3,627.1)	(3,806.2)

b) **The movement in net debt during the period may be summarised as:**	30 September 2023 (unaudited) £m	30 September 2022 (unaudited) £m	31 March 2023 (audited) £m
Net debt at start of period	**(3,806.2)**	(3,551.4)	(3,551.4)
Movement in net cash	**(54.6)**	(15.3)	(135.7)
Movement in debt arising from cash flows	**34.6**	47.2	75.9
Movement in net debt arising from cash flows	**(20.0)**	31.9	(59.8)
Movement in accrued interest	**(36.4)**	(29.6)	(2.5)
Indexation of index-linked debt	**(69.2)**	(78.0)	(192.5)
Movement in net debt during the period	**(125.6)**	(75.7)	(254.8)
Net debt at end of period	**(3,931.8)**	(3,627.1)	(3,806.2)

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 2023. 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. As at 30 September 2023, the fair values of derivatives were as follows:

Level 2

- assets: trading derivatives £4.1m, treasury derivatives £2.5m (March 2023: trading derivatives £9.9m, treasury derivatives £nil).

- liabilities: trading derivatives £nil, treasury derivatives £375.5m (March 2023: trading derivatives £nil, treasury derivatives £444.5m).

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.

Independent review report to Glas Cymru Holdings Cyfyngedig for the six month period ended 30 September 2023

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30th September 2023 which comprises the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and related notes 1 to 11.

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 financial report for the six months ended 30th September 2023 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom (ISRE (UK) 2410). A review of interim financial information consists of making inquiries, 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 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.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with United Kingdom adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusion Relating to Going Concern

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

This Conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410; however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our Conclusion, including our Conclusion Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Independent review report to Glas Cymru Holdings Cyfyngedig for the six month period ended 30 September 2023 (continued)

Use of our report

This report is made solely to the company in accordance with ISRE (UK) 2410. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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 formed.

Deloitte LLP

Deloitte LLP
Statutory Auditor
Cardiff
10 November 2023

Appendix – definitions

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

Appendix - definitions

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.