



Interim report and accounts
for the six months ended 30 September 2009

Chairman's Statement

Financial results

Despite the continuation of a challenging economic environment, I am pleased to report a solid financial performance over the past six months. Our financial position remains strong, with gearing (as measured by net debt to regulatory capital value) unchanged from 31 March 2009 at 72%, down from 93% on the acquisition of Welsh Water in May 2001. As at 30 September 2009, available funding included cash deposits of £114 million and committed bank facilities totalling £455 million, including a £35 million loan agreement with KfW IPEX-Bank GmbH signed on 2 July 2009. This gives a balance of funding currently available of £569 million, meaning that we are securely financed until after 2010. Our customer dividends have been increased to £22 per customer this year at a total cost of some £28 million.

We are not immune to the difficulties brought on by the current economic climate, and we have felt the impact of this in the form of reduced demand for our services and higher bad debt charges. Price rises of 5.4% overall and reductions in power costs have produced an operating profit for the half year of £97 million, up from a profit of £83 million for the same period last year. However, due largely to the record capital investment in the period, there was a cash deficit (before financing activities) of £22.5 million (2008: cash surplus of £18.2 million).

We have benefited from unprecedentedly low interest rates during 2009, which have significantly reduced our borrowing costs, and a fall in the Retail Prices Index from July 2008 to January 2009 has resulted in a reduction in the value of our index-linked bonds (a credit to the income statement of £25 million, compared to a charge of £15 million in the prior period). The result is that financing costs of £33 million (excluding fair value movements) are some £48 million lower than in the prior period.

During the six months, we have invested £170 million (2008: £168 million) into Welsh Water's £1.4 billion AMP4 capital programme to improve customer service, environmental quality and drinking water quality, bringing overall expenditure since 2005 to £1,332 million.

Over the coming months, we expect the economic downturn will continue to impact on our customers and the financial performance of the company. However, our strong financial position means that we are well placed to deal with the impact of further economic uncertainties and to continue to work in the interests of our customers.

Operational performance

On 23 October 2009, Ofwat published its Annual Report on Levels of Service for the Water Industry in England and Wales for the year ended 31 March 2009. On Ofwat's "Overall Performance Assessment" (OPA), Welsh Water scored 406 out of a maximum of 438, a good improvement on the previous year's score of 394. Compared to other water and sewerage companies, Welsh Water was ranked fourth equal, moving up from its fifth position the year before.

Our service performance has been generally good during the year to date; water quality compliance as defined by Ofwat's key measure, the Operational Performance Index, is 99.8% (a slight drop from 99.9% in September 2008). Coastal areas continue to benefit from high quality bathing water, with Wales being awarded 43 Blue Flags in 2009, around a third of the total awarded to the UK. We have responded well to the very significant challenges caused by increasingly erratic weather patterns during recent years: 25 flooding incidents resulting from the hydraulic overload of our sewers were caused by rain we might expect to see from 1 in 10 year storms, a reduction from 75 for the first half of the previous year. However, occurrences of sewage flooding due to blockages and other causes rose, from 112 to 137, although 25 of this period's incidents are provisional and subject to further analysis. To improve proactive management of the sewer network, we completed the installation of over 600 Hawkeye devices in 2008/09, forming a telemetry system which allows us to monitor sewer flows remotely. By allowing a quicker response time, we are confident that this technology will help us to further reduce the number of sewer flooding incidents.

On 28 April 2009 we issued a Boil Water Notice to 70,000 customers in Denbighshire and Flintshire supplied with tap water from our Alwen water treatment works. We cannot take any risks with public health and this was a precautionary measure following an increase in coliform bacteria found in our routine water quality monitoring programme. We installed new treatment equipment and were able to lift the Boil Water Notice on 7 May. No-one was made ill by the water during the incident and we appreciate the support of our customers during this time; we know that being asked to boil water for routine use is disruptive to daily life. Over the last few years we have seen a marked reduction in the quality of some of our upland water sources, which means that the existing treatment facilities are no longer sufficient to ensure the production of safe drinking water. In addition to the planned investment already planned, in 2008 we initiated and have accelerated a £200 million investment programme to improve the reliability of drinking water quality throughout Wales.

Chairman's Statement cont'd

Looking ahead

We are proud to be a long-term business responsible for providing an essential public service to more than 3 million people. We are very aware that the decisions we make today will impact our customers, our economy and our environment for many years to come. As such, we set out our long term objectives for the water industry in Wales in "Welsh Water: Our Sustainable Future" which was published in November 2007.

In April 2009, Welsh Water published its plans for the period 2010 to 2015, in which it proposed to maintain a high level of capital expenditure, including important investments to enhance the protection of drinking water quality, mitigate the worst impacts of sewer flooding, substantially reduce the carbon footprint of its activities and improve customer service. These plans represented a measured programme in pursuit of the long-term objectives set out in "Our Sustainable Future", which could be achieved without the average household customer's bill in 2015 being any higher in real terms than it is today. According to Ofwat research, over 90% of Welsh Water's customers endorsed our draft business plan.

We continue to believe that our published plans are in the best, long-term interests of our customers. Ofwat will publish its Final Determination for all water and sewerage companies on 26 November 2009.

In the current very difficult climate it is crucial both to demonstrate to our investors that Welsh Water is a 'safe home' for long term investment and to reassure our customers that we are planning ahead to ensure the continuation of high standards of service. At the same time, knowing the financial challenges faced by a significant proportion of our customers, we are committed to ensuring that this essential public service remains affordable. We believe that Glas Cymru, which owns Welsh Water on behalf of its customers, is best placed to meet each of these challenges.

Lord Burns

Chairman - Glas Cymru Cyfyngedig

11 November 2009

Review of the business

Financial results

Financial performance

Glas Cymru's financial results cover the six months to 30 September 2009. Comparative figures are given for the six months to 30 September 2008 and the year ended 31 March 2009.

Turnover in the six months to 30 September 2009 was £339 million, as compared to £328 million in the six months to 30 September 2008. The increase reflects the RPI+K increase in prices of 5.4% allowed by Ofwat, less the 'customer dividend' for the year. Welsh Water is the only water company to give such an annual 'customer dividend', which for 2009-10 has increased to £22 per customer (2008: £21 per customer) at a total cost this year of £28 million (2008: £27 million).

Customer debt recovery has deteriorated during the period, a reflection of the impact the economic slowdown is having on customers. Welsh Water and its service partner Veolia have taken steps to ensure that the monitoring and recovery of customer debt are maintained at the highest possible levels, but accept that the recession in Wales and England will continue to impact on collection rates; in recognition of this, there has been an increase in the provision for bad debts.

Operating costs (excluding depreciation and infrastructure renewals expenditure) fell to £129 million (2008: £131 million); the major variances result from power cost reductions (£4 million) offset by additional bad and doubtful debt charges (£3 million).

Net interest payable in the period (excluding fair value movements) was £33 million (2008: £81 million), including an indexation credit on index linked debt of £25 million (2008: charge of £15 million). The reduction in net interest payable reflects the fall in interest rates since last year and the impact of negative inflation on the indexation charge on RPI-linked debt.

Profit before taxation (and before the fair value movements on financial instruments) was £65 million, up on the comparative period's profit of £2 million, primarily reflecting the reductions in interest payable. After allowing for the movement in the fair value of financial instruments, the total profit before tax was £84 million (2008: loss of £69 million). There was a deferred taxation charge for the period of £25 million (2008: £13 million); no corporation tax is payable.

Capital investment in the six month period (including infrastructure renewals expenditure) of £170 million before grants and contributions (2008: £168 million) will bring improvements to customer service, environmental quality and drinking water quality. Overall expenditure since 2005 totals £1,332 million, which is broadly in line with Welsh Water's £1.4 billion AMP4 capital investment programme.

Financial position

Our financial position has remained stable over the first half of the year with gearing (net debt/regulatory capital value) at 30 September 2009 of 72% (31 March 2009: 72%); this compares to some 93% on the acquisition of Welsh Water in May 2001.

The prudent financing policies followed by the company mean that, despite the recent turmoil in credit markets, its bonds continue to trade well relative to those of similar companies. Credit rating agency Moody's has maintained its 'A3' corporate family rating for Welsh Water, with 'A' grade ratings of the senior bonds by Standard and Poor's and Fitch Ratings, all reflecting the quality of the company's creditworthiness. Welsh Water's Class A bonds are guaranteed by MBIA but the ratings of these bonds now reflect the ratings of the underlying business.

As at 30 September 2009, Glas Cymru had cash, short-term deposits and undrawn syndicated bank facilities of £569 million, giving the company a high level of financial liquidity. On 2 July 2009, a £35 million loan agreement was signed with KfW IPEX-Bank GmbH to secure funding for essential water and wastewater improvement schemes throughout Wales to 2010.

Review of the business cont'd

Customer service, water quality and environmental quality

The results for the first six months of the year show that service performance continues to be of a high overall standard. Key measures include:

Levels of service

- 376 customers experiencing loss of water supply for more than six hours so far this year, fewer than the same period last year (2008: 772);
- Fewer customers experiencing sewer flooding during the year to date - 167 (2008: 258); and
- Continuing high standards of customer satisfaction, as measured by independent tracking research.

Water quality

- Overall compliance at the tap is 99.9%, similar to last year (99.9%);
- Water treatment works bacteriological performance was 99.9% for the year to date (2008: 99.8%); and
- Bacteriological compliance 'at the tap' in the nine months to September was 99.8% (2008: 99.7%).

Environment

- Leakage reduced to 180 mega litres per day ('mld') for the year to date, 9 mld below the same period last year and in a good position to meet the year end statutory target of 195 mld;
- 99.7% waste water treatment works compliance (2008: 100%);
- Six major pollution incidents in the nine months to September (2008: 4 incidents); and
- For the 2008 summer season Wales was awarded 43 Blue Flag beaches and marinas, around a third of the UK total.

Health and safety

- There has been a slight decrease in reportable accidents, from 19 to 18 in the six months. In addition, the total number of dangerous occurrences and reportable diseases has reduced from 1 to nil during the same period; but
- Working time lost due to accidents has risen by 46% compared to the same period last year owing to the severity of a number of the reportable accidents.

Major capital investment

Welsh Water's £1.4 billion AMP4 capital investment programme aims to deliver improvements to drinking water quality, environmental protection and the alleviation of sewer flooding. Significant outputs include:

- Total capital investment for the six months of £170 million (2008: £168 million) benefiting customer service, drinking water and environmental quality;
- Total capital investment since April 2005 of £1,332 million (equivalent to over £1,000 of investment for every household served);
- Good progress delivering our enhanced drinking water quality protection programme, with work completed at Talybont water treatment works (£17 million) and on target to deliver major schemes at Court Farm (£18 million) and Crai (£15 million). In North Wales we have accelerated investment and are on target to complete major improvement work at Cwellyn (£14 million), Rhiwgoch (£9 million) and Mynydd Llandygai (£11 million) to provide secondary treatment within the next year. We have also completed installation of additional UV disinfection treatment at 11 sites across Wales as part of the accelerated water quality improvement programme;
- 145 km of water mains have been refurbished so far this year with a further 28 km in the remainder of the year to conclude the Section 19 quality improvement programme which has delivered 4,025 km of refurbished mains in total over the last 10 years;
- Work is well advanced to mitigate the risk of 286 properties being flooded by sewage and this will be achieved by the end of the financial year;
- £24 million is being invested in improving waste water treatment works including £15 million at Llanelli to improve the treatment of storm water discharged to the Loughor estuary; and
- Improving combined sewer overflows has seen £21 million invested during the year to date across the region to help improve river quality in Wales, which in 2008 has seen the best ever levels of biological and chemical standards for the last 10 years (88% and 95% respectively).

Summary of key measures of service performance

| | Period to 30 September 2009 | Period to 30 September 2008 |
|--|-----------------------------------|-----------------------------------|
| Levels of Service | | |
| Properties 'at risk' of receiving low pressure | 387 | 1,047 ¹ |
| Unplanned water supply interruptions | 376 | 772 |
| Properties 'at risk' of sewage flooding | 250 | 315 |
| Sewage flooding incidents - hydraulic overload ("1 in 10 year storms") | 25 | 75 |
| Sewage flooding incidents - other causes | 137 ³ | 112 |
| Billing enquiries answered within 5 days | 99.9% | 99.9% |
| Written complaints answered within 10 days | 99.6% | 99.2% |
| Customer meters read within year | 97.4% | 93.1% |
| Water Quality | | |
| Bacteriological compliance 'at the tap' ² | 99.8% | 99.7% |
| Iron compliance 'at the tap' ² | 99.2% | 99.5% |
| Operational Performance Index ² | 99.8% | 99.9% |
| Environment | | |
| Leakage (m ³ /km/day) | 6.9 | 7.1 |
| Number of 'Category 1 and 2' pollution incidents ² | 6 | 3 |
| Number of 'Category 3' pollution incidents ² | 222 | 181 |
| Customers served by compliant wastewater treatment works ² | 99.7% | 99.9% |
| Wastewater treatment works complying with consents | 98.6% | 99.8% |
| Sewage sludge recycled satisfactorily | 100% | 100% |

¹ This number was higher than usual for a half-year period following a review of logging program data.

² Calendar year to end of September.

³ Of these 137 incidents, 25 are provisional and subject to further analysis.

Statement of directors' responsibility

The directors confirm that this condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by the Disclosure and Transparency Rules paras 4.2.7 and 4.2.8, namely:

- An indication of important events that have occurred during the first six months 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 financial year; and
- Material related party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The principal risks and uncertainties affecting the group for the 6 months to 31 March 2010 are materially unchanged from those presented on pages 24 and 25 of the group's published Annual Report and Accounts for the year ended 31 March 2009. The Annual Report and Accounts are published on the group's website, www.dwrcymru.com, and are available from the Company Secretary on request.

By order of the Board

R G Curtis LLB ACIS
Company Secretary

11 November 2009

Consolidated income statement

| | | Six months ended 30 September 2009 £m | Six months ended 30 September 2008 £m | Year ended 31 March 2009 £m |
|---|----|--|--|--------------------------------------|
| Revenue | 2 | 338.5 | 327.9 | 657.2 |
| Operating costs | | | | |
| - Operational expenditure | | (129.4) | (131.0) | (266.9) |
| - Infrastructure renewals expenditure | | (42.3) | (47.7) | (101.1) |
| - Depreciation and amortisation | | (69.8) | (65.9) | (133.5) |
| - Profit/(loss) on disposal of fixed assets | | 0.1 | (0.1) | (0.8) |
| Operating profit | | <u>97.1</u> | <u>83.2</u> | <u>154.9</u> |
| Financing costs | | | | |
| - Interest payable and similar charges | 3a | (35.0) | (86.3) | (174.3) |
| - Interest receivable | 3a | 2.5 | 5.5 | 8.6 |
| - Fair value gains/(losses) on derivative financial instruments | 3b | <u>19.6</u> | <u>(71.0)</u> | <u>(86.5)</u> |
| | | (12.9) | (151.8) | (252.2) |
| Profit/(loss) before taxation | | <u>84.2</u> | <u>(68.6)</u> | <u>(97.3)</u> |
| Taxation charge | 4 | (24.5) | (13.3) | (5.6) |
| Profit/(loss) for the period | | <u><u>59.7</u></u> | <u><u>(81.9)</u></u> | <u><u>(102.9)</u></u> |

| Profit/(loss) before taxation and fair value adjustments | | | | |
|---|--|-------------|------------|---------------|
| Profit/(loss) before taxation per income statement | | 84.2 | (68.6) | (97.3) |
| Effect of fair value (gains)/losses on derivative financial instruments | | (19.6) | 71.0 | 86.5 |
| Profit/(loss) before taxation and fair value adjustments | | <u>64.6</u> | <u>2.4</u> | <u>(10.8)</u> |

Consolidated statement of comprehensive income

| | | Six months ended 30 September 2009 £m | Six months ended 30 September 2008 £m | Year ended 31 March 2009 £m |
|---|---|--|--|--------------------------------------|
| Profit/(loss) for the period | | 59.7 | (81.9) | (102.9) |
| Other comprehensive income: | | | | |
| Actuarial loss recognised in the pension scheme | | (1.1) | (2.0) | (10.4) |
| Movement on deferred tax asset relating to the pension scheme | 4 | 0.3 | 0.6 | 2.9 |
| Total comprehensive income/(losses) for the period | | <u>58.9</u> | <u>(83.3)</u> | <u>(110.4)</u> |

Consolidated statement of changes in equity

| | | Six months ended 30 September 2009 £m | Six months ended 30 September 2008 £m | Year ended 31 March 2009 £m |
|---|---|--|--|--------------------------------------|
| Deficit on reserves at start of period | | <u>(152.1)</u> | <u>(41.7)</u> | <u>(41.7)</u> |
| Profit/(loss) for the period | | 59.7 | (81.9) | (102.9) |
| Other comprehensive income: | | | | |
| Actuarial loss recognised in the pension scheme | | (1.1) | (2.0) | (10.4) |
| Movement on deferred tax asset relating to the pension scheme | 4 | 0.3 | 0.6 | 2.9 |
| Total comprehensive income for the period | | <u>58.9</u> | <u>(83.3)</u> | <u>(110.4)</u> |
| Deficit on reserves at end of period | | <u>(93.2)</u> | <u>(125.0)</u> | <u>(152.1)</u> |

Consolidated balance sheet

| | | At 30 September 2009 £m | At 30 September 2008 £m | At 31 March 2009 £m |
|--|---|----------------------------------|----------------------------------|------------------------------|
| Assets | | | | |
| Non-current assets | | | | |
| Property, plant and equipment | 5 | 3,028.8 | 2,929.3 | 2,980.0 |
| Intangible assets | 6 | 49.6 | 33.3 | 46.2 |
| Financial assets: derivative financial instruments | | 1.2 | - | - |
| | | <u>3,079.6</u> | <u>2,962.6</u> | <u>3,026.2</u> |
| Current assets | | | | |
| Trade and other receivables | 7 | 122.6 | 125.3 | 102.2 |
| Financial assets: | | | | |
| Financial assets: derivative financial instruments | | 4.5 | 6.4 | 26.0 |
| Cash and cash equivalents | | 114.2 | 139.9 | 139.3 |
| | | <u>241.3</u> | <u>271.6</u> | <u>267.5</u> |
| Liabilities | | | | |
| Current liabilities | | | | |
| Trade and other payables | 8 | (108.0) | (135.9) | (129.5) |
| Financial liabilities: | | | | |
| - Borrowings | | (51.2) | (57.4) | (20.0) |
| - Derivative financial instruments | | (17.8) | (6.8) | (2.1) |
| | | <u>(177.0)</u> | <u>(200.1)</u> | <u>(151.6)</u> |
| Net current assets | | 64.3 | 71.5 | 115.9 |
| Non-current liabilities | | | | |
| Trade and other payables | 8 | (2.8) | (2.2) | (3.0) |
| Financial liabilities: | | | | |
| - Borrowings | | (2,712.5) | (2,644.1) | (2,739.7) |
| - Derivative financial instruments | | (126.1) | (141.9) | (181.7) |
| Retirement benefit obligations | | (8.8) | - | (7.8) |
| Provisions | | (9.9) | (8.1) | (9.2) |
| | | <u>(2,860.1)</u> | <u>(2,796.3)</u> | <u>(2,941.4)</u> |
| Net assets before deferred tax | | 283.8 | 237.8 | 200.7 |
| Deferred tax (net) | | (377.0) | (362.8) | (352.8) |
| Net liabilities | | <u>(93.2)</u> | <u>(125.0)</u> | <u>(152.1)</u> |
| Deficit on reserves | | <u>(93.2)</u> | <u>(125.0)</u> | <u>(152.1)</u> |

Consolidated statement of cash flows

| | Six months ended 30 September 2009 £m | Six months ended 30 September 2008 £m | Year ended 31 March 2009 £m |
|--|--|--|--------------------------------------|
| Operating profit | 97.1 | 83.2 | 154.9 |
| Adjustments for | | | |
| - Depreciation and amortisation | 69.8 | 65.9 | 133.5 |
| - (Profit)/loss on disposal of fixed assets | (0.1) | 0.1 | 0.8 |
| Changes in working capital | | | |
| - (Increase)/decrease in trade and other receivables | (22.4) | (8.7) | 11.1 |
| - (Decrease)/increase in trade and other payables | (9.0) | 17.9 | 8.1 |
| - Increase/(decrease) in provisions | 0.7 | (0.4) | 0.7 |
| | <u>(30.7)</u> | <u>8.8</u> | <u>19.9</u> |
| Cash generated from operations | <u>136.1</u> | <u>158.0</u> | <u>309.1</u> |
| Interest received | 2.5 | 5.7 | 9.8 |
| Interest paid | <u>(27.5)</u> | <u>(28.4)</u> | <u>(129.4)</u> |
| Cash flows from operating activities - net | <u>111.1</u> | <u>135.3</u> | <u>189.5</u> |
| Cash flows from investing activities | | | |
| Purchases of property, plant and equipment | (139.8) | (125.2) | (257.0) |
| Grants and contributions received | 6.1 | 8.2 | 13.6 |
| Net proceeds from/(costs of) sale of property, plant and equipment | <u>0.1</u> | <u>(0.1)</u> | <u>(0.8)</u> |
| Cash flows from investing activities - net | <u>(133.6)</u> | <u>(117.1)</u> | <u>(244.2)</u> |
| Cash flows from financing activities | | | |
| Long term loans and finance leases received | - | - | 85.0 |
| Revolving credit facility and term loan repayments | (2.2) | (2.2) | (4.4) |
| Capital element of finance lease payments | - | - | (10.4) |
| Other loan repayments | <u>(0.4)</u> | <u>(0.2)</u> | <u>(0.3)</u> |
| Cash flows from financing activities - net | <u>(2.6)</u> | <u>(2.4)</u> | <u>69.9</u> |
| Net (decrease)/increase in cash, cash equivalents and bank overdrafts | (25.1) | 15.8 | 15.2 |
| Cash, cash equivalents and bank overdrafts at start of period | 139.3 | 124.1 | 124.1 |
| Cash, cash equivalents and bank overdrafts at end of period | <u>114.2</u> | <u>139.9</u> | <u>139.3</u> |

Notes to the condensed consolidated financial statements

1. Basis of preparation

The interim report and accounts are for the six months ended 30 September 2009; they have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, 'Interim financial reporting' as adopted by the European Union, using accounting policies consistent with International Financial Reporting Standards (IFRSs). The interim report and accounts should be read in conjunction with the annual financial statements for the year ended 31 March 2009, which have been prepared in accordance with IFRSs as adopted by the European Union. Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2009, as described in those annual financial statements.

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

The following amendments to standards are mandatory for the first time for the financial year beginning 1 April 2009:

- IAS 1 (revised), "Presentation of financial statements". The interim financial statements have been prepared under the revised disclosure requirements; the main impacts on the group are the replacement of the statement of recognised income and expense with a statement of comprehensive income and the inclusion of a statement of changes in equity;
- IAS 23 (amendment), "Borrowing costs". The amendment prohibits immediate expensing of borrowing costs relating to qualifying assets. As permitted by the amended standard, the requirements have been applied prospectively in these interim financial statements, such that £0.5m of borrowing costs have been capitalised (see notes 3 and 5); and
- IFRS 8, "Operating segments" is effective for accounting periods beginning on or after 1 January 2009 and replaces IAS 14, "Segment reporting". IAS 14 required segmental reporting based on two sets of segments (business and geographical), while IFRS 8 requires the segments to be derived from the reports used by the chief operating decision maker for the allocation of resources and assessment of performance. The directors consider that there is only one reporting segment, being the operation of the water and sewerage business in the United Kingdom, and therefore the disclosures made under IAS 14 remain appropriate under IFRS 8.

These financial statements are unaudited but have been formally reviewed by the auditors and their report is set out on page 15. The interim financial results do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. The results shown for the year ended 31 March 2009 have been derived from the group's audited full financial statements filed with the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain a statement under Section 237(2) or 237(3) of the Companies Act 1985.

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.

2. Segmental information

All reported revenue and operating profits arise from the operation of water and sewerage business in the United Kingdom. Revenue recognised reflects the actual charges levied on customers in the period. The difference between the actual revenue and the level of revenue that could have resulted had the full Ofwat allowed level of charges been levied is referred to as a 'customer dividend'.

3. Financing costs and fair value of derivative financial instruments

| a) Net interest before fair value gains/(losses) on derivative financial instruments | Six months ended | Six months ended | Year ended |
|--|-------------------|-------------------|---------------|
| | 30 September 2009 | 30 September 2008 | 31 March 2009 |
| | £m | £m | £m |
| Interest payable on bonds | (43.6) | (43.2) | (86.1) |
| Indexation on index-linked bonds | 25.5 | (14.8) | (41.4) |
| Interest payable on finance leases | (11.0) | (23.1) | (37.1) |
| Other loan interest | (5.2) | (3.7) | (7.4) |
| Other interest payable and finance costs | (1.0) | (1.5) | (2.5) |
| Interest (debit)/credit on pension scheme liabilities | (0.2) | - | 0.2 |
| Capitalisation of borrowing costs under IAS 23 | 0.5 | - | - |
| Interest payable | (35.0) | (86.3) | (174.3) |
| Interest receivable | 2.5 | 5.5 | 8.6 |
| Net interest payable before fair value adjustments | (32.5) | (80.8) | (165.7) |

Notes to the condensed consolidated financial statements cont'd

3. Financing costs and fair value of derivative financial instruments (cont'd)

| b) Fair value gains/(losses) on derivative financial instruments | Six months ended 30 September 2009 £m | Six months ended 30 September 2008 £m | Year ended 31 March 2009 £m |
|---|--|--|--------------------------------------|
| Fair value gains/(losses) on interest rate swaps | 5.5 | (4.9) | (28.3) |
| Fair value gains/(losses) on index-linked swaps | 14.1 | (66.1) | (58.2) |
| Total fair value gains/(losses) on derivative financial instruments | 19.6 | (71.0) | (86.5) |
| Deferred tax effect at 28% of fair value gains/(losses) | (5.5) | 19.9 | 24.2 |
| Net of tax impact of fair value gains/(losses) | 14.1 | (51.1) | (62.3) |

Whilst the group employs an economically effective policy using interest rate and index-linked swaps, the hedge accounting criteria of IAS 39 are not satisfied. Consequently, the group's interest rate and index-linked swaps are fair valued at each balance sheet date with the movement (net 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.

The notional value of the interest rate swaps is £192m (2008: £192m) and the index linked swaps £805m (2008: £751m).

4. Taxation

| Tax on profit/(loss) comprises: | 30 September 2009 £m | 30 September 2008 £m | 31 March 2009 £m |
|---|----------------------------|----------------------------|------------------------|
| Corporation tax | - | - | - |
| Deferred tax | | | |
| Adjustment in respect of prior periods | (0.6) | 2.2 | 4.0 |
| Current year movements | (23.6) | 19.5 | 30.3 |
| Effect of IBA abolition | - | (34.4) | (37.0) |
| | (24.2) | (12.7) | (2.7) |
| Taxation charge | (24.2) | (12.7) | (2.7) |
| Analysed as: | | | |
| Charged to income statement | (24.5) | (13.3) | (5.6) |
| Credited to statement of comprehensive income | 0.3 | 0.6 | 2.9 |
| | (24.2) | (12.7) | (2.7) |

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

Notes to the condensed consolidated financial statements cont'd

5. Property, plant and equipment

| | Freehold land & buildings | Infrastructure assets | Operational structures | Plant equipment, computer hardware | Total |
|---|---------------------------|-----------------------|------------------------|------------------------------------|----------------|
| | £m | £m | £m | £m | £m |
| Cost | | | | | |
| At 1 April 2009 | 34.4 | 1,513.1 | 2,383.4 | 226.2 | 4,157.1 |
| Additions net of grants and contributions | - | 23.4 | 86.0 | 5.1 | 114.5 |
| At 30 September 2009 | 34.4 | 1,536.5 | 2,469.4 | 231.3 | 4,271.6 |
| Accumulated depreciation | | | | | |
| At 1 April 2009 | 16.8 | 131.2 | 859.4 | 169.7 | 1,177.1 |
| Charge for the period | - | 16.8 | 40.9 | 8.0 | 65.7 |
| At 30 September 2009 | 16.8 | 148.0 | 900.3 | 177.7 | 1,242.8 |
| Net book value | | | | | |
| At 30 September 2009 | 17.6 | 1,388.5 | 1,569.1 | 53.6 | 3,028.8 |
| At 31 March 2009 | 17.6 | 1,381.9 | 1,524.0 | 56.5 | 2,980.0 |

The net book value of fixed assets includes £0.5m (March 2009: £nil) of capitalised interest.

The group forecasts £193m of capital expenditure over the remainder of the AMP4 period to 31 March 2010. While only a portion of this amount has been formally contracted for, the group is effectively committed to the total as part of its overall capital expenditure programme approved by its regulator.

6. Intangible assets

Intangible assets comprise computer software and related system developments.

| | Cost | Amortisation | Net book value |
|-----------------------------|--------------|---------------|----------------|
| | £m | £m | £m |
| At 1 April 2009 | 101.5 | (55.3) | 46.2 |
| Additions | 7.5 | (4.1) | 3.4 |
| At 30 September 2009 | 109.0 | (59.4) | 49.6 |

7. Trade and other receivables

| | 30 September 2009 | 30 September 2008 | 31 March 2009 |
|--|-------------------|-------------------|---------------|
| | £m | £m | £m |
| Amounts falling due within one year | | | |
| Trade receivables | 86.7 | 120.1 | 109.4 |
| Less provision for impairment of receivables | (37.2) | (66.1) | (70.6) |
| Trade receivables - net | 49.5 | 54.0 | 38.8 |
| Prepayments and accrued income | 62.7 | 63.8 | 62.0 |
| Other receivables | 10.4 | 7.5 | 1.4 |
| | 122.6 | 125.3 | 102.2 |

Notes to the condensed consolidated financial statements cont'd

8. Trade and other payables

| | 30 September 2009 | 30 September 2008 | 31 March 2009 |
|------------------------------------|----------------------|----------------------|------------------|
| | £m | £m | £m |
| Current | | | |
| Trade payables | 17.8 | 36.9 | 28.2 |
| Capital payables | 40.5 | 49.4 | 53.4 |
| Other taxation and social security | 0.5 | 0.4 | 0.4 |
| Accruals and deferred income | 49.2 | 49.2 | 47.5 |
| | <u>108.0</u> | <u>135.9</u> | <u>129.5</u> |
| Non-current | | | |
| Deferred income | 2.8 | 2.2 | 3.0 |

9. Analysis and reconciliation of net debt

| | | | |
|--|------------------------------|------------------------------|--------------------------|
| a) Net debt at the balance sheet date may be analysed as: | 30 September 2009 | 30 September 2008 | 31 March 2009 |
| | £m | £m | £m |
| Cash and cash equivalents | 114.2 | 139.9 | 139.3 |
| Debt due after one year | (1,794.0) | (1,772.3) | (1,821.2) |
| Debt due within one year | (4.0) | (4.0) | (4.5) |
| Finance leases | (892.1) | (842.5) | (892.1) |
| Accrued interest | (73.6) | (82.7) | (41.9) |
| | <u>(2,763.7)</u> | <u>(2,701.5)</u> | <u>(2,759.7)</u> |
| Net debt | <u>(2,649.5)</u> | <u>(2,561.6)</u> | <u>(2,620.4)</u> |
| b) The movement in net debt during the period may be summarised as: | 30 September 2009 | 30 September 2008 | 31 March 2009 |
| | £m | £m | £m |
| Net debt at start of period | (2,620.4) | (2,524.4) | (2,524.4) |
| (Decrease)/increase in net cash | (25.1) | 15.8 | 15.2 |
| Decrease/(increase) in debt | 2.5 | 2.4 | (69.9) |
| (Increase)/decrease in net debt arising from cash flows | <u>(22.6)</u> | <u>18.2</u> | <u>(54.7)</u> |
| Movement in accrued interest | (31.7) | (40.6) | 0.2 |
| Indexation of index-linked debt | 25.5 | (14.8) | (41.4) |
| Other non-cash movements | (0.3) | - | (0.1) |
| Movement in net debt during the period | <u>(29.1)</u> | <u>(37.2)</u> | <u>(96.0)</u> |
| Net debt at end of period | <u>(2,649.5)</u> | <u>(2,561.6)</u> | <u>(2,620.4)</u> |

Independent review report to Glas Cymru Cyfyngedig

Introduction

We have been engaged by the company to review the condensed set of financial statements in the interim report and accounts for the six months ended 30 September 2009, which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated balance sheet, consolidated statement of cash flows and related notes. We have read the other information contained in the interim report and accounts and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The interim report and accounts is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report and accounts in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in the interim report and accounts has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the interim report and accounts based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim report and accounts for the six months ended 30 September 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
11 November 2009