



Interim Financial Statements

For the six months ended 30 September 2018

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Interim Financial Statements

Announcement of interim results for the six months ended 30 September 2018

80% of Bristol Water is ultimately owned by two investment funds which are affiliated with iCON Infrastructure LLP; iCON Infrastructure Partners III, L.P. own 50% and iCON Infrastructure Partners III (Bristol), L.P. own 30%. 20% is ultimately owned by Itochu Corporation.

Bristol Water plc supplies water to over 1.2 million people and businesses in an area of almost 2,400 square kilometres centred on Bristol.

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FINANCIAL HIGHLIGHTS

	2018 (unaudited) £m	2017 restated (unaudited) £m
Turnover	60.3	58.9
EBITDA	25.3	26.0
Profit after taxation	5.8	7.9
Net debt (excluding 8.75% irredeemable cumulative preference shares)	324.5	306.1
Capital investment in the period	22.4	29.2

SUMMARY

- Increased revenue principally reflects increases in regulatory allowances 0.3% plus RPI increase of 3.9%.
- Underlying financial and operational performance remains stable; higher operating expenditure reflects increased work to improve leakage performance, whilst weather conditions over the summer led to increased customer demand, resulting in higher chemical and maintenance costs. In addition, expenditure included costs related to the preparation of the 2019 business plan submissions.
- £22.4m investment in the capital programme saw a continued focus on improving and enhancing the company's asset base.
- Prior year results included non-recurring exceptional items of £4.7m arising from the Board's decision to cease construction of Cheddar 2 Reservoir, offset by profit on disposal of assets and liabilities related to non-household retail activities of £2.2m.
- A significant refinancing of debt in June secured £125m in new debt and facilities at competitive rates and coupled with an ongoing pension buy out process, has resulted in a strengthened balance sheet.

CHAIRMAN'S STATEMENT

This period has been marked by the company's submission of its business plan to Ofwat on 3 September for the period 2020-25. This event represented the achievement of a significant milestone following almost two years of development and saw the Company consulting with over 37,000 customers to ensure the plan truly reflected our customers' priorities. Over the past few months, the Board and the Executive team have been considering at length the details of our plan and have received substantial independent advice and assurance reports. We are proud of our business plan which has a number of ambitious objectives for improving our services and puts our customers at the heart of our business. Ofwat will consider submissions by all water companies and an initial assessment will be published at the end of January 2019.

Over the past six months, the United Kingdom experienced the joint driest and warmest summer since records began and we saw one of the highest levels of customer demand for water in our recent history. Dry weather also resulted in unprecedented levels of burst water mains and customer contacts. Despite these challenges, we continued to deliver for our customers by managing our water resources well and avoiding restrictions to water usage. As we enter the winter period, the total water stored in our reservoirs remains at a healthy level.

Our financial performance continues to be strong despite higher operational costs and greater volumes of water transported, resultant from the summer weather conditions and increased network repairs. We completed a significant refinancing of debt in June, securing £125m in new debt at competitive rates. In addition, the Company has been working with the pension trustee to progress a buy out of the defined benefit pension scheme. The buy in of the pension assets was completed in the first half of the year, with the buy-out process progressing. The completion of this process will substantially reduce balance sheet risk whilst providing long term benefit to members by fully securing their benefits and entitlements.

Our employee health & safety performance continues to improve, with the Accident Frequency Rate showing 1.87 accidents per 100,000 hours worked for the first six months of the year, compared with 2.73 accidents per 100,000 for the twelve months to March 2018.

Operational performance has been close to our targets over the last six months. Looking at providing our customers with high quality drinking water, we have achieved a 100% water quality compliance index for the first time in our recent history and customer contacts relating to the taste and smell of water have reduced year on year. We continue to focus

on reducing leakage from our network to below the levels achieved last year. Despite unprecedented levels of burst water mains, increased leakage management resources and the commitment of our staff and contracting partners has resulted in lower leakage at 30 September compared to last year. The current level is also slightly below our target for the full year. As we move into the second half of the year and the winter months, leakage from the network and burst water mains has become much more challenging and will be the focus of our attention.

In order to better manage demand for water, our metering programme has been ramping up and we have installed a further 10,105 new meters, of which 9,194 are now billed, in the first half of this year, bringing the total proportion of metered households to 54.7% of our supplied households on measured billing.

We have continued our community investment with activities such as the Water Bar supporting eight local festivals, branded water fountains in the city centre and partnerships with Refill Bristol.

We were delighted to welcome Laura Flowerdew, our new Chief Financial Officer, to the Company on 1 October, replacing Mick Axtell who left in July. On 25 October, we appointed Jeremy Bending as independent non-executive director. He has substantial experience of working with regulated utility companies in the asset management area, and his knowledge and expertise will complement and strengthen the existing Board. In addition, on 29 November, we strengthened our Board further by the appointment of Jim McAuliffe as an independent non-executive director. Jim McAuliffe has strong links to the local community in Bristol and was until recently the CFO of Bristol Airport.

Finally, I would like to thank all Bristol Water employees for their commitment and hard work. Despite many challenges, they continue to deliver for our customers.

Keith Ludeman

Chairman
12 December 2018

INCOME STATEMENT

For the six months ended 30 September 2018

	Note	Six months to 30 September 2018 (unaudited) £m	Six months to 30 September 2017 restated* (unaudited) £m	Year to 31 March 2018 restated* (unaudited) £m
Revenue	4,6	60.3	58.9	116.5
Operating costs	7	(46.5)	(43.3)	(85.5)
Exceptional operating costs		-	-	(2.5)
Total net operating costs		(46.5)	(43.3)	(88.0)
Operating profit		13.8	15.6	28.5
Net interest payable and similar charges	8	(6.1)	(5.0)	(12.1)
Dividends on 8.75% irredeemable cumulative preference shares	8	(0.5)	(0.5)	(1.1)
Net interest payable and similar charges		(6.6)	(5.5)	(13.2)
Profit on ordinary activities before taxation		7.2	10.1	15.3
Taxation on profit on ordinary activities	9	(1.4)	(2.2)	(3.6)
Profit for the period/year		5.8	7.9	11.7
Earnings per ordinary share	10	96.7p	131.7p	195.0p

All activities above relate to the continuing activities of the Company.

* See note 5 for details of the restatement due to a change in accounting policies.

STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2018

	Note	Six months to 30 September 2018 (unaudited) £m	Six months to 30 September 2017 restated* (unaudited) £m	Year to 31 March 2018 restated* (unaudited) £m
Profit for the period / year		5.8	7.9	11.7
Other comprehensive income:				
Items that will not be reclassified to profit and loss				
Actuarial (losses)/gains on retirement benefit surplus		(39.7)	(5.6)	0.9
Re-measurement of defined benefit pension scheme	9	13.8	1.8	(0.6)
Items that may be subsequently reclassified to profit and loss				
Change in the fair value of interest rate swaps		(0.1)	0.9	1.5
Attributable deferred taxation	9	-	(0.2)	(0.3)
Other comprehensive (expense)/income for the period / year, net of tax		(26.0)	(3.1)	1.5
Total comprehensive (expense)/income for the period / year		(20.2)	4.8	13.2

* See note 5 for details of the restatement due to a change in accounting policies.

STATEMENT OF FINANCIAL POSITION

at 30 September 2018

	Note	30 September 2018 (unaudited) £m	30 September 2017 restated* (unaudited) £m	31 March 2018 restated* (unaudited) £m
Non-current assets				
Property, plant and equipment	11	610.8	588.5	599.4
Intangible assets	12	8.3	4.5	8.6
Investments		68.5	68.5	68.5
Deferred tax assets		5.0	5.5	5.4
Retirement benefit surplus	13	7.8	28.9	33.5
		700.4	695.9	715.4
Current assets				
Inventory		1.6	1.5	1.6
Trade and other receivables		31.1	27.2	26.7
Cash and cash equivalents		11.3	16.1	15.0
		44.0	44.8	43.3
Assets classified as held for sale		0.2	1.4	0.2
Total assets		744.6	742.1	758.9
Non-current liabilities				
Borrowings and derivatives	14	(335.2)	(301.6)	(325.5)
8.75% irredeemable cumulative preference shares	14	(12.5)	(12.5)	(12.5)
Deferred income		(78.8)	(76.3)	(78.0)
Government Grants		(0.3)	(0.3)	(0.3)
Deferred tax liabilities		(62.7)	(62.1)	(62.2)
		(489.5)	(452.8)	(478.5)
Current liabilities				
Trade and other payables		(34.6)	(34.2)	(38.7)
Borrowings and derivatives	14	(0.6)	(20.6)	(0.5)
Deferred income		(1.7)	(1.6)	(1.6)
		(36.9)	(56.4)	(40.8)
Total liabilities		(526.4)	(509.2)	(519.3)
Net assets		218.2	232.9	239.6
Equity				
Called-up share capital		6.0	6.0	6.0
Share premium account		4.4	4.4	4.4
Other reserves		5.8	5.0	5.5
Retained earnings		202.0	217.5	223.7
Total Equity		218.2	232.9	239.6

* See note 5 for details of the restatement due to a change in accounting policies.

The financial statements of Bristol Water plc, registered number 2662226 on pages 6-24, were approved by the Board of directors on 12 December 2018 and signed on its behalf by:

Mel Karam, Director, CEO and **Laura Flowerdew**, Director, CFO

STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2018

	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
Balance at 1 April 2017 (restated*)	6.0	4.4	5.8	(1.5)	219.0	233.7
Profit for the year	-	-	-	-	11.7	11.7
Other comprehensive income for the year:						
Actuarial gain recognised in respect of retirement benefit obligations	-	-	-	-	0.9	0.9
Remeasurement of defined benefit scheme	-	-	-	-	(0.6)	(0.6)
Fair value of interest rate swap	-	-	-	1.5	-	1.5
Attributable deferred taxation	-	-	-	(0.3)	-	(0.3)
Total comprehensive income for the year	-	-	-	1.2	12.0	13.2
Ordinary dividends	-	-	-	-	(7.3)	(7.3)
Balance as at 31 March 2018 (restated*)	6.0	4.4	5.8	(0.3)	223.7	239.6
Balance as at 1 April 2018 (restated*)	6.0	4.4	5.8	(0.3)	223.7	239.6
Profit for the period	-	-	-	-	5.8	5.8
Other comprehensive income for the period:						
Actuarial losses recognised in respect of retirement benefit obligations	-	-	-	-	(39.7)	(39.7)
Remeasurement of defined benefit scheme	-	-	-	-	13.8	13.8
Fair value of interest rate swaps	-	-	-	(0.1)	-	(0.1)
Attributable deferred taxation	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(0.1)	(20.1)	(20.2)
Reserve movement upon termination of swap	-	-	-	0.4	-	0.4
Ordinary dividends	-	-	-	-	(1.6)	(1.6)
Balance as at 30 September 2018	6.0	4.4	5.8	-	202.0	218.2

The Board has proposed interim dividends on the ordinary shares of £4.6m in respect of the period ended 30 September 2018 (6 months ended 30 September 2017: £1.6m). £1.6m of this dividend will be used to pay the intercompany loan interest due from Bristol Water Holdings UK Limited.

* See note 5 for details of the restatement due to a change in accounting policies.

CASH FLOW STATEMENT

For the six months ended 30 September 2018

	Note	Six months to 30 September 2018 (unaudited) £m	Six months to 30 September 2017 restated* (unaudited) £m	Year to 31 March 2018 restated* (unaudited) £m
Cash flows from operating activities				
Profit before taxation		7.2	10.1	15.3
Adjustments for:				
Contributions from developers (deferred income amortisation)	6	(0.8)	(0.8)	(1.6)
Depreciation of tangible assets, net of amortisation of grants	7	10.1	9.4	19.3
Amortisation of intangible assets	7	1.4	1.0	2.4
Impairment of tangible assets	7	-	4.7	4.7
Difference between pension charges and normal contributions		0.4	0.2	0.4
Loss on disposal of assets		-	-	0.3
Profit on sale of held for sale assets	7	-	(2.2)	(2.2)
Interest income	8	(2.1)	(2.0)	(4.1)
Interest expense	8	9.3	8.1	18.6
Pension interest income	8	(0.6)	(0.6)	(1.3)
Increase in inventory		-	(0.4)	(0.5)
(Increase)/ decrease in trade and other receivables		(3.5)	1.0	(4.7)
(Decrease)/ increase in trade and other creditors and provisions		(0.7)	(2.1)	3.8
Cash generated from operations		20.7	26.4	50.4
Interest paid		(5.8)	(5.8)	(11.8)
Corporation taxes paid		(1.4)	(1.6)	(2.9)
Net cash inflows from operating activities		13.5	19.0	35.7
Cash flows from investing activities				
Purchase of property plant and equipment and intangibles		(25.9)	(28.5)	(55.2)
Contributions received		1.7	1.7	4.2
Proceeds from sale of fixed assets		-	0.1	0.1
Proceeds from sale of assets and liabilities held for sale		-	2.6	9.1
Interest received		2.0	2.0	4.1
Net cash used in investing activities		(22.2)	(22.1)	(37.7)

Cash flows from financing activities			
Proceeds from loans and borrowings	88.0	9.9	29.9
Transaction costs related to loans and borrowings	(1.0)	(0.2)	(0.2)
Payment of finance lease liabilities	(0.4)	(0.4)	(0.4)
Payment of loans and borrowings	(78.9)	-	(20.0)
Payment of swap termination	(0.5)	-	-
Preference dividends paid	(0.6)	(0.6)	(1.1)
Equity dividends paid	(1.6)	(5.6)	(7.3)
Net cash from financing activities	5.0	3.1	0.9
Net decrease in cash and cash equivalents	(3.7)	-	(1.1)
Cash and cash equivalents, beginning of period	15.0	16.1	16.1
Cash and cash equivalents, end of period	11.3	16.1	15.0

* See note 5 for details of the restatement due to a change in accounting policies.

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

1. GENERAL INFORMATION

Bristol Water plc ("the Company") is a regulated Water only supply company holding an instrument of appointment as set out by the Water Industry Act 1991. The company is the licensed monopoly provider of water services in the Bristol area, and as such is regulated by the Water Services Regulation Authority - Ofwat.

The Company is incorporated and domiciled in England. The address of its registered office is Bridgwater Road, Bristol, BS13 7AT, England.

2. BASIS OF PREPARATION

The financial information contained in this interim announcement does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006. The interim accounts have been prepared in accordance with Financial Reporting Standard 104 "Interim Financial Reporting" issued by the Financial Reporting Council and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

The Company has adopted FRS 101 "Reduced disclosure framework - Disclosure exemptions from EU-adopted IFRS for qualifying entities".

3.1 GOING CONCERN

The Company meets its day-to-day working capital requirements through its cash reserves and borrowings. The Company's forecasts and projections show that the Company will be able to operate within the level of its current cash reserves and borrowing facilities. After making enquiries, the Directors have an expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements. Further information on the Company's borrowings is given in note 14.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimate uncertainty were the same as those applied to the financial statements for the year ended 31 March 2018, with the exception of the following new critical estimates:

Revenue Recognition

In accordance with IFRS 15 revenue from customers is only recognised when it is probable that the Company will collect the consideration to which it is entitled. Management now considers the payment history of customers and does not recognise revenue where no payment has been received for more than two years. Once consideration is received the revenue is recognised.

Developer contributions

Under previous reporting periods, contributions received in respect of network and other assets were recognised in line with the provisions of International Financial Reporting Interpretations Committee ("IFRIC") 18: Transfer of Assets from Customers. Under this approach, contributions were amortised to operating expenses over similar lives to the associated asset.

Under IFRS 15 these contributions have been recognised as revenue and as such must be recognised as the performance obligation is satisfied. The performance obligation is deemed to be the authorised connection to water services which will be satisfied over the period of time water services are expected to be provided through this connection. We have estimated the average connection will be in place for a period of 60 years which is based on the useful economic life of domestic properties and building industry expectations.

5. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 15 Revenue from Contracts with Customers (IFRS 15) on the Company's financial statements. The Company has elected to apply full retrospective accounting for IFRS 15 and as such the comparative information for the period ended 30 September and for the year ended 31 March 2018 have also been restated. In preparing these financial statements, the Company's opening Statement of Financial Position was prepared as at 1 April 2017. This note also discloses the new accounting policies that have been applied from 1 April 2018, where they are different to those applied in previous periods.

RECONCILIATION OF EQUITY

as at 1 April 2017 and 31 March 2018

	Note	31 March 2017 as originally presented £m	IFRS 15 £m	31 March 2017 restated (unaudited) £m	31 March 2018 as originally presented £m	IFRS 15 £m	31 March 2018 restated (unaudited) £m
Non-current assets							
Property, plant and equipment		573.4	-	573.4	599.4	-	599.4
Intangible assets		5.1	-	5.1	8.6	-	8.6
Investments		68.5	-	68.5	68.5	-	68.5
Deferred tax assets	C	5.1	0.6	5.7	4.8	0.6	5.4
Retirement benefit surplus		32.3	-	32.3	33.5	-	33.5
		684.4	0.6	685.0	714.8	0.6	715.4
Current assets							
Inventory		1.1	-	1.1	1.6	-	1.6
Trade and other receivables	B	22.3	(0.4)	21.9	27.1	(0.4)	26.7
Cash and cash equivalents		16.1	-	16.1	15.0	-	15.0
		39.5	(0.4)	39.1	43.7	(0.4)	43.3
Assets classified as held for sale		8.1	-	8.1	0.2	-	0.2
Total assets		732.0	0.2	732.2	758.7	0.2	758.9
Non-current liabilities							
Borrowings and derivatives		(290.9)	-	(290.9)	(325.5)	-	(325.5)
8.75% irredeemable cumulative preference shares		(12.5)	-	(12.5)	(12.5)	-	(12.5)
Deferred income	A	(71.8)	(3.6)	(75.4)	(74.3)	(3.7)	(78.0)
Government grants		(0.3)	-	(0.3)	(0.3)	-	(0.3)
Deferred tax liabilities		(61.4)	-	(61.4)	(62.2)	-	(62.2)
		(436.9)	(3.6)	(440.5)	(474.8)	(3.7)	(478.5)
Current liabilities							
Current portion of borrowings and derivatives		(20.8)	-	(20.8)	(0.5)	-	(0.5)
Trade and other payables		(34.6)	-	(34.6)	(38.7)	-	(38.7)
Deferred income	A	(1.7)	0.1	(1.6)	(1.7)	0.1	(1.6)
		(57.1)	0.1	(57.0)	(40.9)	0.1	(40.8)
Liabilities classified as held for sale		(1.0)	-	(1.0)	-	-	-
Total liabilities		(495.0)	(3.5)	(498.5)	(515.7)	(3.6)	(519.3)
Net assets		237.0	(3.3)	233.7	243.0	(3.4)	239.6

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)**RECONCILIATION OF EQUITY AS AT 1 APRIL 2017 AND 31 MARCH 2018**

	Note	31 March 2017		31 March 2017		31 March 2018	
		as originally presented	IFRS 15	restated (unaudited)	as originally presented	IFRS 15	restated (unaudited)
		£m	£m	£m	£m	£m	£m
Equity							
Called-up share capital		6.0	-	6.0	6.0	-	6.0
Share premium account		4.4	-	4.4	4.4	-	4.4
Other reserves		4.3	-	4.3	5.5	-	5.5
Retained earnings	A,B	222.3	(3.3)	219.0	227.1	(3.4)	223.7
Total Equity		237.0	(3.3)	233.7	243.0	(3.4)	239.6

RECONCILIATION OF EQUITY

as at 30 September 2017

	Note	30 September 2017		30 September 2017	
		as originally presented	IFRS 15	restated (unaudited)	restated (unaudited)
		£m	£m	£m	£m
Non-current assets					
Property, plant and equipment		588.5	-	588.5	
Intangible assets		4.5	-	4.5	
Investments		68.5	-	68.5	
Deferred tax assets	C	4.9	0.6	5.5	
Retirement benefit surplus		28.9	-	28.9	
		695.3	0.6	695.9	
Current assets					
Inventory		15	-	15	
Trade and other receivables	B	276	(0.4)	272	
Cash and cash equivalents		16.1	-	16.1	
		45.2	(0.4)	44.8	
Assets classified as held for sale		14	-	14	
Total assets		741.9	0.2	742.1	

	Note	30 September 2017		30 September 2017	
		as originally presented	IFRS 15	restated (unaudited)	restated (unaudited)
		£m	£m	£m	£m
Non-current liabilities					
Borrowings and derivatives		(301.6)	-	(301.6)	
8.75% irredeemable cumulative preference shares		(12.5)	-	(12.5)	
Deferred income	A	(72.6)	(3.7)	(76.3)	
Government grants		(0.3)	-	(0.3)	
Deferred tax liabilities		(62.1)	-	(62.1)	
		(449.1)	(3.7)	(452.8)	
Current liabilities					
Current portion of borrowings and derivatives		(20.6)	-	(20.6)	
Trade and other payables		(34.2)	-	(34.2)	
Deferred income	A	(1.7)	0.1	(1.6)	
		(56.5)	0.1	(56.4)	
Total liabilities		(505.6)	(3.6)	(509.2)	
Net assets		236.3	(3.4)	232.9	
Equity					
Called-up share capital		6.0	-	6.0	
Share premium account		4.4	-	4.4	
Other reserves		5.0	-	5.0	
Retained earnings	A,B	220.9	(3.4)	217.5	
Total Equity		236.3	(3.4)	232.9	

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

RECONCILIATION OF TOTAL COMPREHENSIVE INCOME

for the year ended 31 March 2018

	Note	Year to	IFRS 15	Year to	Period to 30	IFRS 15	Period to 30
		31 March 2018 as originally presented	£m	31 March 2018 restated (unaudited)	September 2017 as originally presented	£m	September 2017 restated (unaudited)
Revenue	A,B	114.9	1.6	116.5	58.1	0.8	58.9
Operating costs	A,B	(83.8)	(1.7)	(85.5)	(42.4)	(0.9)	(43.3)
Exceptional operating costs		(2.5)	-	(2.5)	-	-	-
Total net operating costs		(86.3)	(1.7)	(88.0)	(42.4)	(0.9)	(43.3)
Operating profit		28.6	(0.1)	28.5	15.7	(0.1)	15.6
Net interest payable and similar charges		(12.1)	-	(12.1)	(5.0)	-	(5.0)
Dividends on 8.75% irredeemable cumulative preference shares		(1.1)	-	(1.1)	(0.5)	-	(0.5)
Net interest payable and similar charges		(13.2)	-	(13.2)	(5.5)	-	(5.5)
Profit on ordinary activities before taxation		15.4	(0.1)	15.3	10.2	(0.1)	10.1
Taxation on profit on ordinary activities		(3.6)	-	(3.6)	(2.2)	-	(2.2)
Profit for the period /year		11.8	(0.1)	11.7	8.0	(0.1)	7.9
Other comprehensive income:							
Items that will not be reclassified to profit and loss							
Actuarial gain on retirement benefit surplus		0.9	-	0.9	(5.6)	-	(5.6)
Re-measurement of defined benefit pension scheme		(0.6)	-	(0.6)	1.8	-	1.8
Items that may be subsequently reclassified to profit and loss							
Change in the fair value of the interest rate swaps		1.5	-	1.5	0.9	-	0.9
Attributable deferred taxation		(0.3)	-	(0.3)	(0.2)	-	(0.2)
Other comprehensive income for the year, net of tax		1.5	-	1.5	(3.1)	-	(3.1)
Total comprehensive income for the year		13.3	(0.1)	13.2	4.9	(0.1)	4.8

NOTES TO THE RECONCILIATION OF EQUITY AS AT 1 APRIL 2017 AND 31 MARCH 2018 AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2018

A. ACCOUNTING FOR CONTRIBUTIONS RECEIVED

Under the treatment allowed by International Financial Reporting Interpretations Committee ("IFRIC") 18: Transfer of Assets from Customers, contributions received in respect of network and other assets were amortised to operating expenses over similar lives to the associated assets.

Under IFRS 15 these contributions have been recognised as revenue and as such must be recognised as the performance obligation is satisfied. The performance obligation is deemed to be the authorised connection to water services which will be satisfied over the period of time water services are expected to be provided through this connection.

To reflect this change in policy at 31 March 2018, an increase of £3.6m (1 April 2017: £3.5m and 30 September 2017: £3.6m) was recognised in deferred income as a result of the change in amortisation period.

Profit before tax for the year ended 31 March 2018 in the comparative Income Statement was decreased by £0.1m (30 September 2017 £0.1m). This decrease consists of an increase in revenues of £1.6m (30 September 2017 £0.8m) and increased operating expenses of £1.7m (30 September 2017 £0.9m).

B. IDENTIFYING CONTRACTS

In previous reporting periods, the consideration from supply of water was recognised upon delivery of water to customers. A subsequent estimate was then made of the recoverable value of the associated trade receivable.

Under IFRS 15 a contract, and its subsequent revenue, is only recognised when collection of the consideration due is probable. An adjustment has been made to reverse revenue previously recognised for customers where consideration has not been received for more than two years.

To reflect this change in policy at 31 March 2018, a decrease of £0.4m (1 April 2017: £0.4m and 30 September 2017: £0.4m) was recognised in trade receivables. This decrease consists of a decrease in trade receivables of £1.0m (1 April 2017: £1.0m and 30 September 2017 £1.0m) offset by decrease in bad debt provision of £0.6m (1 April 2017: £0.6m and 30 September 2017 £0.6m).

C. DEFERRED TAXATION

The adjustments per notes A and B lead to different temporary taxation differences. In line with the Company's accounting policies, the Company has accounted for such differences and recognised the related net deferred tax liability.

At the date of transition to IFRS 15, an increase of £0.6m (1 April 2017: £0.6m and 30 September 2017: £0.6m) was recognised in deferred tax assets.

6. REVENUE

	Six months to 30 September 2018 (unaudited) £m	Six months to 30 September 2017 (unaudited) £m	Year to 31 March 2018 restated (unaudited) £m
Appointed income			
Household - measured	22.0	19.4	39.6
Household - unmeasured	23.5	24.0	47.0
Non-household - measured	12.1	12.3	24.1
Non-household - unmeasured	0.1	0.2	0.4
Contributions from developers	0.8	0.8	1.6
Third party services	0.9	1.3	2.0
Rental income	0.4	0.3	0.7
	59.8	58.3	115.4
Non-appointed income			
Recreations	0.3	0.4	0.7
Rental income	0.1	0.1	0.1
Other	0.1	0.1	0.3
	0.5	0.6	1.1
Total	60.3	58.9	116.5

7. OPERATING EXPENSES

	Six months to 30 September 2018 (unaudited) £m	Six months to 30 September 2017 (unaudited) £m	Year to 31 March 2018 £m
Operating expenses include:			
Payroll cost, net of recharges to fixed assets and including retirement benefit costs	8.9	8.0	15.8
Depreciation and amortisation	11.5	10.4	21.7
Impairment of fixed assets	-	4.7	4.7
Profit on sale of disposal group	-	(2.2)	(2.2)
Profit on disposal of assets	-	-	(0.3)

The impairment of fixed assets arose following the Board's decision not to continue with the construction of the Cheddar 2 Reservoir.

8. NET INTEREST PAYABLE AND SIMILAR CHARGES

	Six months to 30 September 2018 (unaudited) £m	Six months to 30 September 2017 restated (unaudited) £m	Year to 31 March 2018 £m
Interest payable and similar charges:			
Bank borrowings	1.6	1.1	2.1
Term loans and debentures:			
Interest charges	4.9	4.7	9.5
Indexation	2.5	2.3	6.6
Capitalisation of borrowing cost	(0.2)	(0.5)	(0.7)
Dividends on 8.75% irredeemable cumulative preference shares	0.5	0.5	1.1
	9.3	8.1	18.6
Interest receivable and similar income:			
Interest income in respect of retirement benefit scheme	(0.6)	(0.6)	(1.3)
Loan to Bristol Water Holdings UK Ltd - interest receivable	(2.0)	(2.0)	(4.0)
Other external investments and deposits income	(0.1)	-	(0.1)
	(2.7)	(2.6)	(5.4)
Total net interest payable and similar charges	6.6	5.5	13.2

The rate used to determine the amount of borrowing costs eligible for capitalisation was 4.7% (30 September 2017: 5.9%), which is the weighted average interest rate of applicable borrowings.

Dividends on the 8.75% irredeemable cumulative preference shares are payable at a fixed rate of 4.375% on 1 April and 1 October each year. Payment by the Company to the share registrars is made two business days earlier. The payments are classified as interest in accordance with IAS 39 'Financial Instruments - Recognition and Measurement'.

9. TAXATION

	Six months to 30 September 2018 (unaudited) £m	Six months to 30 September 2017 (unaudited) £m	Year to 31 March 2018 £m
Tax expense included in Income Statement			
Current tax:			
Corporation tax on profits for the period / year	0.6	14	27
Adjustment in respect of prior period	-	-	0.1
Total current tax	0.6	14	2.8
Deferred tax:			
Origination and reversal of timing differences	0.5	0.8	0.9
Adjustment to prior periods	0.3	-	(0.1)
Total deferred tax	0.8	0.8	0.8
Tax expense on profit	1.4	2.2	3.6
Tax (income) / expense (included in other comprehensive income)			
Deferred tax:			
Remeasurement of swap liability	-	0.2	0.3
Remeasurement of post-employment benefit liability	(13.8)	(1.8)	0.6
Total tax (income) / expense included in other comprehensive income	(13.8)	(1.6)	0.9

10. EARNINGS PER ORDINARY SHARE

	At 30 September 2018 (unaudited) m	At 30 September 2017 (unaudited) m	At 31 March 2018 m
Basic earnings per ordinary share have been calculated as follows -			
Earnings attributable to ordinary shares	£5.8	£7.9	£11.7
Weighted average number of ordinary shares	6.0	6.0	6.0

As the Company has no obligation to issue further shares, disclosure of earnings per share on a fully diluted basis is not relevant.

11. PROPERTY, PLANT AND EQUIPMENT

	Six months to 30 September 2018 (unaudited) £m	Six months to 30 September 2017 (unaudited) £m	Year to 31 March 2018 £m
Net book value, beginning of period	599.4	573.4	573.4
Additions	21.5	29.2	50.5
Disposals	-	-	(0.5)
Depreciation charge for the period	(10.1)	(9.4)	(19.3)
Impairment charge*	-	(4.7)	(4.7)
Net book value, end of period	610.8	588.5	599.4

The net book value of property, plant and equipment includes £5.5m (30 September 2017: £5.3m) of borrowing costs capitalised in accordance with IAS 23. During the six months ended 30 September 2018 £0.2m was capitalised using 4.7% prorated annual capitalisation rate (30 September 2017 £0.5m, 5.9%).

*The impairment charge arose following the Board's decision not to continue with the construction of the Cheddar 2 Reservoir.

12. INTANGIBLE ASSETS

	Six months to 30 September 2018 (unaudited) £m	Six months to 30 September 2017 (unaudited) £m	Year to 31 March 2018 £m
Net book value, beginning of period	8.6	5.1	5.1
Additions	1.1	0.5	5.9
Disposals	-	(0.1)	-
Amortisation charge for the period	(1.4)	(1.0)	(2.4)
Net book value, end of period	8.3	4.5	8.6

13. RETIREMENT BENEFITS

Pension arrangements for employees are partly provided through the Company's membership of the Water Companies' Pension Scheme (WCPS), which provides defined benefits based on final pensionable pay. The Company's membership of WCPS is through a separate section of the scheme. The assets of the section are held separately from those of the Company and are invested by discretionary fund managers appointed by the trustees of the scheme. The employees in the section ceased earning additional defined benefit pensions on 31 March 2016. All eligible employees were offered membership of a stakeholder pension scheme.

On 7 June 2018 the Trustee of the Bristol Water Section of the WCPS purchased a bulk annuity policy to insure the benefits for the members in the section. Since 2005, we have been making additional contributions into the Bristol Water section of the Water Companies Pension Scheme as part of our long term strategy to de-risk our pension liabilities. In 2017 we showed a surplus position which enabled us to take another significant step in our journey. In June 2018 the Trustee purchased a bulk insurance policy from one of Europe's leading providers of life and general insurance. This reduces risk within the Section and provides long-term benefit to all its members, fully securing all member benefits and entitlements.

The impact of this transaction in our accounts is that the valuation methodology for the new insurance policy now matches the methodology for valuing the liabilities. Previously all assets were measured at their market value leading to a material accounting surplus. The gross pension surplus of £11.9m at 30 September 2018 relates to the market value of other assets still held by the scheme, and is stated after including an estimation of the liability arising to adjust certain scheme benefits to compensate for the effect of unequal Guaranteed Minimum Pensions for men and women. The reduction in the value of the scheme assets of £25.9m is shown flowing through other comprehensive income which corresponds to a £39.7m reduction in the gross pension surplus offset by a reduction of £13.8m in the income tax liability.

Looking ahead, it is expected that within the next year or so the insurer will take over responsibility for the payment and administration of member benefits. Once this has happened members will no longer be members of the Section, instead they will have individual policies with the insurer. At this point the Section will be wound up.

In addition to providing benefits to employees and ex-employees of the Company, the section provides benefits to former employees of the Company who transferred to Bristol and Wessex Billing Services Limited ("BWBSL"). The majority of the section assets and liabilities relate to the Company employees and ex-employees. The financial position of the section is determined by an independent actuary (Lane, Clark & Peacock LLP). Pension assets and liabilities are recognised in the accounts in accordance with IAS 19 'Employee benefits'.

In summary, assets and liabilities under IAS 19 were:

	At 30 September 2018 (unaudited) £m	At 30 September 2017 (unaudited) £m	At 31 March 2018 £m
Fair value of section assets	178.0	223.2	223.0
Present value of liabilities	(166.1)	(178.7)	(171.6)
Surplus in the section	11.9	44.5	51.4
Less: restriction of surplus	(4.1)	(15.6)	(17.9)
Net pension asset on IAS 19 basis	7.8	28.9	33.5

14. NET BORROWINGS

	At 30 September 2018 (unaudited) £m	At 30 September 2017 (unaudited) £m	At 31 March 2018 £m
Net borrowings comprise -			
Debt due after one year, excluding 8.75% irredeemable cumulative preference shares	335.2	301.6	325.4*
Current portion of borrowings	0.6	20.6	0.5
	335.8	322.2	325.9
Cash and cash equivalents	(11.3)	(16.1)	(15.0)
Net borrowings excluding 8.75% irredeemable cumulative preference shares	324.5	306.1	310.9
8.75% irredeemable cumulative preference shares	12.5	12.5	12.5
Net borrowings	337.0	318.6	323.4

*The year end includes a £0.1m forward interest rate swap asset which is included in trade receivables on the balance sheet.

Borrowing facilities

During the year the Company undertook a refinancing of some of its borrowing facilities approaching maturity. Facilities of £50m and £20m expiring in November 2019 and December 2019 respectively were cancelled. These were replaced by new loans of £50m and £25m expiring in June 2028 and August 2028 respectively. An additional £50m facility expiring in June 2023 has been secured replacing an existing £25m facility due to expire in December 2022 providing sufficient borrowing headroom to complete the AMP6 capital programme.

As part of the refinancing, borrowings of £78.9m were repaid and two related swaps totalling £75m were terminated. New borrowings totalling £88m have been taken out.

At the period end the Company had unutilised borrowing facilities of £101.0m.

Fair value of financial assets and liabilities measured at amortised cost.

The fair values of borrowings are as follows:

	Six months to 30 September 2018 (unaudited) £m	Six months to 30 September 2017 (unaudited) £m	Year to 31 March 2018 £m
Non-current	371.3	451.6	465.6
Current	0.6	20.6	0.5
	371.9	472.2	466.1

15. COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments at 30 September 2018 contracted for but not provided were £6.8m (2017: £10.8m).

Bristol Water is supplied raw water from the Gloucester and Sharpness Canal, under an agreement with Canal and River Trust ("CRT"). The agreement provides for charges payable to CRT to be reviewed periodically and during the period CRT have triggered a charges review seeking a substantial increase. Bristol Water does not believe such an increase is supportable and is challenging the claim. Charges could increase or decrease under the terms of the agreement and there is uncertainty over the outcome of the review. Until the matter is determined, the charges continue to be payable at previous levels, and are accrued accordingly.

16. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The immediate parent company for this entity is Bristol Water Core Holdings Limited, a company incorporated in England and Wales.

The directors consider iCON Infrastructure Partners III, L.P. ("iCON III"), acting through its Managing General Partner, iCON Infrastructure Management III Limited ("iIML III"), to be the ultimate parent and controlling party of the Company.

The smallest and largest group in which the Company is consolidated is Bristol Water Group Limited and copies of its consolidated annual report are available from Suite 1, 3rd floor, 11-12 St James's Square, London, SW1Y 4LB.

17. RELATED PARTY TRANSACTIONS

During the six months to 30 September 2018 the Company spent £1.6m (2017: £1.5m) on the purchase of customer related services from BWBSL, a joint venture company between Bristol Water Holdings Limited and Wessex Water Services Limited. At 30 September 2018 £0.9m (2017: £nil) was receivable from BWBSL and £1.2m (2017: £1.7m) was payable to BWBSL.

During the six months to 30 September 2018 the Company recognised sales of £11.1m (2017: £11.9m) to Water 2 Business Limited (W2B), an associate company within the Bristol Water Group Limited group of companies (formerly CSE Water UK Limited Group). During the period to 30 September 2017 the Company sold assets with a book value of £6.9m to W2B for a purchase price of £9.1m. The assets sold include non-household customer lists, tangible and intangible assets, debtors and accrued income. At 30 September 2018 £2.1m (2017: £1.8m) was receivable from W2B primarily in respect of water supply charges.

18. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 9 October the Company cancelled the £15m credit facility due to expire in December 2022.

19. CIRCULATION

This interim announcement is available on the Bristol Water web site: <http://www.bristolwater.co.uk>. Paper copies are also available from the Company's registered office at Bridgwater Road, Bristol, BS13 7AT.

DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION OF INTERIM ACCOUNTS

The directors confirm that these condensed interim financial statements have been prepared in accordance with FRS104 'Interim Financial Reporting', and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 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 directors of Bristol Water Plc are listed in the Bristol Water Plc Annual Report for 31 March 2018. A list of current directors is maintained on the Bristol Water plc website:

www.bristolwater.co.uk

Going concern

The directors have a reasonable expectation that the Company has adequate resources available to it to continue in operational existence for the foreseeable future and have therefore continued to adopt the going concern policy in preparing the interim accounts. This conclusion is based upon, amongst other matters, a review of the Company's financial projections together with a review of the £11.3m cash and £101.0m unutilised committed borrowing facilities available to the Company as well as consideration of the Company's capital adequacy.

By order of the Board

C Caldwell

Company Secretary

12 December 2018



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