# BRISTOL WATER plc

**Announcement of interim results for the six months ended 30 September 2014**

**Bristol Water plc is ultimately owned by Capstone Infrastructure Corporation (50%), Sociedad General de Aguas de Barcelona S.A. (Agbar) (30%), and Itochu Corporation of Japan (20%).**

**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 – REPORTED UNDER UK GAAP

| | £m |
|---|---|
| **Profit after tax for 6 months to 30 September 2013** | **11.2** |
| **Significant changes between periods:** | |
| Increase in Earnings Before Interest, Tax, Depreciation and Amortisation (“EBITDA”) | **2.8** |
| Increase in depreciation | **(0.4)** |
| Decrease in debt indexation charge | **0.5** |
| One-off effect of corporation tax rate reduction enacted last year | **(5.0)** |
| Impact of movement in discount rates and other changes in deferred tax liability | **(0.6)** |
| | **(2.7)** |
| Increase in taxation due to higher profit before tax | **(0.6)** |
| **Profit after tax for 6 months to 30 September 2014** | **7.9** |

**Summary**

- Continued stable underlying financial and operational performance
- High customer satisfaction levels – Based on the latest published SIM scores in July 2014, Bristol Water (“the Company”) was 5th in the industry
- Significant level of capital investment continued with a £32.4m investment during the period
- Increase in EBITDA mainly driven by revenue increase due to RPI and K factor as required to support the significant capital investment
- Decrease in debt indexation charge due to lower RPI
- Increase in depreciation following recent capital investment
- Last year’s results included a credit of £5m due to a one-off reduction in deferred tax liability resulting from reduction in corporation tax rate

# CHAIRMAN'S STATEMENT

**Introduction**

The Company has continued to perform well operationally and financially over the last six months having firmly focussed on meeting our regulatory requirements and the expectations of customers and other stakeholders by delivering excellent customer service and water quality.

We have dealt with a couple of major bursts and flooding incidents during this period but with the commitment of our staff and contracting partners, managed to minimise the impact of any disruption sustained by our customers during these emergencies.

The summer months of 2014 have been drier than in previous years, with approximately half of the long-term average rainfall expected for the period. Our resource position has been managed well and no supply issues have been encountered.

The results for the six months ended 30 September 2014 reflect our stable financial performance. EBITDA increased by £2.8m compared to the same period last year, which supports the significant ongoing capital investment programme. Our capital programme led to higher depreciation, and interest on our index-linked debt was lower due to favourable RPI movements. Profit before tax increased by £2.9m to £11.2m as a result of the above factors. Profit after tax declined by £3.3m to £7.9m predominantly due to the exceptional deferred tax credit recognised in the same period last year in relation to the reduction in future corporation taxation rates.

Earlier in the year we submitted our Business Plan proposals for the next regulatory period following extensive consultation with both household and non-household customers which was overseen by an independent customer representative panel. Further information has been submitted to Ofwat as part of the price review process and we now await their Final Determination.

**Capital investment**

Our extensive capital investment programme has progressed well. During the period we invested £32.4m on our mains rehabilitation schemes and major upgrades to two key pumping stations. The mains rehabilitation work will improve both the security of water supply for the future, and water quality in respect of discoloured water and iron compliance. The work on pumping stations will increase operational efficiency and improve resilience of our key pumping stations.

We have adopted a collaborative approach with the highway authorities and implemented stakeholder engagement campaigns with local residents and businesses to ensure they are kept fully informed on the status of our works. Engagement with customers and commuters has been paramount to the successful delivery of the key projects across this Asset Management Plan ("AMP") period and we have used both traditional communication methods as well as using our mobile exhibition unit which allows people to speak to us face-to-face.

The planning application for a second reservoir at Cheddar was submitted in 2013 and has been successful. The need to build the £100m-plus reservoir is driven by future demands for water across the supply area and will also provide long-term recreational and conservation benefits. We have obtained planning permission from Sedgemoor District Council, however securing funding through the price review process will be required before the work can start on the new reservoir.

The majority of AMP5 projects have now been completed and we are confident that we will achieve substantially all the remaining outputs by the end of the regulatory period 2010-15.

**Price review process**

Following the June submission of our Business Plan proposals for the period 2015-20 we were advised by Ofwat in early August that it had concerns about the wholesale costs in our plan, as there was a significant difference between our assessment of these costs based on independent reviews and Ofwat's own assessment based upon its cost model. This was confirmed in their Draft Determination on 29 August.

After consulting with external, independent experts and carefully carrying out our own internal reviews of the Draft Determination, a response was filed to Ofwat in early October. In our response we proposed a £21m reduction over the AMP6 period in our total wholesale costs from £562m to £541m in real terms. Our revised proposals will, however, still deliver the levels of service and service improvements contained in our original plans which were endorsed by 92% of household customers and 97% of business customers surveyed during the consultation process.

We have had further engagement with Ofwat since our October response, aimed at resolving the points of difference on total wholesale costs. Ofwat will publish its Final Determination on 12 December.

**Customer service**

Our customer service remained high throughout 2013/14 with our performance against Ofwat's service measure, published in July 2014, placing us 5th in the industry. On the basis of Ofwat's three year average of SIM scores, the Company was ranked 4th in the industry. The customer service measure captures the customer experience, their interaction with the Company and the reasons that prompted them to contact us. We believe having local knowledgeable customer-focussed staff who deliver quick response times and who keep customers informed of what we are doing at all times has helped keep customer satisfaction high. We will continue to introduce new customer feedback mechanisms in order that we can improve on our service delivery.

As part of our affordability strategy we are working very closely with partners in the debt advice sector, including Citizens Advice Bureaux to promote the various schemes which allow customers genuinely unable to afford their bill to pay a fair contribution towards the costs. Customers also receive independent debt advice together with water efficiency advice.

## CHAIRMAN'S STATEMENT (continued)

**Building for the future**

To strengthen our business for future emerging channels and to build on the continual business improvement processes, we have embarked on a detailed company-wide review of all aspects of the business. This project will identify ways in which we can make the business more resilient and efficient and better prepared for changes in the statutory and regulatory environment in which we operate. We support government plans to increase the level of choice for commercial customers in the sector and believe this could deliver real benefits to customers and we are working towards retail separation which will take place in April 2017.

**Community engagement**

As part of our community engagement programme we have been 'out and about' in the community delivering talks and workshops and exhibiting at a number of small and major events to promote the good use of water.

Our events team attended a number of large shows - the Festival of Nature, VegFest, Bristol Harbourside Festival and the International Bristol Balloon Fiesta where they were able to answer water related queries, promote the free water saving packs available from Bristol Water as well as handing out hundreds of educational posters displaying the water cycle to children. We have also provided information and leaflets on a wide range of topics, including metering, leakage, tariffs and water wise tips for gardening.

As a responsible corporate citizen we think it is important for us to engage with our customers face-to-face and we estimate that we have engaged with over 14,000 people throughout the summer months at the various events that we have attended.

With all the necessary statutory and regulatory environmental requirements placed on water companies to maintain their environmental assets and land holdings, Bristol Water has just appointed an Environmental Programme Delivery Manager. This person will work collaboratively, drawing on the expertise of farmers, other bodies like the Wildlife Trusts, Farming & Wildlife Advisory Group (FWAG), Natural England and Areas of Outstanding Natural Beauty Partnerships and will work alongside similar initiatives such as the Catchment Sensitive Farming (CSF) Initiative run by Natural England and the Environment Agency.

At the end of September, 20,000 glass eels rescued from West Country estuaries by the Sustainable Eel Group (SEG) earlier this year were released into Chew Lake. Scientists have classified them as 'critically endangered' due to the plummeting numbers arriving in Europe since the 1980s and 90s and we have been working with the SEG and Avon Wildlife Trust to protect this species by helping them move inland and by repopulating rivers and waterways.

**Financial performance**

There has been a stable underlying performance during the period. Compared to the same period last year, turnover increased by £4.3m to £66m due to RPI and 'K' factor, and profit before tax increased by £2.9m to £8.3m. These results reflect the net impact of:

- the 6.5% increase in prices allowed by Ofwat - required for the on-going capital investment programme, and an increase in demand from metered customers,
- higher operating costs, predominantly driven by inflationary and above inflation market price increases, increase in costs associated with the improvement of customer service, increase in network maintenance costs driven by ageing mains network, and higher provision for uncollected debt from our customers. Increase in operating costs is partially offset by savings from our efficiency programme, Avon+,
- higher depreciation charge driven by large capital investment during the last year, and
- lower interest indexation charge due to lower RPI.

Profit after tax was £3.3m lower compared to the same period last year resulting from £2.9m higher profit before tax and £6.2m higher tax charge. The increase in tax charge was driven by higher taxable profit during the period, movement on discount rates for deferred tax, and the last year's deferred tax including the impact of reduction in corporation tax rate.

Net debt excluding the 8.75% irredeemable cumulative preference shares was £296.5m, representing approximately 71% of March 2015 expected Regulatory Capital Value of £418.5m.

During the six months £11m was drawn down from the loan facilities arranged in 2012. The remaining undrawn facilities of £20m and the cash and bank balances of £8.4m reflect our strong financial position at 30 September 2014. Subsequent to the period end a facility of £20m has been replaced with a new facility of £70m which, along with the cash and bank balances, is expected to be sufficient to meet the funding requirements for the ongoing 2010-15 capital programme.

### Dividends

During the period £7.2m dividends were paid. Dividends comprised £3.3m 'final' dividend in respect of the year ended 31 March 2014, a first interim ordinary dividend of £2.3m, and a second interim dividend of £1.6m representing the return of post-tax interest receivable on loans to a UK parent company.

The Board has proposed a third interim dividend of £2.4m in respect of the year ending 31 March 2015.

# CHAIRMAN'S STATEMENT (continued)

### Risks and uncertainties

In the Strategic Report within the Company's Annual Report 2014 we set out a summary of the key risks and uncertainties facing the Company. The key risks identified are regulatory requirements and developments, and operational conditions outside of company control. The Company is well placed to respond to the near future events, but it is not immune to the continuing financial market uncertainties in the medium term, which have the potential to impact its ability to obtain appropriate financing to deliver future capital programmes.

We anticipate that the results for the second half of the year may include the following:

- the impact of movements in socio economic conditions on the bad debts charge,
- the impact of weather on network maintenance and water treatment costs,
- impact of volatility in chemical prices,
- the impact of RPI movements on our indexed-linked debt, and
- the impact of further substantial capital investment.

Our revenue for the next financial year will be dependent upon Ofwat's Final Determination to be published on 12 December 2014.

**Keith Ludeman**
**Chairman**
28 November 2014

# PROFIT AND LOSS ACCOUNT

**For the six months ended 30 September 2014**

| | Note | **Six months to 30 September 2014 (unaudited)** | Six months to 30 September 2013 (unaudited) | Year to 31 March 2014 |
|---|---|---|---|---|
| | | **£m** | £m | £m |
| **Turnover** | 2 | **66.0** | 61.7 | 123.9 |
| Operating costs | 3 | **(49.0)** | (47.1) | (96.0) |
| **Operating profit** | | **17.0** | 14.6 | 27.9 |
| Loss on disposal of tangible assets | | - | - | (0.6) |
| Other net interest payable and similar charges | 4 | **(5.3)** | (5.8) | (11.7) |
| Dividends on 8.75% irredeemable cumulative preference shares | 4 | **(0.5)** | (0.5) | (1.1) |
| Net interest payable and similar charges | | **(5.8)** | (6.3) | (12.8) |
| **Profit on ordinary activities before taxation** | | **11.2** | 8.3 | 14.5 |
| Tax on profit on ordinary activities | 5 | **(3.3)** | 2.9 | 2.6 |
| **Profit on ordinary activities after taxation** | | **7.9** | 11.2 | 17.1 |
| **Earnings per ordinary share** | 6 | **131.5p** | 186.7p | 285.1p |

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

# STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

**For the six months ended 30 September 2014**

| | Note | **Six months to 30 September 2014 (unaudited)** | Six months to 30 September 2013 (unaudited) | Year to 31 March 2014 |
|---|---|---|---|---|
| | | **£m** | £m | £m |
| Profit attributable to Bristol Water plc shareholders | | **7.9** | 11.2 | 17.1 |
| Actuarial gains/(losses) recognised in respect of retirement benefit obligations | 10,11 | **0.8** | (2.5) | (3.0) |
| Attributable deferred taxation | 10,11 | **(0.2)** | 0.9 | 1.0 |
| Change in the fair value of the interest rate swap | 11 | **0.1** | 0.5 | 0.8 |
| Attributable deferred taxation | 11 | **-** | (0.2) | (0.2) |
| **Total recognised gains for the period** | | **8.6** | 9.9 | 15.7 |

# BALANCE SHEET
**30 September 2014**

| | Note | **At 30 September 2014 (unaudited)** | At 30 September 2013 (unaudited) | At 31 March 2014 |
|---|---|---|---|---|
| | Note | **£m** | £m | £m |
| **Fixed assets** | 7 | **358.9** | 333.8 | 345.9 |
| **Other investments - Loans to a UK holding company** | | **68.5** | 68.5 | 68.5 |
| **Current assets** | | | | |
| Stocks | | **1.3** | 1.3 | 1.3 |
| Debtors | | **38.3** | 34.5 | 31.9 |
| Cash on deposits | 8 | **-** | 11.8 | 2.0 |
| Cash at bank and in hand | 8 | **8.4** | 0.1 | 10.7 |
| | | **48.0** | 47.7 | 45.9 |
| **Creditors: amounts falling due within one year** | | | | |
| Current portion of long-term borrowings | 8 | **(18.3)** | (0.3) | (0.4) |
| Other creditors | | **(44.3)** | (46.1) | (42.9) |
| | | **(62.6)** | (46.4) | (43.3) |
| **Net current (liabilities) / assets** | | **(14.6)** | 1.3 | 2.6 |
| **Total assets less current liabilities** | | **412.8** | 403.6 | 417.0 |
| **Creditors: amounts falling due after more than one year** | | | | |
| Borrowings and derivatives | 8 | **(286.6)** | (277.1) | (292.1) |
| **8.75% irredeemable cumulative preference shares** | 8 | **(12.5)** | (12.5) | (12.5) |
| **Deferred income** | | **(8.1)** | (8.6) | (8.3) |
| **Provision for liabilities** | 9 | **(22.6)** | (21.9) | (21.3) |
| **Net assets excluding retirement benefit surplus** | | **83.0** | 83.5 | 82.8 |
| **Retirement benefit surplus** | 10 | **10.2** | 8.7 | 9.0 |
| **Net assets including retirement benefit surplus** | | **93.2** | 92.2 | 91.8 |
| **Capital and reserves** | | | | |
| Called-up share capital | | **6.0** | 6.0 | 6.0 |
| Share premium account | | **4.4** | 4.4 | 4.4 |
| Other reserves | | **4.9** | 4.5 | 4.8 |
| Profit and loss account | | **77.9** | 77.3 | 76.6 |
| **Shareholders' funds** | 11 | **93.2** | 92.2 | 91.8 |

# CASH FLOW STATEMENT

**For the six months ended 30 September 2014**

| | Note | **Six months to 30 September 2014 (unaudited)** | Six months to 30 September 2013 (unaudited) | Year to 31 March 2014 |
|---|---|---|---|---|
| | | **£m** | £m | £m |
| **Net cash inflow from operating activities** | 13(a) | **29.1** | 29.7 | 66.4 |
| **Returns on investments and servicing of finance** | | | | |
| Interest received | | **2.1** | 2.1 | 4.1 |
| Interest paid on term loans and debentures | | **(5.5)** | (5.3) | (10.7) |
| Interest paid on finance leases | | **(0.2)** | (0.1) | (0.1) |
| Dividends paid on 8.75% irredeemable cumulative preference shares | | **(0.5)** | (0.5) | (1.1) |
| | | **(4.1)** | (3.8) | (7.8) |
| **Taxation** | | | | |
| Corporation tax paid | | **(1.2)** | (0.2) | (1.2) |
| **Capital expenditure and investing activities** | | | | |
| Purchase of tangible fixed assets | | **(33.5)** | (43.8) | (83.8) |
| Contributions received | | **1.7** | 1.8 | 4.0 |
| Proceeds from disposal of tangible fixed assets | | **0.2** | - | 0.1 |
| (Increase)/decrease in cash deposits maturing after three months from the balance sheet date | 8 | **-** | (5.5) | - |
| | | **(31.6)** | (47.5) | (79.7) |
| **Equity dividends paid** | 12 | **(7.2)** | (7.0) | (13.2) |
| **Cash outflow before management of liquid resources and financing** | | **(15.0)** | (28.8) | (35.5) |
| **Management of liquid resources being decrease in liquid resources** | 8 | **2.0** | 3.2 | 7.5 |
| **Financing** | | | | |
| New term loans | | **11.0** | 24.6 | 51.6 |
| Repayment of loans | | **-** | - | (14.0) |
| Capital element of lease repayments | | **(0.3)** | (2.1) | (2.1) |
| | | **10.7** | 22.5 | 35.5 |
| **(Decrease)/increase in cash** | 13(b) | **(2.3)** | (3.1) | 7.5 |
| Cash, beginning of period | | **10.7** | 3.2 | 3.2 |
| **Cash, end of period** | | **8.4** | 0.1 | 10.7 |

# NOTES TO THE INTERIM ACCOUNTS

**For the six months ended 30 September 2014**

**Note 1: Accounting policies**

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, which have not been audited but have been reviewed by the Company's auditors, have been prepared on the basis of the accounting policies adopted by Bristol Water plc for the year ended 31 March 2014 as set out in the Annual Report. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified and did not contain statements under s.498 (2) or (3) of the Companies Act 2006. The accounting policies adopted in the preparation of these interim accounts are in accordance with United Kingdom Generally Accepted Accounting Practices (UK GAAP). These interim accounts have also been prepared in accordance with the Accounting Standards Board Statement, 'Half-yearly Financial Reports'.

In relation to the future of financial reporting in the UK, the ASB has issued the following standards:

- FRS 100 'Application of Financial Reporting Requirements' (issued on 22 November 2012);
- FRS 101 'Reduced Disclosure Framework' (under EU IFRS) (issued on 22 November 2012);
- FRS 102 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland' ('FRSUKI', formerly the 'FRSME') (issued on 14 March 2013).

The proposed effective date is periods beginning on or after 1 January 2015, with early adoption permitted for periods beginning on or after the date of issue of the standards.

As outlined in the Company's Annual Report for the year ended 31 March 2014, the Company is not required to, and does not intend to, adopt the above for statutory reporting before the proposed effective date.

**Note 2: Turnover**

Turnover is wholly derived from water supply and related activities in the United Kingdom. The maximum level of prices the Company may levy for the majority of water charges is controlled by the Water Services Regulation Authority (Ofwat) through the RPI +/- K price formula.

**Note 3: Operating costs**

| | **Six months to 30 September 2014 (unaudited)** | Six months to 30 September 2013 (unaudited) | Year to 31 March 2014 |
|---|---|---|---|
| | **£m** | £m | £m |
| Operating costs comprise - | | | |
| Payroll cost, net of recharges to fixed assets and including retirement benefit costs | **6.5** | 6.1 | 12.2 |
| Depreciation, net of amortisation of deferred income | **19.0** | 18.6 | 38.6 |
| Other operating costs | **23.5** | 22.4 | 45.2 |
| | **49.0** | 47.1 | 96.0 |

# NOTES TO THE INTERIM ACCOUNTS

**For the six months ended 30 September 2014**

**Note 4: Net interest payable and similar charges**

| | **Six months to 30 September 2014 (unaudited)** | Six months to 30 September 2013 (unaudited) | Year to 31 March 2014 |
|---|---|---|---|
| | **£m** | £m | £m |
| Interest payable and similar charges relate to: | | | |
| Bank borrowings | **0.9** | 0.5 | 1.5 |
| Term loans and debentures: | | | |
| interest charges | **4.7** | 4.8 | 9.2 |
| indexation and amortisation of fees and premium on loans | **1.9** | 2.4 | 4.8 |
| Finance leases | **0.1** | - | 0.1 |
| | **7.6** | 7.7 | 15.6 |
| Dividends on 8.75% irredeemable cumulative preference shares | **0.5** | 0.5 | 1.1 |
| Interest (income)/charge in respect of retirement benefit scheme | **(0.3)** | 0.1 | 0.2 |
| Interest payable and similar charges | **7.8** | 8.3 | 16.9 |
| Less interest receivable and similar income: | | | |
| Loan to Bristol Water Holdings UK Ltd – interest receivable | **(2.0)** | (2.0) | (4.0) |
| Other external investments and deposits | **-** | - | (0.1) |
| | **(2.0)** | (2.0) | (4.1) |
| Total net interest payable and similar charges | **5.8** | 6.3 | 12.8 |

**Note 5: Tax on profit on ordinary activities**

| | **Six months to 30 September 2014 (unaudited)** | Six months to 30 September 2013 (unaudited) | Year to 31 March 2014 |
|---|---|---|---|
| | **£m** | £m | £m |
| The charge/(credit) for taxation comprises - | | | |
| **Current tax:** | | | |
| Corporation tax at 21% (2013/14: 23%) | **1.9** | 1.3 | 2.3 |
| Adjustment to prior periods | **-** | - | (0.1) |
| | **1.9** | 1.3 | 2.2 |
| **Deferred tax:** | | | |
| Origination and reversal of timing differences | **0.6** | 0.7 | 1.2 |
| Effect of corporation tax rate change | **-** | (5.0) | (5.0) |
| Adjustment to prior periods | **-** | - | 0.1 |
| | **0.6** | (4.3) | (3.7) |
| Effect of discounting | **0.8** | 0.1 | (1.1) |
| Total deferred tax | **1.4** | (4.2) | (4.8) |
| **Tax on profit on ordinary activities** | **3.3** | (2.9) | (2.6) |

The overall tax credit for the period ended 30 September 2013 and the year ended 31 March 2014 included the exceptional effect on the deferred tax provision of the reduction in the corporation tax rate from 23% to 20% by the financial year 2014/15. The effect of this tax rate reduction is disclosed above on an undiscounted basis as a credit of £5m (discounted basis: credit of £3.7m).

# NOTES TO THE INTERIM ACCOUNTS

**For the six months ended 30 September 2014**

**Note 6: Earnings per ordinary share**

| | **Six months to 30 September 2014 (unaudited)** | Six months to 30 September 2013 (unaudited) | Year to 31 March 2014 |
|---|---|---|---|
| | **m** | m | m |
| Earnings per share have been calculated as follows - | | | |
| Earnings | **£7.9** | £11.2 | £17.1 |
| Weighted average number of ordinary shares in issue | **6.0** | 6.0 | 6.0 |

**Note 7: Fixed assets**

| | **Six months to 30 September 2014 (unaudited)** | Six months to 30 September 2013 (unaudited) | Year to 31 March 2014 |
|---|---|---|---|
| | **£m** | £m | £m |
| The movement in fixed assets comprises - | | | |
| Net book value, beginning of period | **345.9** | 313.7 | 313.7 |
| Additions | **34.1** | 40.7 | 76.0 |
| Disposals | **(0.2)** | - | (0.7) |
| Grants and contributions | **(1.7)** | (1.8) | (4.0) |
| Depreciation charge for period | **(19.2)** | (18.8) | (39.1) |
| Net book value, end of period | **358.9** | 333.8 | 345.9 |

**Note 8: Net borrowings**

| | **At 30 September 2014 (unaudited)** | At 30 September 2013 (unaudited) | At 31 March 2014 |
|---|---|---|---|
| | **£m** | £m | £m |
| Net borrowings comprise - | | | |
| Debt due after one year, excluding 8.75% irredeemable cumulative preference shares | **286.6** | 277.1 | 292.1 |
| Current portion of long-term borrowings | **18.3** | 0.3 | 0.4 |
| | **304.9** | 277.4 | 292.5 |
| Cash on deposits maturing: | | | |
| within three months from the balance sheet date | **-** | (6.3) | (2.0) |
| after three months from the balance sheet date | **-** | (5.5) | - |
| Cash at bank and in hand | **(8.4)** | (0.1) | (10.7) |
| Net borrowings excluding 8.75% irredeemable cumulative preference shares | **296.5** | 265.5 | 279.8 |
| 8.75% irredeemable cumulative preference shares | **12.5** | 12.5 | 12.5 |
| Net borrowings | **309.0** | 278.0 | 292.3 |

# NOTES TO THE INTERIM ACCOUNTS
**For the six months ended 30 September 2014**

**Note 9: Provision for liabilities**

| | **At 30 September 2014 (unaudited)** | At 30 September 2013 (unaudited) | At 31 March 2014 |
|---|---|---|---|
| | **£m** | £m | £m |
| Deferred tax liability | **36.9** | 35.5 | 36.1 |
| Effect of discounting | **(11.8)** | (11.4) | (12.6) |
| Net provision, including deferred tax on retirement obligations | **25.1** | 24.1 | 23.5 |
| Less, attributable to retirement benefit obligations (note 10) | **(2.5)** | (2.2) | (2.2) |
| Net provision, excluding deferred tax on retirement benefit obligations | **22.6** | 21.9 | 21.3 |

**Note 10: Retirement benefits**

Pension arrangements for the Company's 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 section has been closed to new entrants and all new eligible employees are offered membership of a stakeholder pension scheme.

In addition to providing benefits to employees and ex-employees of Bristol Water plc, the section provides benefits to former Bristol Water plc employees who transferred to Bristol Wessex Billing Services Ltd. The majority of the section assets and liabilities relate to Bristol Water plc employees and ex-employees.

The latest triennial valuation of the pension scheme was completed as at 31 March 2013. The total deficit as at 31 March 2013 measured on a long-term scheme funding basis was £2.4m, representing a funding level of 98.7%.

An updated estimate of the scheme's funding deficit at 31 March 2014 indicated a funding surplus of £1.0m. The improvement in the funding position since the triennial valuation at 31 March 2013 reflects primarily the net result of increase in the Company's contribution rates since March 2013, and an increase in the discount rates used for measurement of present value of the pension obligation, as partially offset by reduction in yields available on long dated gilts. The funding surplus of £1.0m compares to £12.7m surplus in our accounts, in which we are required to follow the valuation concepts embodied in Financial Reporting Standard 17. The main difference between the funding and accounting positions is due to the use of a different approach to valuing scheme liabilities.

Pension assets and liabilities are recognised in the accounts in accordance with Financial Reporting Standard 17 'Retirement Benefits' (FRS 17). The net pension surplus has been calculated by using an asset recognition limit, calculated under FRS 17, to recognise the pension asset to the extent that future contributions will be reduced or refunds received.

# NOTES TO THE INTERIM ACCOUNTS

**For the six months ended 30 September 2014**

**Note 10: Retirement benefits (continued)**

In accordance with FRS 17 actuarial gains and losses are recognised immediately in the Statement of Total Recognised Gains and Losses.

In summary, assets and liabilities under FRS 17 were:

| | **At 30 September 2014 (unaudited) £m** | At 30 September 2013 (unaudited) £m | At 31 March 2014 £m |
|---|---|---|---|
| Market value of section assets | **186.4** | 171.2 | 175.1 |
| Present value of liabilities | **(152.7)** | (142.0) | (147.1) |
| Surplus in the section | **33.7** | 29.2 | 28.0 |
| Amount not recognised due to asset recognition limit | **(21.0)** | (18.3) | (16.8) |
| Deferred taxation | **(2.5)** | (2.2) | (2.2) |
| Net pension asset on FRS17 basis | **10.2** | 8.7 | 9.0 |

**Note 11: Shareholders' funds**

| | **Six months to 30 September 2014 (unaudited) £m** | Six months to 30 September 2013 (unaudited) £m | Year to 31 March 2014 £m |
|---|---|---|---|
| Movement in shareholders' funds - | | | |
| At the beginning of the period | **91.8** | 89.3 | 89.3 |
| Profit for the period | **7.9** | 11.2 | 17.1 |
| Actuarial gains/(losses) recognised in respect of retirement benefit obligations | **0.8** | (2.5) | (3.0) |
| Attributable deferred taxation | **(0.2)** | 0.9 | 1.0 |
| Fair value of interest rate swap | **0.1** | 0.5 | 0.8 |
| Attributable deferred taxation | **-** | (0.2) | (0.2) |
| Ordinary dividends (note 12) | **(7.2)** | (7.0) | (13.2) |
| At the end of the period | **93.2** | 92.2 | 91.8 |

# NOTES TO THE INTERIM ACCOUNTS
**For the six months ended 30 September 2014**

**Note 12: Ordinary dividends**

| | **Six months to 30 September 2014 (unaudited)** | Six months to 30 September 2013 (unaudited) | Year to 31 March 2014 |
|---|---|---|---|
| | **£m** | £m | £m |
| Dividends paid in respect of 2014/15 | | | |
| First interim dividend of 39.18 pence per share, approved for payment on 17 July 2014 | **2.3** | - | - |
| Second interim dividend of 26.63 pence per share, approved for payment on 29 September 2014 | **1.6** | - | - |
| Dividends paid in respect of 2013/14: | | | |
| First interim dividend of 39.18 pence per share, approved for payment on 25 July 2013 | **-** | 2.3 | 2.3 |
| Second interim dividend of 26.68 pence per share, approved for payment on 27 September 2013 | **-** | 1.6 | 1.6 |
| Third interim dividend of 39.18 pence per share, approved by the Board on 21 November 2013 | **-** | - | 2.3 |
| Fourth interim dividend of 39.18 pence per share, approved for payment on 6 February 2014 | | | 2.3 |
| Fifth interim dividend of 25.82 pence per share, approved for payment on 27 March 2014 | **-** | - | 1.6 |
| Final dividend of 54.18 pence per share, approved for payment on 15 May 2014 | **3.3** | - | - |
| Dividends paid in respect of 2012/13: | | | |
| Final dividend of 50.85 pence per share, approved for payment on 22 May 2013 | **-** | 3.1 | 3.1 |
| | **7.2** | 7.0 | 13.2 |

A third interim dividend of £2.4m in respect of the year ending 31 March 2015 has been proposed by the Board for payment before the end of November 2014.

**Note 13: Supplementary cash flow information**

| | **Six months to 30 September 2014 (unaudited)** | Six months to 30 September 2013 (unaudited) | Year to 31 March 2014 |
|---|---|---|---|
| | **£m** | £m | £m |
| **a) Reconciliation of operating profit to net cash inflow from operating activities -** | | | |
| Operating profit | **17.0** | 14.6 | 27.9 |
| Depreciation, net of amortisation of deferred income | **19.0** | 18.6 | 38.6 |
| Difference between pension charges and normal contributions | **(0.2)** | (0.1) | (0.6) |
| Cash flow from operations | **35.8** | 33.1 | 65.9 |
| Working capital movements: | | | |
| Stocks | **-** | - | - |
| Debtors | **(6.4)** | (5.2) | (2.6) |
| Creditors and provisions | **(0.1)** | 2.0 | 3.5 |
| Additional contributions to pension scheme | **(0.2)** | (0.2) | (0.4) |
| Net cash inflow from operating activities | **29.1** | 29.7 | 66.4 |

# NOTES TO THE INTERIM ACCOUNTS

**For the six months ended 30 September 2014**

**Note 13: Supplementary cash flow information (continued)**

| | **Six months to 30 September 2014 (unaudited)** | Six months to 30 September 2013 (unaudited) | Year to 31 March 2014 |
|---|---|---|---|
| | **£m** | £m | £m |
| **b) Reconciliation of net cash flow to movement in net borrowings -** | | | |
| (Decrease)/increase in cash in the period | **(2.3)** | (3.1) | 7.5 |
| Cash used to repay borrowings | **0.3** | 2.1 | 16.1 |
| Cash from new borrowings | **(11.0)** | (24.6) | (51.6) |
| (Decrease)/increase in cash deposits in the period | **(2.0)** | 2.3 | (7.5) |
| | **(15.0)** | (23.3) | (35.5) |
| Indexation of debt, amortisation of fees and premiums, and other movements not affecting cash flow | **(1.8)** | (2.3) | (4.7) |
| Fair value of interest rate swap not affecting cash flow | **0.1** | 0.5 | 0.8 |
| Net borrowings, beginning of period, including 8.75% irredeemable cumulative preference shares | **(292.3)** | (252.9) | (252.9) |
| Net borrowings, end of period, including 8.75% irredeemable cumulative preference shares | **(309.0)** | (278.0) | (292.3) |

**Note 14: Ultimate parent company and controlling party**

At the balance sheet date the immediate parent company was Bristol Water Core Holdings Limited, a company incorporated in England and Wales. The ultimate parent company and controlling party was considered by the directors to be Capstone Infrastructure Corporation, a company incorporated in Canada.

The group in which this company is consolidated is Capstone Infrastructure Corporation and copies of its consolidated annual report are available from 155 Wellington Street West, Suite 2930 Toronto, ON M5V 3H1, Canada.

**Note 15: Related party transactions**

During the six months to 30 September 2014 the Company spent £1.6m on purchase of customer related services from BWBSL, a joint venture company with Wessex Water Services Limited. At 30 September 2014 £1.7m was receivable from BWBSL and £1.1m was payable to BWBSL.

**Note 16: 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

We confirm that to the best of our knowledge:

- These interim accounts have been prepared in accordance with UK GAAP and the Accounting Standards Board Statement, 'Half-yearly Financial Reports', and
- The Chairman's Statement includes a fair review of the information required to indicate important events during the first six months of the financial year and their impact on the interim accounts, and a description of the principal risks and uncertainties for the remaining six months of the financial year.

**Going concern**

The Company had net current liabilities of £14.6m (31 March 2014: net current assets of £2.6m) at 30 September 2014. The net current liabilities position does not represent any cash flow or funding risk as an amount of £18m within the current liabilities relates to the current portion of a bank loan, which is due to be refinanced from a new long term facility of £70m arranged subsequent to the period end. The new £70m facility replaced a £20m facility which existed at 30 September 2014. Excluding the £18m short term liability, the Company had net current assets of £3.4m at 30 September 2014.

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 cash and committed borrowing facilities available to the Company as well as consideration of the Company's capital adequacy.

By order of the Board
**S C Robson**
**Secretary**
28 November 2014

## *Independent review report to Bristol Water plc*

## Report on the condensed interim financial statements

**Our conclusion**

We have reviewed the condensed interim financial statements, defined below, in the half-yearly financial report of Bristol Water plc for the six months ended 30 September 2014. Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements are not prepared, in all material respects, in accordance with the Statement "Half-yearly financial reports" issued by the UK Accounting Standards Board and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

This conclusion is to be read in the context of what we say in the remainder of this report.

**What we have reviewed**

The condensed interim financial statements, which are prepared by Bristol Water plc, comprise:

- the balance sheet as at 30 September 2014;
- the profit and loss account and statement of total recognised gains and losses for the period then ended;
- the cash flow statement for the period then ended;
- the explanatory notes to the condensed interim financial statements.

As disclosed in note 1, the financial reporting framework that has been applied in the preparation of the full annual financial statements is applicable law and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice).

The condensed interim financial statements included in the half-yearly financial report have been prepared in accordance with the Statement "Half-yearly financial reports" issued by the UK Accounting Standards Board and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

**What a review of condensed financial statements involves**

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.

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

**Responsibilities for the condensed interim financial statements and the review**

**Our responsibilities and those of the directors**

The half-yearly financial report, including the condensed interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express to the company a conclusion on the condensed interim financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

PricewaterhouseCoopers LLP
Chartered Accountants
28 November 2014
Bristol

**Notes:**

(a) The maintenance and integrity of the Bristol Water plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.