BRISTOL WATER plc

Announcement of interim results for the six months ended 30 September 2019

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

	Six months to 30 September 2019	Six months to 30 September 2018
	(unaudited) £m	(unaudited) £m
Turnover	**63.1**	60.3
EBITDA	**28.8**	25.3
Profit after taxation	**9.3**	5.8
Net debt (excluding 8.75% irredeemable cumulative preference shares)	**349.1**	324.5
Capital investment in the period	**32.3**	22.4

Summary

- EBITDA has increased by 13.8% to £28.8m as a result of increased regulatory revenue allowances, coupled with slightly lower operating expenditure. Underlying financial operational performance remains stable; lower operating expenditure reflects reduced leakage repair work following significant investment in the prior year, due to the impact of adverse weather and to improve underlying performance. In addition, non-reoccurring costs relating to preparation of the 2020-2025 regulatory business plan reduced.
- £32.3m investment in the capital programme saw a continued focus on improving and enhancing the company's asset base. The current six month period has seen a £9.9m increase in expenditure compared with the comparable period in 2018/19; this is as a result of targeted investment to deliver on our commitments for the current regulatory period, as well as ensuring that we are well positioned ahead of the start of the next regulatory price period.
- The increase on net debt principally consists of drawdowns from committed facilities of £21.0m to fund our capital investment and indexation applied to index linked debt of £4.4m. Available undrawn committed facilities amount to £64.0m.

CHAIRMAN'S STATEMENT

This period has been instrumental in defining the future of Bristol Water for years to come. Firstly, it is marked by the final submission of our business plan to Ofwat for the period 2020-25. We are confident that, following further revisions under careful consideration from our Board, Executive team and independent advisors, we will secure the best outcome for our customers. Revisions include a further £15m of cost efficiencies, reducing bills to customers and ensuring value for money whilst continuing to drive improving performance. The final determination from Ofwat will be presented to all water companies in December.

There have been a number of key developments within this period. We are proud to introduce our new brand identity which encapsulates our values, purpose, and vision. The new brand was born from discussions held with future customers: the Bristol Water Youth Board. It embodies the mindset of what it means to be a local water provider and includes the work of recognisable local artists, creating a truly customer centric approach. I am confident this rebranding exercise will guide our future direction and be a brand our employees are proud to bare.

Another milestone has been in the preparations for an entirely new and ambitious network maintenance delivery model. I am pleased to announce that we awarded a £75m Network Maintenance Partnership contract to our new delivery partners, Lewis Civil Engineering and Gallagher. As part of these significant changes, we have re-established control of our planning, scheduling and prioritisation of work, bringing this in-house. This means we will have greater oversight into all processes for the benefit of our customers; meanwhile our contractors can focus solely on delivery. The new contracts commenced on 1 October and will run until 2024, to deliver network maintenance and improvement work across our supply area.

In contrast to 2018, this period has not been marked by any extreme weather conditions and as a result, our water resources remain in a strong position. However, the weather of the previous year reminds us that we must remain future focused and are capable of responding to future change. Our ambition has seen us achieve the lowest leakage rate in the industry, in 2018/19 and this is being sustained but there is more to do. We are undertaking in the current year our most ambitious programme of mains replacement works as well as kick-starting the Resource West partnership: a new, collaborative way of working across utilities and service provider boundaries. Moreover, we have been preparing for our most ambitious behavioural change campaign to date in water conservation and metering which will be pivotal to improving meter penetration.

Employee health and safety performance continues to improve, with the Accident Frequency Rate showing 1.33 accidents per 100,000 hours worked for the first six months of the year, compared with 2.00 accidents per 100,000 hours worked for the twelve months to March 2019. Our water quality compliance index remains one of the strongest in the industry, at 99.97% and negative water quality contacts continue to remain low.

I am extremely proud of our ongoing commitment to preventing plastic bottle waste. In April, we pledged to reduce fifty miles worth of plastic bottle waste with the announcement of our new Refill Fountains, alongside the ongoing Bristol Water Bar. By the end of October, Bristol will benefit from ten public drinking water fountains installed in close partnership with Bristol City Council, City to Sea and Bristol Waste. The fountain project has shown what is achievable when organisations with a common interest join forces to benefit the community.

It was a personal highlight to see a Bristol Water environmental initiative hit national headlines in April. This project involved the restoration of half a kilometre of a tributary of the river Chew to provide additional habitat for rare and endangered species at a time when habitat loss is the single biggest threat to biodiversity. We are also delighted to welcome several new start-up companies to our innovation incubator to help the development of cost effective solutions to some of the water industry's biggest challenges.

In this period of change and positive achievement, I would like to thank all Bristol Water employees for their commitment and hard work.

Keith Ludeman
Chairman
11 December 2019

INCOME STATEMENT

For the six months ended 30 September 2019

	Note	**Six months to 30 September 2019 (unaudited)**	Six months to 30 September 2018 (unaudited)	Year to 31 March 2019 (audited)
		£m	£m	£m
Revenue	4,5	**63.1**	60.3	121.6
Operating costs	6	**(45.8)**	(46.5)	(94.8)
Exceptional operating income		**-**	-	3.1
Total net operating costs		**(45.8)**	(46.5)	(91.7)
Operating profit		**17.3**	13.8	29.9
Net interest payable and similar charges	7	**(5.4)**	(6.1)	(12.4)
Dividends on 8.75% irredeemable cumulative preference shares	7	**(0.5)**	(0.5)	(1.1)
Net interest payable and similar charges		**(5.9)**	(6.6)	(13.5)
Profit on ordinary activities before taxation		**11.4**	7.2	16.4
Taxation on profit on ordinary activities	8	**(2.1)**	(1.4)	(2.1)
Profit for the period/year		**9.3**	5.8	14.3
Earnings per ordinary share	9	**155.0p**	96.7p	238.3p

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

STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2019

	Note	**Six months to 30 September 2019 (unaudited)**	Six months to 30 September 2018 (unaudited)	Year to 31 March 2019 (audited)
		£m	£m	£m
Profit for the period / year		**9.3**	5.8	14.3
Other comprehensive income:				
Items that will not be reclassified to profit and loss				
Actuarial gains / (losses) on retirement benefit surplus		**0.4**	(39.7)	(37.3)
Re-measurement of defined benefit pension scheme	8	**(0.1)**	13.8	12.9
Items that may be subsequently reclassified to profit and loss				
Change in the fair value of interest rate swaps		**-**	(0.1)	(0.1)
Attributable deferred taxation	8	**-**	-	-
Other comprehensive income/(expense) for the period / year, net of tax		**0.3**	(26.0)	(24.5)
Total comprehensive income/(expense) for the period / year		**9.6**	(20.2)	(10.2)

STATEMENT OF FINANCIAL POSITION
As at 30 September 2019

	Note	**30 September 2019 (unaudited)**	30 September 2018 (unaudited)	31 March 2019 (audited)
		£m	£m	£m
Non-current assets				
Property, plant and equipment	10	**649.3**	610.8	629.4
Intangible assets	11	**11.4**	8.3	10.5
Investments		**68.5**	68.5	68.5
Deferred tax assets		**5.2**	5.0	5.2
Retirement benefit surplus	12	**9.7**	7.8	9.5
		744.1	700.4	723.1
Current assets				
Inventory		**1.7**	1.6	1.6
Trade and other receivables		**31.1**	31.1	27.8
Cash and cash equivalents		**13.9**	11.3	17.1
		46.7	44.0	46.5
Assets classified as held for sale		**-**	0.2	-
Total assets		**790.8**	744.6	769.6
Non-current liabilities				
Borrowings and derivatives	13	**(362.4)**	(335.2)	(347.6)
8.75% irredeemable cumulative preference shares	13	**(12.5)**	(12.5)	(12.5)
Deferred income		**(80.7)**	(78.8)	(79.9)
Government Grants		**(0.3)**	(0.3)	(0.3)
Deferred tax liabilities		**(63.8)**	(62.7)	(63.2)
		(519.7)	(489.5)	(503.5)
Current liabilities				
Trade and other payables		**(37.5)**	(34.6)	(40.4)
Borrowings and derivatives	13	**(0.6)**	(0.6)	(0.5)
Deferred income		**(1.6)**	(1.7)	(1.7)
		(39.7)	(36.9)	(42.6)
Total liabilities		**(559.4)**	(526.4)	(546.1)
Net assets		**231.4**	218.2	223.5
Equity				
Called-up share capital		**6.0**	6.0	6.0
Share premium account		**4.4**	4.4	4.4
Other reserves		**5.8**	5.8	5.8
Retained earnings		**215.2**	202.0	207.3
Total Equity		**231.4**	218.2	223.5

The financial statements of Bristol Water plc, registered number 2662226 on pages 3-13, were approved by the Board of directors on 11 December 2019 and signed on its behalf by:

Mel Karam, Director, CEO

Laura Flowerdew, Director, CFO

STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2019

	Called up share capital	Share premium account	Capital redemption reserve	Hedging reserve	Retained earnings	Total
	£m	£m	£m	£m	£m	£m
Balance at 1 April 2018	6.0	4.4	5.8	(0.3)	223.7	239.6
Profit for the year					14.3	14.3
Other comprehensive income for the year:						
Actuarial losses recognised in respect of of retirement benefit obligations	-	-	-	-	(37.3)	(37.3)
Re-measurement of defined benefit scheme	-	-	-	-	12.9	13.9
Fair value of interest rate swap	-	-	-	(0.1)	-	(0.1)
Attributable deferred taxation	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(0.1)	(10.1)	(10.2)
Reserve movement upon termination of swap	-	-	-	0.4	-	0.4
Ordinary dividends	-	-	-	-	(6.3)	(6.3)
Balance as at 31 March 2019	6.0	4.4	5.8	-	207.3	223.5
Change in accounting policy	-	-	-	-	(0.1)	(0.1)
Balance as at 1 April 2019	6.0	4.4	5.8	-	207.2	223.4
Profit for the period	-	-	-	-	9.3	9.3
Other comprehensive income for the period:						
Actuarial gains recognised in respect of retirement benefit obligations	-	-	-	-	0.4	0.4
Re-measurement of defined benefit scheme	-	-	-	-	(0.1)	(0.1)
Total comprehensive income for the period	-	-	-	-	9.6	9.6
Ordinary dividends	-	-	-	-	(1.6)	(1.6)
Balance as at 30 September 2019	**6.0**	**4.4**	**5.8**	**-**	**215.2**	**231.4**

The Board has proposed interim dividends on the ordinary shares of £4.6m in respect of the period ended 30 September 2019 (6 months ended 30 September 2018: £1.6m). £1.6m of this dividend will be used to pay the intercompany loan interest due from Bristol Water Holdings UK Limited.

CASH FLOW STATEMENT

For the six months ended 30 September 2019

	Note	**Six months to 30 September 2019**	Six months to 30 September 2018	Year to 31 March 2019
		(unaudited)	(unaudited)	(audited)
		£m	£m	£m
Cashflows from operating activities				
Profit before taxation		**11.4**	7.2	16.4
Adjustments for:				
Contributions from developers (deferred income amortisation)	5	**(0.9)**	(0.8)	(1.7)
Depreciation of tangible assets, net of amortisation of grants	6	**10.8**	10.1	20.5
Amortisation of intangible assets	6	**1.4**	1.4	2.7
Impairment of tangible assets	6	**-**	-	-
Difference between pension charges and normal contributions		**0.2**	0.4	0.8
Profit on disposal of assets		**(0.7)**	-	-
Profit on sale of held for sale assets	6	**-**	-	(3.1)
Interest income	7	**(2.1)**	(2.1)	(4.1)
Interest expense	7	**8.1**	9.3	18.9
Pension interest income	7	**(0.2)**	(0.6)	(1.3)
(Increase)/ decrease in trade and other receivables		**(3.3)**	(3.5)	(1.2)
(Decrease)/ increase in trade and other creditors and provisions		**(0.8)**	(0.7)	1.0
Cash generated from operations		**23.9**	20.7	48.9
Interest paid		**(6.1)**	(5.8)	(11.8)
Corporation taxes paid		**(1.3)**	(1.4)	(2.2)
Net cash inflows from operating activities		**16.5**	13.5	34.9
Cash flows from investing activities				
Purchase of property plant and equipment and intangibles		**(34.5)**	(25.9)	(52.9)
Contributions received		**1.6**	1.7	3.7
Proceeds from sale of fixed assets		**0.7**	-	-
Proceeds from sale of assets and liabilities held for sale		**-**	-	3.5
Interest received		**2.1**	2.0	4.1
Net cash used in investing activities		**(30.1)**	(22.2)	(41.6)
Cash flows from financing activities				
Proceeds from loans and borrowings		**13.0**	88.0	97.0
Transaction costs related to loans and borrowings		**-**	(1.0)	(1.0)
Payment of finance lease liabilities		**(0.5)**	(0.4)	(0.4)
Payment of loans and borrowings		**-**	(78.9)	(78.9)
Payment of swap termination		**-**	(0.5)	(0.5)
Preference dividends paid		**(0.5)**	(0.6)	(1.1)
Equity dividends paid		**(1.6)**	(1.6)	(6.3)
Net cash from financing activities		**10.4**	5.0	8.8
Net (decrease) / increase in cash and cash equivalents		**(3.2)**	(3.7)	2.1
Cash and cash equivalents, beginning of period		**17.1**	15.0	15.0
Cash and cash equivalents, end of period		**13.9**	11.3	17.1

NOTES TO THE INTERIM ACCOUNTS

For the six months ended 30 September 2019

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 **Accounting policies**

The same accounting policies and methods of computation used in preparing the annual financial statements as at 31 March 2019 have been used in preparing these interim accounts, except for changes resulting from the adoption of IFRS 16 'Leases' (see note15).

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 13.

4 **Critical accounting estimates and judgments**

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. 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 2019.

5 **Revenue**

	Six months to 30 September 2019 (unaudited)	Six months to 30 September 2018 (unaudited)	Year to 31 March 2019 (audited)
	£m	£m	£m
Appointed income			
Household - measured	**24.2**	22.0	44.6
Household - unmeasured	**22.9**	23.5	46.2
Non-household- measured	**13.0**	12.1	25.0
Non-household – unmeasured	**0.2**	0.1	0.3
Contributions from developers	**0.9**	0.8	1.7
Third party services	**1.1**	0.9	1.8
Rental income	**0.3**	0.4	0.8
	62.6	59.8	120.4
Non-appointed income			
Recreations	**0.3**	0.3	0.7
Rental income	**0.1**	0.1	0.2
Other	**0.1**	0.1	0.3
	0.5	0.5	1.2
	63.1	60.3	121.6

6 Operating expenses

	Six months to 30 September 2019 (unaudited)	Six months to 30 September 2018 (unaudited)	Year to 31 March 2019 (audited)
	£m	£m	£m
Operating expenses include -			
Payroll cost, net of recharges to fixed assets and including retirement benefit costs	**9.2**	8.9	17.7
Depreciation and amortisation	**12.2**	11.5	23.2
Profit on sale of disposal group	**-**	-	(3.1)
Profit on disposal of assets	**(0.7)**	-	-

7 Net interest payable and similar charges

	Six months to 30 September 2019 (unaudited)	Six months to 30 September 2018 (unaudited)	Year to 31 March 2019 (audited)
	£m	£m	£m
Interest payable and similar charges:			
Bank borrowings	**1.1**	1.6	2.2
Term loans and debentures:			
interest charges	**5.0**	4.9	9.9
indexation	**1.7**	2.5	5.6
Termination of swap	**-**	-	0.5
Capitalisation of borrowing cost	**(0.2)**	(0.2)	(0.4)
Dividends on 8.75% irredeemable cumulative preference shares	**0.5**	0.5	1.1
	8.1	9.3	18.9
Interest receivable and similar income:			
Interest income in respect of retirement benefit scheme	**(0.2)**	(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)
	(2.2)	(2.7)	(5.4)
Total net interest payable and similar charges	**5.9**	6.6	13.5

The rate used to determine the amount of borrowing costs eligible for capitalisation was 4.2% (30 September 2018: 4.7%), 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".

8 Taxation

	Six months to 30 September 2019 (unaudited) £m	Six months to 30 September 2018 (unaudited) £m	Year to 31 March 2019 (audited) £m
Tax expense included in Income Statement			
Current tax:			
Corporation tax on profits for the period / year	**1.5**	0.6	1.5
Adjustment in respect of prior period	**-**	-	(0.5)
Total current tax	**1.5**	0.6	1.0
Deferred tax:			
Origination and reversal of timing differences	**0.6**	0.5	0.8
Adjustment to prior periods	**-**	0.3	-
Effect of change in accounting standard			0.3
Total deferred tax	**0.6**	0.8	1.1
Tax expense on profit	**2.1**	1.4	2.1
Tax income (included in other comprehensive income)			
Deferred tax:			
Remeasurement of swap liability	**-**	-	-
Remeasurement of post-employment benefit liability	**0.1**	(13.8)	(12.9)
Total tax income included in other comprehensive income	**0.1**	(13.8)	(12.9)

9 Earnings per ordinary share

	At 30 September 2019 (unaudited) m	At 30 September 2018 (unaudited) m	At 31 March 2019 (audited) m
Basic earnings per ordinary share have been calculated as follows -			
Earnings attributable to ordinary shares	**£9.3**	£5.8	£14.3
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.

10 Property, plant and equipment

	Six months to 30 September 2019 (unaudited) £m	Six months to 30 September 2018 (unaudited) £m	Year to 31 March 2019 (audited) £m
Net book value, beginning of period	**629.4**	599.4	599.4
Adjustment for change in accounting policy (see note 15)	**0.6**	-	-
Additions	**30.2**	21.5	50.6
Disposals	**(0.1)**	-	(0.1)
Depreciation charge for the period	**(10.8)**	(10.1)	(20.5)
Net book value, end of period	**649.3**	610.8	629.4

The net book value of property, plant and equipment includes £5.9m (30 September 2018: £5.5m) of borrowing costs capitalised in accordance with IAS 23. During the six months ended 30 September 2019 £0.2m was capitalised using 4.2% prorated annual capitalisation rate (30 September 2018 £0.2m, 4.7%).

11 Intangible assets

	Six months to 30 September 2019 (unaudited)	Six months to 30 September 2018 (unaudited)	Year to 31 March 2019 (audited)
	£m	£m	£m
Net book value, beginning of period	**10.5**	8.6	8.6
Additions	**2.3**	1.1	4.6
Disposals	**-**	-	-
Amortisation charge for the period	**(1.4)**	(1.4)	(2.7)
Net book value, end of period	**11.4**	8.3	10.5

12 Retirement benefits

Pension arrangements for employees have historically been 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. 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. This reduces risk within the Section and provides long-term benefit to all its members, fully securing all member benefits and entitlements.

The gross pension surplus of £15.0m at 30 September 2019 (30 September 2018 £11.9m) relates to the market value of 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. In the prior year 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 summary, assets and liabilities under IAS 19 were:

	At 30 September 2019 (unaudited)	At 30 September 2018 (unaudited)	At 31 March 2019 (audited)
	£m	£m	£m
Fair value of section assets	**202.1**	178.0	187.8
Present value of liabilities	**(187.1)**	(166.1)	(173.2)
Surplus in the section	**15.0**	11.9	14.6
Less: restriction of surplus	**(5.3)**	(4.1)	(5.1)
Net pension asset on IAS 19 basis	**9.7**	7.8	9.5

13 Net borrowings

	At 30 September 2019 (unaudited)	At 30 September 2018 (unaudited)	At 31 March 2019 (audited)
	£m	£m	
	£m	£m	£m
Net borrowings comprise -			
Debt due after one year, excluding 8.75% irredeemable cumulative preference shares	**362.4**	335.2	347.6
Current portion of borrowings	**0.6**	0.6	0.5
	363.0	335.8	348.1
Cash and cash equivalents	**(13.9)**	(11.3)	(17.1)
Net borrowings excluding 8.75% irredeemable cumulative preference shares	**349.1**	324.5	331.0
8.75% irredeemable cumulative preference shares	**12.5**	12.5	12.5
Net borrowings	**361.6**	337.0	343.5

Borrowing facilities

At the period end the Company had unutilised borrowing facilities of £64.0m.

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

The fair value of borrowings are as follows:

	Six months to 30 September 2019 (unaudited)	Six months to 30 September 2018 (unaudited)	Year to 31 March 2019 (audited)
	£m	£m	£m
Non-current	**534.1**	371.3	493.4
Current	**0.6**	0.6	0.5
	534.7	371.9	493.9

14 Commitments and contingent liabilities

Capital commitments at 30 September 2019 contracted for but not provided were £7.2m (2018: £6.8m).

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 in the 2018/19 financial year, CRT triggered a charges review seeking a substantial increase in the costs arising. 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 of c.£2m per annum, and are accrued accordingly.

15 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16, 'Leases', on the financial statement and it discloses the new accounting policies that have been applied from 1 April 2019.

The Company has adopted IFRS 16 retrospectively from 1 April 2019 but it has not restated comparatives for the period ended 30 September 2018 or the year ended 31 March 2019, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019.

a) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principals of IAS 17, 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 5.29%

The associated right-of-use assets were measured on a retrospective basis as if the new rules had always applied. These assets are included in property, plant and equipment (note 10).

For leases previously classified as finance leases, the Company recognised the carrying value of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. There were no re-measurements to lease liabilities or right to use assets immediately after the date of initial application. The right-of-use assets continue to be included in property, plant and equipment (note 10).

The change in accounting policy affected the following items in the balance sheet on 1 April 2019:

- Property, plant and equipment – increase by £0.6m
- Lease liabilities (borrowings) – increase by £0.7m

The net impact on retained earnings on 1 April 2019 was a decrease of £0.1m

b) Practical expedients applied

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the accounting for operating leases, with a remaining lease term of less than 12 months as at 1 April 2019, as short term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics.

c) The Company's leasing activities and how these are accounted for

The Company leases office equipment and a solar energy array. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets cannot be used as security for borrowing purposes.

Until the 2018/19 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance costs. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

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.

As at 30 September 2019, the Directors consider, the ultimate parent and controlling party of the Company to be iCON Infrastructure Partners III, L.P acting through its Managing General Partner, iCON Infrastructure Management III Limited.

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 2019 the Company spent £1.6m (2018: £1.6m) 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 2019 £0.7m (2018: £0.9m) was receivable from BWBSL and £1.4m (2018: £1.2m) was payable to BWBSL.

During the six months to 30 September 2019 the Company recognised sales of £10.9m (2018 £11.1m) to Water 2 Business Limited (W2B), an associate company within the Bristol Water Group Limited group of companies (formerly CSE Water UK Limited Group). At 30 September 2019 £1.8m (2018: £2.1m) was receivable from W2B primarily in respect of water supply charges.

18 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 2019. 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 £13.9 cash and £64.0m unutilised committed borrowing facilities available to the Company as well as consideration of the Company's capital adequacy.

By order of the Board
H Hancock
Company Secretary
11 December 2019