

BRISTOL WATER plc

Announcement of interim results for the six months ended 30 September 2012

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 2011	4.8
Significant changes between periods:	
Increase in revenue mainly due to RPI increase and K factor	3.0
Decrease in debt indexation cost	1.4
Increase in depreciation charge on infrastructure assets	(1.0)
Increase in tax charge	(0.2)
All other changes	(0.3)
Profit after tax for 6 months to 30 September 2012	<u>7.7</u>

Summary

- Stable financial and operational performance
- Increase in profits will allow post tax return on capital to come back to a more sustainable level
- High customer satisfaction levels – The company achieved second place nationally in Ofwat's latest SIM results
- Significant level of capital investment continued during the period
- Increase in revenue mainly due to RPI and K factor
- Decrease in debt indexation charge due to lower RPI
- Increase in depreciation on infrastructure assets

CHAIRMAN'S STATEMENT

Introduction

This is my first Chairman's statement since taking over from my predecessor Moger Woolley. I would like to start by paying tribute to the outstanding service Moger gave to the company over the past 14 years. His wise guidance and leadership of a committed and customer-focused company ensures that I start with a strong platform for the future.

I will bring my experience from outside the water industry to bear at a time when there is change ahead. I am looking forward to the future challenges, confident in the knowledge that this company has always delivered an excellent record of high quality service to our customers and that this ethos will continue over the years ahead.

This is the third year of the current 5-year regulatory period to March 2015 and we remain firmly focused on satisfying customer needs and delivering the outputs specified in the last Price Review.

At the start of the financial year the company faced the prospect of drought restrictions. The country had seen two very dry winters and by April a third of the country was under hosepipe bans. We were able to avoid any restrictions through the success of our leakage reduction work and tight management of our water sources. This resulted in the lowest water put into supply since 1976. Further, the unusually high rainfall from April through to September has filled our reservoirs and removed the risk of the need for restrictions later this year.

Capital programme

The company is now halfway through its 2010-15 capital programme for AMP5. Good progress is being made and we are on track to deliver all of the required outputs in the regulatory period.

Last year saw the company deliver the largest annual investment of £60.4m on capital expenditure in its history. The current year is expected to continue this trend and the investment on capital expenditure to the end of September was over £42.0m.

The company has engaged in an extensive customer and stakeholder communications campaign to accompany the wide range of projects currently in progress or planned. The purpose is to help explain the nature of the work, the impact and the benefits, with the intention of keeping customers informed and aiming to answer their questions in advance. A key message to customers is whatever the short-term disruptions might be, the benefits of the essential work will be long-term.

Key projects during the period have been:

- the £15m 10.5km pipeline being laid through the heart of the city of Bristol. The project, called the Bristol Resilience Scheme, will bring security of supply to over 150,000 consumers who currently rely on a single source for their supply. This challenging project involves construction of a 700mm pipe in a very busy city environment from Lockleaze to Clifton. The project has progressed well and is on schedule to be complete by Spring 2013;
- the £22m scheme to renovate 58km of the trunk mains network. This network of mains supplies large parts of Bristol and North Somerset and its renovation is expected to continue throughout the current regulatory period;
- the scheme to replace sections of the distribution mains network that are in poor condition with a target of 65km in the current financial year;
- new large diameter strategic mains laying scheme to meet increasing demand in North Bristol and Weston-Super-Mare. The work is close to completion; and
- the programme to enhance the treatment process at five treatment works by installation of ultra-violet disinfection equipment. The work is in progress with one now operational, two under construction and design work well advanced on the other two.

The work has also continued on the major scheme to develop a second raw water reservoir at Cheddar to meet the demand for additional water supplies in the future. This project is currently at the planning stage and the company has continued to consult with all stakeholders as the work progresses.

Business process efficiency initiative

The company-wide business improvement programme under the banner of 'simpler and better working' has progressed to time and budget and is now midway through delivery. This improvement programme has been financed by efficiencies identified within the business. Notable achievements have been the implementation of:

- best in class procurement strategies;
- more robust capital expenditure and project management processes; and
- market-leading new IT systems for Human Resource & Payroll, Document Management, and Vehicle Tracking.

During the next 12 months the programme is expected to complete and the company will recognise further benefits of improved performance management, better customer interaction, more effective works management processes and more robust asset management.

CHAIRMAN'S STATEMENT (continued)

Customer service

Bristol Water's focus on excellent customer service is continuing to deliver outstanding results. The full year results for Ofwat's SIM customer service measure for 2011/12 were published in July. It showed Bristol Water in second place nationally. SIM captures the customer experience, their interaction with the company and the reasons that prompted them to contact us. This new system means staff can impact on the score right across all parts of the company's work. The achieved score demonstrates the efforts by all our staff in providing a high level of customer service. The Consumer Council for Water, the water industry's consumer watchdog, also recently published its annual results for customer complaints showing that our complaints were down by 38%, which places us third in the industry. These results are particularly impressive against the backdrop of our extensive works on our network and the potential inconvenience they can cause which could lead to customer dissatisfaction. We believe these results demonstrate that we are getting it right, but our goal must be to make sure that we do not take this for granted, and we continue to make improvements and strive to stay at the top.

PR14 – customer consultation process

For the next Price Review (PR14) Ofwat wishes to increase customer involvement in the formulation of water companies' Business Plans. We have created a Local Engagement Forum involving representatives of key stakeholders including the Consumer Council for Water, Drinking Water Inspectorate, Local Councils, Nature and Environmental Organisations and Customer Representatives.

Following the guidelines from Ofwat, Bristol Water has identified a set of customer supported outcomes through our Strategic Direction Statement customer consultation process which will be tested through the Local Engagement Forum. Extensive customer research is being carried out, the results of which will contribute to the Business Plan to be submitted to Ofwat in March 2014.

Work with the Local Engagement Forum is continuing. The forum has been helping Bristol Water to specify and oversee its customer research for PR14 and in agreeing the outcomes for customers that our Business Plan will need to address. I welcome the contribution and challenge we have received from our stakeholders.

Draft Water Bill

The UK Government published the anticipated Draft Water Bill on 10 July 2012 for scrutiny and wider comment. The Draft Water Bill builds upon the themes in the Water White Paper "Water for Life" published in December 2011, namely addressing water resources and environmental concerns, introducing market reform and competition, and making changes to the current regulatory framework.

We welcome the high level aims of the Government's reform and look forward to working with DEFRA (Department of Environment, Food and Rural Affairs) and other stakeholders to help implement them in the most appropriate way.

Water licence modification

In December 2011 Ofwat published proposals to modify the licences for all the water companies in England and Wales. All the water companies, including Bristol Water, rejected the proposals on the basis that the proposed changes were unnecessarily broad and created uncertainty that would undermine the stability and predictability of the regulatory regime to the detriment of companies' ability to raise capital on cost effective terms.

In October 2012 Ofwat launched a revised consultation on its proposals to modify the licences and requested agreement to a set of licence modifications in relation to price controls. The Board has carefully considered the detail of what was proposed and has decided to decline the new licence wording proposed as not being in the interests of the company or its customers.

Financial performance

There has been a stable underlying performance. Turnover increased by £3.0m mainly due to the RPI increase and K factor for the current year. Operating profit increased by £1.7m primarily driven by the increase in turnover offset by an increase of £1.0m in the depreciation charge on infrastructure assets.

The profit before and after tax results were also affected by a decrease of £1.4m in the indexation of index-linked debt.

The overall tax charge represents 16% of the profit before taxation and it is the combination of:

- tax payable based on the current year's computations,
- the net present value of deferred tax arising during the period and
- the effect of the reduction in the tax rate on the total deferred tax liability generated in prior periods.

Like all regulated water companies in the UK, Bristol Water owns and finances its capital programme. The significant level of investment delivered for our customers allows the company to defer tax payable to future periods in accordance with standard applicable tax reliefs.

The ratio of net debt to March 2013 expected RCV is 56%, which is lower than previously projected due to lower cumulative capital investment for the current regulatory period. This results from delay in some capital schemes following the referral to the Competition Commission at the beginning of the current regulatory period.

On 17 August, the company arranged two new bank facilities of £50m and £20m each. The loans have not yet been drawn down. The £50m facility will expire in August 2017, and the £20m facility will expire in August 2015. Collectively these facilities complete the external funding requirements of the ongoing 2010-15 capital programme, provide refinancing for a £15m loan repaid earlier in the year, and provide cover for a £30m loan facility due to expire in May 2013.

CHAIRMAN'S STATEMENT (continued)

Dividends

During the period £6.3m of dividends were paid, comprising £4.8m 'final' dividend in respect of the year ended 31 March 2012, and a first interim dividend of £1.5m representing the return of post-tax interest receivable on loans to a UK parent company.

The Board has proposed a second interim dividend of £4.5m in respect of the year ending 31 March 2013.

Prospects

In the Directors' Report within the company's Annual Report and Accounts 2012 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 material effects:

- an increase in the bad debts charge;
- an increase in chemical and power costs;
- impact of RPI movements on our £159.9m indexed-linked debt; and
- the impact of further substantial capital investment.

Board membership

As mentioned above, Moger Woolley, previously the Chairman of the Board of Directors, retired on 26 July 2012. I have taken over his responsibilities as Chairman and became a director of the company on 26 July 2012.

Keith Ludeman
Chairman
26 November 2012

Bristol Water plc Interim Results

PROFIT AND LOSS ACCOUNT

For the six months ended 30 September 2012

		Six months to 30 September 2012 (unaudited)	Six months to 30 September 2011 (unaudited)	Year to 31 March 2012
	Note	£m	£m	£m
Turnover	2	57.4	54.4	108.0
Operating costs	3	<u>(42.8)</u>	<u>(41.5)</u>	<u>(83.5)</u>
Operating profit		14.6	12.9	24.5
Other net interest payable and similar charges	4	(4.9)	(6.3)	(12.3)
Dividends on 8.75% irredeemable cumulative preference shares	4	<u>(0.5)</u>	<u>(0.5)</u>	<u>(1.1)</u>
Net interest payable and similar charges		<u>(5.4)</u>	<u>(6.8)</u>	<u>(13.4)</u>
Profit on ordinary activities before taxation		9.2	6.1	11.1
Taxation on profit on ordinary activities	5	(1.5)	(1.3)	(3.9)
Profit on ordinary activities after taxation		<u>7.7</u>	<u>4.8</u>	<u>7.2</u>
Earnings per ordinary share	6	<u>128.3p</u>	<u>80.0p</u>	<u>120.0p</u>

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

The accompanying notes to the interim results form an integral part of this statement.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the six months ended 30 September 2012

		Six months to 30 September 2012 (unaudited)	Six months to 30 September 2011 (unaudited)	Year to 31 March 2012
	Note	£m	£m	£m
Profit attributable to Bristol Water plc shareholders		7.7	4.8	7.2
Actuarial (losses)/gains recognised in respect of retirement benefit obligations	10,11	(0.4)	0.7	1.2
Attributable deferred taxation	10,11	0.2	(0.2)	(0.1)
Change in the fair value of the interest rate swap	11	(0.2)	(0.7)	(0.8)
Attributable deferred taxation	11	-	0.2	0.1
Total recognised gains for the period		<u>7.3</u>	<u>4.8</u>	<u>7.6</u>

The accompanying notes to the interim results form an integral part of this statement.

Bristol Water plc Interim Results

BALANCE SHEET

30 September 2012

		At 30 September 2012 (unaudited)	At 30 September 2011 (unaudited)	At 31 March 2012
	Note	£m	£m	£m
Fixed assets	7	287.1	241.0	264.4
Other investments - Loans to a UK holding company		68.5	68.5	68.5
Current assets				
Stocks		1.3	1.2	1.4
Debtors		32.8	28.5	27.3
Cash on deposits	8	29.0	77.3	64.5
Cash at bank and in hand	8	2.1	2.4	7.8
		<u>65.2</u>	<u>109.4</u>	<u>101.0</u>
Creditors: amounts falling due within one year				
Current portion of long-term borrowings	8	(2.2)	(3.2)	(18.4)
Other creditors		(42.6)	(27.0)	(40.6)
		<u>(44.8)</u>	<u>(30.2)</u>	<u>(59.0)</u>
Net current assets		<u>20.4</u>	<u>79.2</u>	<u>42.0</u>
Total assets less current liabilities		<u>376.0</u>	<u>388.7</u>	<u>374.9</u>
Creditors: amounts falling due after more than one year				
Borrowings and derivatives	8	(247.2)	(258.6)	(246.9)
8.75% irredeemable cumulative preference shares	8	(12.5)	(12.5)	(12.5)
Deferred income		(9.1)	(9.6)	(9.3)
Provision for liabilities	9	(24.9)	(23.0)	(24.7)
Retirement benefit surplus	10	9.2	8.2	9.0
Net assets		<u>91.5</u>	<u>93.2</u>	<u>90.5</u>
Capital and reserves				
Called-up share capital		6.0	6.0	6.0
Share premium account		4.4	4.4	4.4
Other reserves		4.2	4.6	4.4
Profit and loss account		76.9	78.2	75.7
Shareholders' funds	11	<u>91.5</u>	<u>93.2</u>	<u>90.5</u>

The accompanying notes to the interim results form an integral part of this statement.

Bristol Water plc Interim Results

CASH FLOW STATEMENT

For the six months ended 30 September 2012

		Six months to 30 September 2012 (unaudited)	Six months to 30 September 2011 (unaudited)	Year to 31 March 2012
	Note	£m	£m	£m
Net cash inflow from operating activities	13(a)	<u>25.2</u>	<u>22.1</u>	<u>55.8</u>
Returns on investments and servicing of finance				
Interest received		2.4	2.2	4.6
Interest paid on term loans and debentures		(5.0)	(4.9)	(9.9)
Interest paid on finance leases		-	(0.3)	(0.5)
Dividends paid on 8.75% irredeemable cumulative preference shares		(0.5)	(0.5)	(1.1)
		<u>(3.1)</u>	<u>(3.5)</u>	<u>(6.9)</u>
Taxation				
Corporation tax paid		<u>(0.7)</u>	<u>(1.6)</u>	<u>(2.0)</u>
Capital expenditure and investing activities				
Purchase of tangible fixed assets		(40.0)	(15.0)	(48.7)
Contributions received		1.9	2.3	3.9
Proceeds from disposal of tangible fixed assets		-	-	0.1
Decrease in cash deposits maturing after three months from the balance sheet date	8	<u>20.3</u>	<u>19.8</u>	<u>26.5</u>
		<u>(17.8)</u>	<u>7.1</u>	<u>(18.2)</u>
Equity dividends paid		<u>(6.3)</u>	<u>(1.5)</u>	<u>(7.0)</u>
Cash (outflow)/inflow before management of liquid resources and financing		<u>(2.7)</u>	<u>22.6</u>	<u>21.7</u>
Management of liquid resources being decrease/(increase) in liquid resources	8	<u>15.2</u>	<u>(19.8)</u>	<u>(13.7)</u>
Financing				
Repayment of loans		(15.0)	-	-
Capital element of lease repayments		(3.2)	(2.8)	(2.6)
		<u>(18.2)</u>	<u>(2.8)</u>	<u>(2.6)</u>
(Decrease)/increase in cash	13(b)	<u>(5.7)</u>	<u>-</u>	<u>5.4</u>
Cash, beginning of period		7.8	2.4	2.4
Cash, end of period		<u>2.1</u>	<u>2.4</u>	<u>7.8</u>

The accompanying notes to the interim results form an integral part of this statement.

NOTES TO THE INTERIM RESULTS

For the six months ended 30 September 2012

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 results, 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 2012 as set out in the Annual Report and Accounts. 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 results are in accordance with United Kingdom Generally Accepted Accounting Practices (UK GAAP). These interim results have also been prepared in accordance with the Accounting Standards Board Statement, 'Half-yearly Financial Reports'.

As outlined in the company's Annual Report and Accounts for the year ended 31 March 2012, the company is not required to, and does not intend to, adopt IFRS for statutory reporting until UK GAAP and IFRS are fully harmonised.

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 2012 (unaudited)	Six months to 30 September 2011 (unaudited)	Year to 31 March 2012
	£m	£m	£m
Operating costs comprise -			
Payroll cost, net of recharges to fixed assets and including retirement benefit costs	6.1	6.5	12.2
Depreciation, net of amortisation of deferred income	17.1	15.5	32.2
Other operating costs	19.6	19.5	39.1
	<u>42.8</u>	<u>41.5</u>	<u>83.5</u>

Note 4: Net interest payable and similar charges

	Six months to 30 September 2012 (unaudited)	Six months to 30 September 2011 (unaudited)	Year to 31 March 2012
	£m	£m	£m
Other net interest payable/(receivable) and similar charges/(income) relate to:			
Bank borrowings	0.5	0.5	1.0
Term loans and debentures:			
interest charges	4.5	4.2	8.8
indexation and amortisation of fees and premium on loans	2.2	3.8	7.0
Finance leases	(0.1)	0.1	0.2
	<u>7.1</u>	<u>8.6</u>	<u>17.0</u>
Less:			
Loan to Bristol Water Holdings UK Ltd – interest receivable	(2.0)	(2.0)	(4.0)
Other external investments and deposits	(0.2)	(0.3)	(0.7)
	<u>(2.2)</u>	<u>(2.3)</u>	<u>(4.7)</u>
Total other net interest payable and similar charges	4.9	6.3	12.3
Dividends on 8.75% irredeemable cumulative preference shares	0.5	0.5	1.1
Interest charge in respect of retirement benefit scheme	-	-	-
	<u>5.4</u>	<u>6.8</u>	<u>13.4</u>

NOTES TO THE INTERIM RESULTS

For the six months ended 30 September 2012

Note 5: Taxation on profit on ordinary activities

	Six months to 30 September 2012 (unaudited)	Six months to 30 September 2011 (unaudited)	Year to 31 March 2012
	£m	£m	£m
The charge for taxation comprises -			
Current tax:			
Corporation tax at 24% (2011/12: 26%)	1.2	0.6	1.4
Adjustment to prior periods	-	(0.1)	(0.1)
	1.2	0.5	1.3
Deferred tax:			
Current period movement	1.1	1.1	1.7
Effect of corporation tax rate change	(1.5)	(1.5)	(2.9)
Adjustment to prior periods	-	0.1	0.1
Effect of discounting	0.7	1.1	3.7
Total deferred tax	0.3	0.8	2.6
Taxation on profit on ordinary activities	1.5	1.3	3.9

The overall tax charge represents 16% (six months to 30 September 2011: 21%; year ended 31 March 2012: 35%) of the profit before taxation.

The overall tax charge includes the exceptional effect on the deferred tax provision of the reduction in the corporation tax rate from 24% to 23% with effect from 1 April 2013. The effect of this tax rate reduction is disclosed above on an undiscounted basis as a credit of £1.5m (discounted basis: credit of £1.0m).

Note 6: Earnings per ordinary share

	Six months to 30 September 2012 (unaudited)	Six months to 30 September 2011 (unaudited)	Year to 31 March 2012
	m	m	
Earnings per share have been calculated as follows -			
Earnings	£7.7	£4.8	£7.2
Weighted average number of ordinary shares in issue	6.0	6.0	6.0

Note 7: Fixed assets

	Six months to 30 September 2012 (unaudited)	Six months to 30 September 2011 (unaudited)	Year to 31 March 2012
	£m	£m	£m
The movement in fixed assets comprises -			
Net book value, beginning of period	264.4	240.7	240.7
Additions	42.0	18.3	60.4
Disposals	-	-	(0.1)
Grants and contributions	(1.9)	(2.3)	(3.9)
Depreciation charge for period	(17.4)	(15.7)	(32.7)
Net book value, end of period	287.1	241.0	264.4

NOTES TO THE INTERIM RESULTS

For the six months ended 30 September 2012

Note 8: Net borrowings

	At 30 September 2012 (unaudited)	At 30 September 2011 (unaudited)	At 31 March 2012
	£m	£m	£m
Net borrowings comprise -			
Debt due after one year, excluding 8.75% irredeemable cumulative preference shares	247.2	258.6	246.9
Current portion of long-term borrowings	<u>2.2</u>	<u>3.2</u>	<u>18.4</u>
	249.4	261.8	265.3
Cash on deposits maturing:			
within three months from the balance sheet date	(29.0)	(50.3)	(44.2)
after three months from the balance sheet date	-	(27.0)	(20.3)
Cash at bank and in hand	<u>(2.1)</u>	<u>(2.4)</u>	<u>(7.8)</u>
Net borrowings excluding 8.75% irredeemable cumulative preference shares	218.3	182.1	193.0
8.75% irredeemable cumulative preference shares	12.5	12.5	12.5
Net borrowings	<u>230.8</u>	<u>194.6</u>	<u>205.5</u>

Note 9: Provision for liabilities

	At 30 September 2012 (unaudited)	At 30 September 2011 (unaudited)	At 31 March 2012
	£m	£m	£m
Deferred tax liability	38.5	40.0	39.2
Effect of discounting	<u>(10.8)</u>	<u>(14.2)</u>	<u>(11.6)</u>
Net provision, including deferred tax on retirement obligations	27.7	25.8	27.6
Less, attributable to retirement benefit obligations (note 10)	<u>(2.8)</u>	<u>(2.8)</u>	<u>(2.9)</u>
Net provision, excluding deferred tax on retirement benefit obligations	<u>24.9</u>	<u>23.0</u>	<u>24.7</u>

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 triennial valuation of the pension scheme as at 31 March 2011 was completed last year. The total funding deficit as at 31 March 2011 was £2.9m. This represents a funding level of 98.1%. As a result of the Trustee advice, the company made a deficit contribution of £0.5m last year and has agreed to make deficit contributions of £0.4m per annum until year ending 31 March 2015. Further the company also increased the regular contributions for the main sub-section from 21% to 28.9%, and for the alternative benefits sub-section from 10% to 17.6%, of the relevant payroll costs. The next triennial valuation of the pension scheme is due to be completed in March 2014. However an updated estimate of the scheme's funding deficit at 31 March 2012 indicated a funding deficit of approximately £13.0m. The increase in deficit over the year reflects primarily the reduction in the yields available on long dated gilts.

NOTES TO THE INTERIM RESULTS

For the six months ended 30 September 2012

Note 10: Retirement benefits (continued)

Pension assets and liabilities are recognised in financial statements 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.

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 2012 (unaudited)	At 30 September 2011 (unaudited)	At 31 March 2012
	£m	£m	£m
Market value of section assets	160.1	156.5	166.7
Present value of liabilities	(141.0)	(126.2)	(135.3)
Surplus in the section	19.1	30.3	31.4
Amount not recognised due to asset recognition limit	(7.1)	(19.3)	(19.5)
Deferred taxation	(2.8)	(2.8)	(2.9)
Net pension asset on FRS17 basis	9.2	8.2	9.0

Note 11: Shareholders' funds

	Six months to 30 September 2012 (unaudited)	Six months to 30 September 2011 (unaudited)	Year to 31 March 2012
	£m	£m	£m
Movement in shareholders' funds -			
At the beginning of the period	90.5	89.9	89.9
Profit for the period	7.7	4.8	7.2
Actuarial (losses)/gains recognised in respect of retirement benefit obligations	(0.4)	0.7	1.2
Attributable deferred taxation	0.2	(0.2)	(0.1)
Fair value of interest rate swap	(0.2)	(0.7)	(0.8)
Attributable deferred taxation	-	0.2	0.1
Ordinary dividends (note 12)	(6.3)	(1.5)	(7.0)
At the end of the period	91.5	93.2	90.5

NOTES TO THE INTERIM RESULTS

For the six months ended 30 September 2012

Note 12: Ordinary dividends

	Six months to 30 September 2012 (unaudited)	Six months to 30 September 2011 (unaudited)	Year to 31 March 2012
	£m	£m	£m
Dividends paid in respect of 2011/12:			
First interim dividend of 24.95 pence per share, approved for payment on 22 September 2011	-	1.5	1.5
Second interim dividend of 66.69 pence per share, approved for payment on 24 November 2011	-	-	4.0
Third interim dividend of 24.81 pence per share, approved for payment on 29 March 2012	-	-	1.5
Final dividend of 80.02 pence per share, approved for payment on 30 May 2012	4.8	-	-
Dividends paid in respect of 2012/13:			
First interim dividend of 25.62 pence per share, approved for payment on 27 September 2012	1.5	-	-
	<u>6.3</u>	<u>1.5</u>	<u>7.0</u>

A second interim dividend of £4.5m in respect of the year ending 31 March 2013 has been proposed by the Board for payment before the end of November 2012.

Note 13: Supplementary cash flow information

	Six months to 30 September 2012 (unaudited)	Six months to 30 September 2011 (unaudited)	Year to 31 March 2012
	£m	£m	£m
a) Reconciliation of operating profit to net cash inflow from operating activities -			
Operating profit	14.6	12.9	24.5
Depreciation, net of amortisation of deferred income	17.1	15.5	32.2
Difference between pension charges and normal contributions	(0.2)	-	0.1
Cash flow from operations	31.5	28.4	56.8
Working capital movements:			
Stocks	0.1	(0.1)	(0.3)
Debtors	(5.7)	(5.8)	(4.8)
Creditors and provisions	(0.5)	(0.4)	4.6
Additional contributions to pension scheme	(0.2)	-	(0.5)
Net cash inflow from operating activities	<u>25.2</u>	<u>22.1</u>	<u>55.8</u>
b) Reconciliation of net cash flow to movement in net borrowings -			
(Decrease)/increase in cash in the period	(5.7)	-	5.4
Cash used to repay borrowings	18.2	2.8	2.6
Decrease in cash deposits in the period	(35.5)	-	(12.8)
	(23.0)	2.8	(4.8)
Indexation of debt, amortisation of fees and premiums, and other movements not affecting cash flow	(2.1)	(3.8)	(7.0)
Fair value of interest rate swap not affecting cash flow	(0.2)	(0.7)	(0.8)
Net borrowings, beginning of period, including 8.75% irredeemable cumulative preference shares	<u>(205.5)</u>	<u>(192.9)</u>	<u>(192.9)</u>
Net borrowings, end of period, including 8.75% irredeemable cumulative preference shares	<u>(230.8)</u>	<u>(194.6)</u>	<u>(205.5)</u>

NOTES TO THE INTERIM RESULTS

For the six months ended 30 September 2012

Note 14: Ultimate parent company and controlling party

At the balance sheet date the ultimate parent company 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: Circulation

This interim announcement is being sent to all shareholders and debenture holders. Copies are available to the public from the company's registered office at PO Box 218, Bridgwater Road, Bristol, BS99 7AU and on the Bristol Water web site: <http://www.bristolwater.co.uk>.

Bristol Water plc Interim Results

DIRECTORS' RESPONSIBILITIES FOR THE PREPARATION OF INTERIM FINANCIAL STATEMENTS

We confirm that to the best of our knowledge:

- These interim financial statements have been prepared in accordance with UK GAAP;
- 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 financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year.

By order of the Board
S C Robson
Secretary
26 November 2012

INDEPENDENT REVIEW REPORT TO BRISTOL WATER PLC

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2012, which comprises the Profit and loss account, Statement of total recognised gains and losses, Balance Sheet, Cash Flow Statement and related notes 1 to 15. 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 set of financial statements.

Directors' responsibilities

The half-yearly financial report 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 Services Authority.

As disclosed in note 1, the annual financial statements of the company are prepared in accordance with applicable law and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice). The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with the Statement "Half-yearly financial reports" issued by the UK Accounting Standards Board.

Our responsibility

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

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2012 is 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 Services Authority.

PricewaterhouseCoopers LLP

Chartered Accountants
26 November 2012
Bristol, United Kingdom

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.